

CHAPTER- II

ACCOUNTS AND FINANCIAL MANAGEMENT

2.1 Irregular lodgment of Municipal Fund

Under Section 66 of the Jharkhand Municipal Act, 2000, all sums received on account of Municipal Fund shall be paid into a Government Treasury or into any Bank used as Govt. Treasury. But in contravention to the said provision, 15 ULBs maintained 89 additional Bank Accounts during 2002-07 without approval of the Govt. and a total sum of Rs 14.46 crore, as detailed below, was lying in 76 additional bank Accounts of 12 ULBs:

Rs 14.46 crore was lodged irregularly in 76 additional bank accounts.

<i>(Rs. in lakh)</i>			
<i>Sl.No.</i>	<i>Name of the ULB</i>	<i>No. of additional Bank Accounts maintained</i>	<i>Balance as on 31.3.2007</i>
1.	Ranchi	10	324.41
2.	Dhanbad	08	N.A.
3.	Giridih	05	120.48
4.	Godda	13	77.63
5.	Pakur	08	131.43
6.	Jumritelaiya	06	39.37
7.	Gumla	01	58.80
8.	Chakradharpur	11	218.30
9.	Jamshedpur	08	127.75
10.	Adityapur	01	8.43
11.	Kharsawan	09	87.73
12.	Hussainabad	02	N.A.
13.	Jasidih	03	N.A.
14.	Rajmahal	02	6.68
15.	Basukinath	02	245.03
	Total	89	1446.04

Maintenance of more than one account is not only in contravention of the Act but it also implies lack of proper control over finances.

2.2. 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. Further, 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 As the Municipal Bodies remained superseded during the period under test check, responsibility for preparation of budget estimates was on Administrator/Special Officer appointed by the State Government.

Eleven ULBs didn't prepare budget estimates and other seven ULBs utilized only 2.95 to 48.97 per cent of the provision.

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 18 ULBs revealed that 11 ULBs were not preparing budget estimates. Remaining seven ULBs had utilized only 2.95 per cent to 48.97 per cent of the budget provision during 2002-07. One ULB spent 182.34 per cent of the budget estimates during 2004-05. The details have been furnished in APPENDIX-4.

From the appendix it is clear that Budgets were prepared in an unrealistic manner without assessing the actual position.

2.3. Unauthorized/irregular expenditure without budget provision

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 18 ULBs test checked, 11 ULBs incurred expenditure of Rs 85.71 crore during 2002-03

Rs 85.71 crore incurred without preparation of budget estimates

to 2006-07 without preparing budget estimates in contravention of the Municipal Act as detailed below:

(Rs in lakh)

Sl. No.	Name of the ULB	2002-03	2003-04	2004-05	2005-06	2006-07	Total
		Amount incurred					
1.	Dhanbad	431.55	359.65	490.39	312.39	611.32	2205.30
2.	Godda	16.37	NA	NA	133.79	215.06	365.22
3.	Pakur	144.67	175.17	Nil ⁴	Nil ⁴	Nil ⁴	319.84
4.	Gumla	NA	184.76	114.40	432.84	645.10	1377.10
5.	Chakradharpur	Nil ⁴	Nil ⁴	88.61	171.36	160.63	420.60
6.	Jamshedpur	303.37	687.22	487.25	168.30	169.60	1815.74
7.	Simdega	12.22	14.77	46.11	114.59	146.48	334.17
8.	Hussainabad	52.53	60.07	87.37	145.74	129.87	475.58
9.	Jasidih	58.75	46.35	33.34	86.14	76.78	301.36
10.	Rajmahal	39.66	56.80	49.94	67.28	82.38	296.06
11.	Basukinath	149.34	129.81	61.69	189.73	129.41	659.98
	Total	1208.46	1714.60	1459.10	1822.16	2366.63	8570.95

Thus 11 ULBs incurred unauthorized/irregular expenditure of Rs 85.71 crore during 2002-07. Non-preparation of Budget tantamount to failure of budgetary control system in the said ULBs. Reasons for non-preparation of budget estimates was not on the records.

2.4. Annual Accounts not prepared

As per section 83 of Bihar Municipal Accounts Rules,1928, every Municipal body shall prepare an Annual Account at the end of each year but not later than 15 April and a copy of the same shall be sent not later than 30 April to the concerned District Magistrate. But in contravention of the said provision none of the 18 ULBs prepared Annual Accounts for the period 2002-07 as detailed below:

(Rs in lakh)

Sl. No.	Name of the ULB	Period for which Annual Accounts not prepared	Expenditure incurred during the said period
1.	Ranchi	2002-06	7894.29
2.	Dhanbad	2002-07	2205.30
3.	Giridih	2002-07	985.02
4.	Godda	2002-03 & 2005-07	365.22

⁴ Budget estimates were prepared for these years, hence NIL expenditure have been shown.

5.	Sahebganj	2002-07	747.65
6.	Madhupur	2006-07	90.80
7.	Pakur	2002-07	932.29
8.	Jhumritelaiya	2002-07	922.69
9.	Gumla	2003-07	1377.10
10.	Chakradharpur	2002-07	574.81
11.	Jamshedpur	2002-07	1815.74
12.	Adityapur	2006-07	23.10
13.	Kharsawan	2002-07	621.78
14.	Simdega	2002-07	334.17
15.	Hussainabad	2002-07	475.58
16.	Jasidih	2002-07	301.36
17.	Rajmahal	2002-07	296.06
18.	Basukinath	2002-07	659.98
	Total		20622.94

For want of the Annual Accounts, estimated and actual expenditure of Rs 206.23 crore incurred during 2002-2007 by these local bodies could not be ascertained and scrutinized.

2.5. Government Grants and Loans

The State Govt. released Recurring Grants and Loans at the rate of 30 *per cent* and 40 *per cent* respectively for payment of salary and allowances to the regular employees (appointed within sanctioned strength) on the basis of annual demand furnished by the ULBs, whereas Non-Recurring Grants and Loans for specific purposes were suo-motu sanctioned by them or were sanctioned based on individual requests by the ULBs.

Despite repeated comments in successive audit reports, the ULBs failed to maintain grant/loan appropriation register showing the position of grants/loans received and spent during the year and balance of unutilized grants/loans at the end of the financial year. 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.

Non-preparation of Grant / Loan Appropriation Register and Loan Register

Further, none of the 18 test checked ULBs maintained Loan Register. As such, upto date position in respect of loans received, payable instalments alongwith interest accrued and amount repaid during the years could not be ascertained.

2.5.1 Poor utilization of Government Grants and Loans

Non-recurring 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. In absence of grant/loan appropriation register, it was not feasible to ascertain the exact utilization. However, the utilization was computed on the findings of the audit scrutiny of the Cash Books, Scheme Registers etc. and/or on the basis of information furnished by the ULBs. During 2002-07, utilization of grants and loans received for development purposes in respect of 18 test checked ULBs was as under:

Only 56.98 per cent of Govt. grants & loans were utilized.

(Rs in crore)

<i>Opening balance as on 01.04.02</i>	<i>Grant received</i>	<i>Loan received</i>	<i>Total</i>	<i>Grant and loan spent</i>	<i>Closing balance as on 31-03-2007</i>	<i>% of utilization</i>
67.29	113.46	85.93	266.68	151.96	114.72	56.98

(ULB wise and year wise details are given in APPENDIX-5)

Thus, non-recurring Grants and Loans amounting to Rs 114.72 crore was lying unutilized in 18 ULBs as on 31 March 2007. Poor utilization of funds by the ULBs was mainly due to non-execution of schemes. Thus, delay in utilization of funds deprived the targeted beneficiaries of the desired benefits.

2.6 Non-maintenance of records/ registers

As per Rule 4 A of Bihar Municipal Accounts Rules, 1928 and Rule 9 of Bihar Municipal Accounts Rules (Recovery of Taxes), 1951, the ULBs were required to keep and maintain 86 Forms and Accounts (vide APPENDIX-6 to the report) against which ULBs maintained 10 to 25 only.

Even 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 follows:

<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 2007 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.
7.	Annual Report	The workings as well as functions of the ULBs with regard to the proper utilization of grants were not ascertainable.
8.	Deposit Ledger	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.
9.	Register of lands/ Register of Revenue Resources/Asset Register	Identification and valuation of assets, proper record of all lands, sites of buildings, tanks, pounds, 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. 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) provides for preparation of Balance Sheet by the ULBs. But, the Government has not adopted it as yet.

2.7 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 provision for Internal Audit has to be made so as to ensure compliance to the Internal Controls.

No provision of Internal Audit exists in the Acts or Rules.

2.8 Bank Reconciliation statement not prepared

Cash Book and Bank statement /Treasury Pass Book balances at the close of 2006-07 was not reconciled by seven ULBs though there was a difference of Rs 2.31 crore as detailed below:

(Rs in lakh)				
Sl. No.	Name of the ULBs	Balance as per Cash Book	Balance as per Treasury	Difference
1.	Ranchi	2565.29	2583.17	17.88
2.	Dhanbad	1985.85	2138.03	152.18
3.	Madhupur	153.80	173.45	19.65
4.	Pakur	798.63	793.09	5.54
5.	Adityapur	322.80	325.01	2.21
6.	Simdega	375.58	401.89	26.31
7.	Rajmahal	80.98	87.74	6.75
Total				230.52

Due to non-reconciliation, possibility of financial irregularities could not be ruled out. The authenticity of balances appearing in Cash Books of seven ULBs also remained doubtful in the absence of reconciliation with Bank Statement. In case of remaining 11 ULBs, out of 18 test checked ULBs, difference between two sets of balances could not be worked out due to non-maintenance/ non-production of Treasury Pass Books.

2.9 Deficiencies in maintenance of Cash Books

Irregularities noticed in the maintenance of Cash Books were as under:

- In many ULBs, particulars of payment, voucher nos., cheque no., classification etc. were not indicated in the payment side of the Cash Book.

- Cash Book was not closed at the end of every month and signed by the Officer authorized.
- Deletion and overwritings were frequently made.
- Heads of receipts and expenditure were not allocated.
- List of uncashed cheques were not recorded in the Cash Book.
- Cash Book balances were not reconciled with the balances of Treasury/Bank in most of the ULBs.

2.10 Supervisory Check

The supervisory checks prescribed in the following Acts/Rules of the ULBs were not exercised by any of the 18 ULBs:

Supervisory checks not exercised as required under Acts & Rules.

- 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 passbook so as to satisfy himself that all moneys received have 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. The purpose of the list is to check the entries with Sarkar's Ledger and Progress Statement and to reconcile the differences by tracing the error or recovering from the Tax Daroga or Sarkar and to detect any embezzlement in the collection.

Due to not exercising the prescribed supervisory checks, misappropriation and embezzlement made by the collecting staff/cashier could not be detected by the authorities. Also delay in execution of schemes and heavy outstanding revenues could not be minimized.

2.11 Cash and Accounts branches not kept distinct from each other

As per rule 2C of Bihar Municipal Accounts Rules, 1928, the cash and account branches of each Municipal office shall be kept distinct from each other and under distinct officer, who, for the purpose of this rule, will be termed Tax Daroga/Cashier and Accountant. In no case shall the same person compile the Municipal accounts and superintend the collection of the rates and other municipal income.

But in violation of the above instructions of the Government, in Rajmahal NAC the cash and account branches were not kept distinct, and the same person compiled the municipal account and made/ superintended the collection of the rates and other municipal income. This rendered the system vulnerable to financial irregularity.