

## CHAPTER-V

### 5 Accounting Procedures and Financial Management

According to the Gujarat Municipalities (GM) Act, 1963, Bombay Provincial Municipal Corporations (BPMC) Act, 1949 and Rules made thereunder 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 audit of which was conducted during 2010-11.

#### 5.1 Annual Accounts

According to section 76 of GM Act read with Rule 49 of the Bombay Municipal Account Code and Budget Rules 141 and 142, every ULB shall prepare complete annual accounts of its receipt and expenditure along with all supporting Annexure and be laid it before the General Board Meeting for approval. Each and every transaction of the ULB should be routed through the annual accounts so as to depict true and fair financial position of the ULBs.

Review of records of eight NP<sup>37</sup> revealed as below.

##### 5.1.1 Non preparation of Annual Accounts

NP Vadnagar (District: Mehsana) had not prepared annual accounts during the period from 2005-06 to 2008-09. The receipt and expenditure of the NP during the years were ` 11.34 crore and ` 10.12 crore respectively. Non preparation of annual accounts is not only in violation of codal provisions but also prevents the stake holder to know about the financial health of the NP. It also indicates lack of internal control and monitoring system by NP as well as Director of Municipalities and Government. On being pointed out CO replied (February 2011) that now onwards annual accounts would be prepared.

##### 5.1.2 Non approval of Annual Accounts

In NPs Palanpur (District: Palanpur) and Jafrabad (District:- Amreli), annual accounts for the period 2006-07 and 2007-08 respectively were not approved by the General Board,. On being pointed COs replied (February 2011) that annual accounts would be got approved by the General Board.

##### 5.1.3 Preparation of Annual Accounts without supporting annexure

In violation of rule provision, NPs Songadh (Tapi), Vyara (Surat) and Khedbramha (Sabarkantha) did not prepare supporting Annexure<sup>38</sup> along with

<sup>37</sup> Palanpur, Jafrabad, Songadh, Vadnagar, Vyara, Khedbramha, Kadi and Dholka

<sup>38</sup> (i) Statement of investment in bank, post office etc (ii) statement of expenditure incurred on five year plan (iii) statement of refund of loan and advances ; (iv) statement of own fund and (v) statement of receipt and expenditure of central Government grant.

annual accounts during the period from 2005-06 to 2007-08. In absence of such important and vital statements, Major Head wise clear, correct and authentic position of accounts with closing balance of grants, deposits, advances, liabilities of the entity etc could not be ascertained and verified. On being pointed COs replied (January 2011) that in future Annexure would be prepared as per audit instruction.

#### 5.1.4 Non inclusion of Government grant in Annual Accounts

In NP Kadi, receipt of ` 1.87 crore (TFC grant: ` 1.20 crore, and IDSMT grant ` 67.36 lakh) for the period 2005-06 and expenditure of ` 1.96 crore (IDSMT: ` 1.23 crore and Entertainment tax remitted to GMFB ` 72.50 lakh) for the period 2006-07 were not included in the annual accounts of the respective years. This resulted in understatement of receipt of ` 1.87 crore and expenditure of ` 1.96 during the respective years. CO replied (February 2011) that in future annual accounts would be prepared taking in to account all the items of receipt and expenditure.

#### 5.2 Unrealistic Budget

Section 76 of GM 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 six NPs for the period 2005-08 revealed that there was huge difference between estimated and actual receipt & expenditure as shown in **Table No.12**.

**Table No.12**

( ` in crore )

Year	NPs	Receipt			Expenditure		
		Estimated	Actual	Variation Percentage	Estimated	Actual	Variation Percentage
2006-07	5 NPs <sup>39</sup>	24.97	12.62	49.46	25.11	14.19	43.49
2007-08	6 NPs <sup>40</sup>	101.39	79.16	21.93	99.19	77.08	22.29

As could be seen from the Table the variation between estimated and actual receipts ranged from 21.93 *per cent* (2007-08) to 49.46 *per cent* (2006-07). Further, the variation between estimated and actual expenditure ranged from 22.29 *per cent* (2007-08) to 43.49 *per cent* (2006-07). The variation was due to less receipt of fund and to that extent less execution of works/schemes.

On being pointed out COs replied (January, February 2011) that due care would be taken to prepare realistic budget in future.

<sup>39</sup> Vadnagar, Mandvi, Songadh, Jafrabad, Prantij

<sup>40</sup> Vadnagar, Mandvi, Songadh, Jafrabad, Palanpur, Prantij

### **5.3 Non-maintenance of separate bank account of MPLADs grant**

According to guidelines of the MPLAD scheme, all the implementing agencies are required to keep a separate account of grant for keeping a watch on implementation of the scheme. However, review of records of NP Dholka (Ahmedabad) for the period from 2006-07 to 2008-09 revealed that though the receipt and expenditure under the scheme were ` 58.07<sup>41</sup> lakh and ` 43.68<sup>42</sup> lakh respectively, NP did not open separate account for the scheme and deposited the whole fund alongwith the fund of MLA grant. In absence of separate account the possibility of diversion of funds cannot be ruled out. CO replied (February 2011) that henceforth separate account would be maintained.

### **5.4 Non-surrender of unutilized Finance Commission Grant**

Government grant should be utilized within a specified time period. On expiry of time period the unspent grant should be surrendered to the Government. Review of records of NPs Dholka (Ahmedabad) and Jetpur (Rajkot) for the period 2006-07 and 2007-08 revealed that the NPs did not surrender (February 2011) the unspent balances of ` 14.07 lakh and ` 91.07 lakh of 10<sup>th</sup> and 11<sup>th</sup> FC respectively, though the period of 10<sup>th</sup> and 11<sup>th</sup> FC was over expired on 31 March 2000 and 31 March 2005 respectively. Non surrender of FC Grant has not only violated the codal provisions but also resulted in idling of ` 14.07 lakh and ` 91.07 lakh for more than five years and ten years respectively.

### **5.5 Non/Poor utilization of grant**

#### **5.5.1 Amrut Dhara Yojana**

Review of records of two NPs (Mandvi: Surat district and Sanand: Ahmedabad district) for the years 2006-07 and 2007-08 revealed that these two NPs had received (February-March 2007) ` 1.50 crore<sup>43</sup> from GMFB under Amrutdhara Yojana for providing drinking water to the public. However, they could utilize only ` 12.90 lakh<sup>44</sup> (February 2011) resulting into poor utilization of grant and thus, the public were also deprived of the intended benefit of the scheme to that extent. Further scrutiny revealed that NP Mandvi had given ` four lakh to Gujarat Urban Development Mission (GUDM) (February 2007) on account of consultancy fee for preparation of Base Map and Project Report, however, no works were carried out by the NP till date (February 2011).

#### **5.5.2 Tribal Area Sub Plan grant (TASP)**

NP Mandvi received (February 2008) grant of ` 6.00 lakh under TASP for various schemes of tribal area development. Scrutiny of records revealed that

<sup>41</sup> 2006-07: ` 27.62 lakh, 2007-08: ` 12.40 lakh and 2008-09: ` 18.05 lakh

<sup>42</sup> 2006-07: ` 5.03 lakh, 2007-08: ` 25.10 lakh and 2008-09: ` 13.55 lakh

<sup>43</sup> Mandvi: ` 50.00 lakh and Sanand: ` 1.00 crore

<sup>44</sup> Mandvi: ` 4.00 lakh and Sanand: ` 8.90 lakh

the NP did not utilize the grant till the date of audit (February 2011). On being pointed out CO replied that guidance would be obtained from grant distributing authority to utilize the grant. The reply is not tenable as NP did not take any action to seek guidance during last three years. Further, non utilization of grant in absence of guidance deprived the Schedule Tribes of the intended benefit of the scheme apart from blocking of funds of ` 6 lakh for more than three years.

### **5.6 Non reconciliation of balances**

As per rule 44 of the Bombay Municipal Account Code balance of bank pass book shall be reconciled with reference to the balance of cash book at the close of every month and difference, if any, be reconciled.

Review of records of three NPs (Jafrabad: Amreli, Palanpur: Banaskantha, and Vadnagar: Mehsana) revealed that difference of cash balance of ` 1.05 crore<sup>45</sup> as on 31 March 2008 between Cash Book and Bank was not reconciled. Further in NP Jafrabad, unreconciled difference increased from ` 8.02 lakh (31 March 2007) to ` 28.51 lakh (31 March 2008). Similarly, in NP Vadnagar, it increased from ` 3.20 lakh (31 March 2006) to ` 32.63 lakh (31 March 2008).

Due to non reconciliation, annual accounts did not reflect the true and correct positions of balances. Moreover long pending reconciliation may lead to defalcation and misappropriation of funds. COs concerned replied (January-February 2011) that reconciliation would be done as per audit instruction.

### **5.7 Irregularities in maintenance of Cash Book**

As per the Bombay Municipal Account Code, Cash Book is a preliminary and important record. It should be maintained properly under the supervision and control of head of the office/Branch Officer.

Review of records of two NPs for the period 2005-06 to 2007-08 revealed that maintenance of Cash Book suffered from following deficiencies:

- In Nagarpalika, Songadh Income Tax of ` 1.75 lakh and ` 2.74 lakh deducted from the bills of contractor during 2006-07 and 2007-08 respectively was shown as receipt in the Cash Book instead of remitting directly to Income Tax department. Further scrutiny revealed that the NP deposited the Income Tax of ` 1.67 lakh and ` 2.97 lakh in March, 2007 and March 2008 respectively. Thus apart from delay there was short remittances of Income Tax of ` 0.08 lakh during 2006-07 and excess remittance during the year 2007-08.
- Scrutiny of General Cash Book for 2007-08 of NP Palanpur revealed that an amount of ` 25.01 lakh was shown on receipt side of Cash Book on 27

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<sup>45</sup> Jafrabad : ` 28.51 lakh, Palanpur: ` 43.92 lakh and Vadnagar: ` 32.63 lakh

August 2007 by merging the Cash Book of Pay and Use Toilets. The Pay and Use Cash Book was not made available to audit and hence the correctness of amount credited could not be verified. Physical verification /surprise check of cash balance was not done by the COs in two NPs (Jafrabad and Vadnagar).

- The number of pages in a Cash Book was not counted and certificate of head of the office/Branch Officer to that effect was not obtained on the first page of the Cash Book in case of NPs Jafrabad and Vadnagar.
- Large number of corrections/overwriting were made in the Cash Book of NP Vadnagar during 2005-06 and 2007-08.

### **5.8 Purchase of materials/ execution of work without inviting quotation/tender**

As per section 67 of GM Act, 1963, and Rule 171 of Gujarat Contingency Expenditure Rules, the Chief Officer shall, before entering in to any contract for the execution of any work or the supply of any materials or goods which will involve an expenditure exceeding five thousand rupees, invite quotations from atleast three suppliers. Provided that where the supply or works involves an expenditure exceeding one lakh, the advertisement shall be published in such one or more daily news papers as may be approved by the Nagarpalika.

- Review of the records of Dholka Nagarpalika revealed that purchases of Sodium Hypochlorite costing ` 13.05 lakh<sup>46</sup> were made during 2006-07 to 2008-09 from a private firm on the basis of rate contract approved during 2005-06. Though the yearly purchases ranged from ` 2.62 lakh (2006-07) to ` 6.30 (2008-09) lakh no quotation or tenders were invited to obtain competitive rates as required under rules. Thus the NP could not get the benefit of availment of comparative and competitive rates.
- Collector Palanpur issued order, (21 August 2006) not to incur any expenditure of more than ` 5000/- without the approval of Dy. Collector, Palanpur, so as to enforce economy. Review of records of NP Palanpur revealed that the work of repairing of pipeline of water works of ` 2.03 lakh was allotted to an agency by splitting to work in to 41 Parts of ` 4950 each during April and May 2007. Similarly the work of ` 1.24 lakh for plastering and fitting of tiles in toilet was allotted to an agency by splitting the work in to 25 parts of ` 4950/- each. Further, the work of ` 1.17 lakh of disposal of waste was split up in 30 parts and was allotted to two agencies (first 17 parts of ` 4875 each to one agency and second 13 parts of ` 4950/- each to another agency).

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<sup>46</sup> 2006-07 `4,12,510 (54.000 (liters)  
2007-08 ` 2,62,185 (37.000 (liters)  
2008-09 ` 6,30,000 (90.000 (liters)

Accepting the audit observation NP stated (December 2010) that annual rate contracts would be entered in future as per codal provisions.

### **5.9 Outstanding Advances**

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 recovery/ adjustment should be ensured by the end of respective financial year.

Review of records of three NPs for the period 2005-06 to 2007-08 revealed as below.

- In NP Jafrabad (Amreli), advances of ` 79.68 lakh were outstanding as on 31 March 2010. Out of ` 79.68 lakh, ` 3.94 lakh were paid to employees for purchase of personal articles, festival advances, house building advances etc. during the period 1990-91 to 2007-08, ` 1.74 lakh were paid to contractors for works and supplies between the periods 1970-71 to 2004-05 and ` 74.00 lakh were paid to other departments as works advances.
- Similarly in NP Kadi (Mehsana), advances of ` 56.98 lakh were outstanding as on 31 March 2010. Out of ` 56.98 lakh, ` 2.51 lakh were paid to employees during the period prior to 1980 to 2005-10, ` 2.79 lakh were paid to contractor between the period prior to 1980 to 2001-05 and ` 51.68 lakh were paid to other department as work advances during the period prior to 1980 to 2005-10.
- In NP Vyara (District: Tapi), advances of ` 72.50 lakh paid to contractors, suppliers, employees and other agencies during 1978 to 2005-06 for execution of works remained outstanding as on 31 March 2010 and remained to be adjusted/ recovered from them.

Non adjustment of work advances of ` 2.03 crore as detailed above resulted into understatement of asset and over statement of work advances in Annual accounts of the NPs. For want of proper Advance Register/ other records and appropriate follow up action for recovery/ adjustment of the advances by the NPs, audit could not ascertain whether the intended purpose of advances was served or not. It also indicated weak internal control and monitoring system on part of the NPs.

On being pointed out COs concerned replied (January to February 2011) that action to recover/adjust the advances would be taken and intimated to audit.

### **5.10 Lapsed deposit**

As per rule 153 of Municipal Account code, all balances unclaimed for more than three completed years shall, at the close of March in each year, be credited to the lapsed deposit by means of transfer entries. The deposit, thus, credited shall not be repaid without the sanction of the working committee of concerned Municipalities. The sanction shall be given only after ascertaining that the amount was really received and was credited as lapsed deposit and rightful claimant claimed it. The amount of lapsed deposit refunded shall be charged on the account of NP as a miscellaneous expenditure and not debited to deposit.

During the course of audit of four NPs<sup>47</sup> for the year 2005-06 to 2007-08, it was noticed that the works deposit of `1.02 crore were lying with Nagar Palika as on 31 March 2007. No action was taken to transfer the work deposits remained un-claimed for more than three years for the period from 1977-78 to 2007-08 as lapse deposit to proper head. It was also noticed that the works deposit registers were not maintained properly by these NPs.

Non-transferring of lapsed deposits to revenue head resulted in overstatement of works deposit and understatement of revenue apart from risk of refunding such deposits without following the codal provisions and leading to chances of misappropriation / fraud.

On this being pointed out it was replied (January and February 2011) by NPs that action would be taken as instructed by audit.

### **5.11 Outstanding recovery of rent of shops**

Nagarpalikas construct shopping complexes and rent out to the public after executing necessary agreement for particular period. According to Article 113 of Municipal Account Code, NP should maintain Rent Register in prescribed form No. 69 and record required transactions.

On review of records of four NPs (Sanand, Vyara, Khedbrahma and Mandvi) for the period from 2005-06 to 2007-08, it was observed that an amount of ` 15.88<sup>48</sup> lakh was outstanding to be recovered towards rent of shops from 134 tenants. Further, it was also noticed that outstanding rent pertained to old period ranging from 32 months to 106 months. However, no action was taken by the NPs to recover the rent or to get the buildings vacated as per the agreement. The COs replied (January to March 2011) that efforts would be made for recovery of outstanding rent as observed by audit.

### **5.12 Maintenance of Basic Records**

As per provisions contained in Municipal Account code, each NP shall maintain basic records like Work Register, Stock Register, Loan Register, Grant Register, Bill Register, Cheque Register, Deposit Register, Assets Register etc. in prescribed format. For exercising control & Supervision over proper maintenance of accounts, work transactions and to prove its authenticity, the maintenance of basic records properly is essential.

Scrutiny of Records of the 8 NPs<sup>49</sup> for the year 2003-06 revealed that, important basic records such as Assets Register, Grant register, Work register, Green Tree Register, Land Register, Deposit Register, Advance Register, Stock Register, Loan Register and Measurement Books were not maintained or improperly maintained. In absence of such records audit could not ascertain correctness and accuracy of the transactions. Non maintenance of basic records also indicated weakness in the internal control mechanism and monitoring.

<sup>47</sup> Vyara - ` . 55.41 Lakh, Jafrabad - ` . 1.21 Lakh, Kadi ` 42.85lakhs and Khedbrama ` 2.46 lakh

<sup>48</sup> Sanand: ` 7.77 lakh, Mandvi: ` 4.30 lakh, Khedbramha: ` 2.24 lakh and Vyara: ` 1.57 lakh

<sup>49</sup> Jafrabad, Jetpur, Kadi, Vadnagar, Dholka, Mandvi, Palanpur and Sanand

The detailed scrutiny of records of Vyara Nagarpalika (VNP) revealed that due to improper maintenance of Loan register and relevant records VNP was not in a position to monitor and watch the Loan availed from and repaid to GMFB which resulted in avoidable payment of penal interest of ` 6.83 lakh<sup>50</sup> apart from adjustment / recovery of ` 46.84 lakh from other grants payable to VNP during 2007-09.

On being pointed out COs replied (January-February 2011) that required registers would be maintained as per audit instructions.

#### **5.13 Non remittance of Birth/death Certificate fee in to Govt. Account**

According to provisions of Birth / Death Registration Act, 1969 and subsequent rules framed by GoG, Birth / death Certificate registration fee is collected by PRIs/ ULBs. The income / fees accrued to the NP by virtue of registration of Birth/Death was required to be remitted in Government Accounts as per Government instructions of July 1995.

During the course of test check of record (2006-09) of Two NPs it was observed that fees of ` 0.21 lakh (Jafrabad ` 0.06 lakh 2006-08 and Sanad ` 0.15 lakh 2007-09) collected on account of registration of Birth / Death was not remitted to Government Account during 2006-09.

On this being pointed out it was replied (January-February 2011) by the COs that the amount would be credited to Government Account.

#### **5.14 Conclusion**

- Preparation of budget proposals and financial accounting were found to be defective. 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.
- Instances of non surrender of unspent grant of 10<sup>th</sup> and 11<sup>th</sup> FCs were noticed which indicated poor financial control.

#### **5.15 Recommendations**

- Budget should be prepared taking inputs from constituent divisions / Wards, Government Departments / organizations and targets there against;
- Basic primary records are required to be maintained properly.
- Accountability of expenditure and internal check system should be strengthened.

<sup>50</sup> (a) Penal interest of ` 2,71,786 on Gujarat Infrastructure Development Project Loan of ` 33.30 lakh availed during 1997-2003.

(b) ` 4,11,253 on Vajpayee Nagar Vikas Ycjana Loan of ` 40 lakh availed in march 2000