

## CHAPTER-II

### ACCOUNTS AND FINANCIAL MANAGEMENT

#### 2.1 Irregular lodgment of Municipal Fund

Rs 18.32 crore was lodged irregularly in 102 additional accounts.

Under Section 66 of the JMA all sums received on account of Municipal Fund shall be paid into a Government Treasury or into any Bank used as Government Treasury. But in contravention to the said provision, 15 ULBs maintained 110 additional Bank Accounts during 2005-08 without approval of the Government and Rs 18.32 crore, as detailed below, was lying in 102 additional bank Accounts of 15 ULBs. The balances of eight bank accounts of five ULBs were not available.

(Rs in crore)				
Sl.No.	Name of ULBs	As on 31 March	No. of additional Bank Accounts maintained	Balance
1.	Ranchi	2008	10	9.09
2.	Latehar	2008	04	1.51
3.	Fusro	2008	10	1.41
4.	Khunti	2008	09	1.22
5.	Pakur	2008	08	1.17
6.	Dumka	2008	07	0.90
7.	Deoghar	2008	03	0.72
8.	Jharia	2008	06	0.72
9.	Gumla	2008	08	0.49
10.	Bundu	2007	06	0.45
11.	Hazaribag	2008	13	0.23
12.	Medninagar	2007	09	0.16
13.	Lohardaga	2007	06	0.14
14.	Jugsalai	2008	09	0.09
15.	Katras	2006	02	0.02
<b>Total</b>			<b>110</b>	<b>18.32</b>

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 JMA, 2000 and Section 94 of RMC, 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

Eleven ULBs didn't prepare budget estimates and other seven ULBs utilized only 2.37 to 87.16 percent of the provision.

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 As the Municipal Bodies remained superseded during the period under test check, responsibility for preparation of budget estimates was on Administrator/ Special Officer appointed by the State Government.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 records of 18 ULBs revealed that nine ULBs were not preparing budget estimates. Remaining nine ULBs had utilized only 2.37 per cent to 69.44 per cent and 4.76 per cent to 87.16 per cent of the budget provision during 2006-07 & 2007-08 as details below:

Sl.No.	Name of ULBs			(Rs in lakh)	
		Budget Estimate	Actual Expenditure	Percentage of Actual Expenditure	Saving(+)
<b>2006-07</b>					
1.	Dumka	6689.49	325.70	4.87	6363.79
2.	Hazaribag	5150.14	435.20	8.45	4714.94
3.	Lohardaga	3501.15	292.91	8.37	3708.24
4.	Mihijam	2363.21	104.04	4.41	2259.17
5.	Jugsalai	2184.07	51.60	2.37	2132.47
6.	Latehar	1112.35	200.47	18.03	911.88
7.	Deoghar	663.58	460.78	69.44	202.80
<b>2007-08</b>					
1.	Hazaribagh	10591.07	503.56	4.76	10087.51
2.	Ranchi	10321.20	2851.16	27.63	7470.04
3.	Lohardaga	3749.74	529.30	14.12	3220.44
4.	Jugsalai	2133.99	143.66	6.74	1990.33
5.	Pakur	1538.94	537.79	34.95	1001.15
6.	Deoghar	706.50	615.74	87.16	90.76

From above, it is clear that Budgets were prepared in an unrealistic manner without assessing the actual requirement as such the public was deprived of the benefits of the development schemes included in the estimates.

### 2.3. Unauthorized/irregular expenditure without budget provision

Rs 48.30 crore incurred without preparation of budget estimates.

Section 76 of JMA, 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 48.30 crore during 2005-08 without preparing budget estimates in contravention of the JM Act as detailed below:

(Rs in crore)

Sl.No.	Name of ULBs	Period for which Budget was not prepared	Expenditure
1.	Dumka	2007-08	12.80
2.	Gumla	2006-08	10.37
3.	Chaibasa	2006-08	5.38
4.	Medninagar	2006-08	4.54
5.	Pakur	2006-07	4.18
6.	Khunti	2006-08	3.79
7.	Koderma	2005-07	2.73
8.	Bundu	2006-07	1.53
9.	Jharia	2005-06	1.27
10.	Fusro	2006-07	1.27
11.	Katras	2005-06	0.44
<b>Total</b>			<b>48.30</b>

Thus, 11 ULBs incurred unauthorized/irregular expenditure of Rs 48.30 crore during 2005-08. Non-preparation of Budget tantamount to failure of budgetary control system in the said ULBs. Reasons for non-preparation of budget estimates were not on the records.

#### 2.4. Annual Accounts not prepared

Rs.112.97 crore incurred without preparation of annual Accounts.

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 scrutiny of records revealed that, none of the 18 ULBs (except Lohardaga) prepared Annual Accounts for the following period as detailed below:

(Rs in crore)

Sl.No.	Name of Municipal Fund	Period for which Annual Accounts not prepared	Expenditure incurred during the said period
1.	Ranchi	2007-08	28.51
2.	Dumka	2005-08	16.97
3.	Deoghar	2006-08	10.76
4.	Gumla	2006-08	10.37
5.	Hazaribag	2006-08	10.32
6.	Pakur	2006-08	9.56
7.	Chaibasa	2006-08	5.38
8.	Medninagar	2006-08	4.54
9.	Khunti	2006-08	3.79
10.	Jugsalai	2006-08	3.18
11.	Koderma	2005-07	2.73
12.	Bundu	2006-07	1.54
13.	Latehar	2006-07	1.30
14.	Jharia	2005-06	1.27
15.	Fusro	2006-07	1.27
16.	Mihijam	2006-07	1.04
17.	Katras	2005-06	0.44
<b>Total</b>			<b>112.97</b>

For want of the Annual Accounts, head wise receipt and expenditure, variation, if any there of, could not be ascertained.

## 2.5 Government Grants and Loans

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

The State Government 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 State Government 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.

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

Only 41.68  
*per cent* of  
Government  
Grants and  
Loans were  
utilized.

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. Utilization of grants and loans received for development purposes in respect of 18 test checked ULBs during the period 2005-08 was as under:

(Rs in crore)						
Opening balance	Grant received	Loan received	Total	Grant and loan spent	Closing balance	Percentage of utilization
107.22	57.71	60.20	225.13	93.84	131.29	41.68

ULB wise and year wise details are given in *APPENDIX-III*

Thus, non-recurring Grants and Loans amounting to Rs 131.29 crore were lying unutilized in 18 ULBs. 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 Internal Control Mechanism**

Internal control system is an integral part of the functioning of an organization to govern its activities effectively to achieve its objectives. It is intended to provide reasonable assurance of proper enforcement of Act, Rules & bylaws. Various internal control measures in financial and operational activities are built into the departmental rules and manuals and their strict adherence will minimize the risk of errors and irregularities. Audit Scrutiny revealed that the provisions of internal controls were not effectively implemented by the officers of the ULBs.

### **2.6.1 Supervisory Checks**

The supervisory checks prescribed in the Acts/Rules of the ULBs are important tools of internal control mechanism. But, such checks were not exercised by any of the 18 ULBs as discussed below:

Supervisory checks, an important control tool, not exercised as required under Acts and 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 into 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 ensuring 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. These audit findings have been discussed in paras 3.2, 3.6 to 3.8, 3.11 to 3.13, 6.1 etc.

### **2.6.2 Non-maintenance of records/ registers**

Maintenance of records, registers and accounts is also one of the important tools of an internal control mechanism. 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 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:

Sl. No.	Records/Registers not maintained	Implication
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 and 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, ponds, ferries etc. could not be ascertained.

Some specific cases as noticed during audit are discussed later in this Report.

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

### **2.6.3 Bank Reconciliation statement not prepared**

Cash Book and Bank statement /Treasury Pass Book balances at the end of the year was not reconciled by nine ULBs though there was a difference of Rs 3.83 crore as detailed below:

(Rs in lakh)					
Sl.No.	Name of ULBs	As on 31 st March	Balance as per Cash Book	Balance as per Pass Book	Difference
1.	Fusro	2007	273.36	143.29	130.07
2.	Ranchi	2008	2477.33	2589.98	112.65
3.	Gumla	2008	504.81	571.98	67.17
4.	Jharia	2006	21.21	71.62	50.41
5.	Chaibasa	2008	311.32	295.34	15.98
6.	Dumka	2008	1854.93	1859.94	5.01
7.	Hazaribag	2008	917.33	918.30	0.97
8.	Deoghar	2008	2490.76	2491.02	0.26
9.	Bundu	2007	98.28	98.33	0.05
<b>Total</b>					<b>382.57</b>

Due to non-reconciliation, possibility of financial irregularities could not be ruled out. The authenticity of balances appearing in Cash Books of nine ULBs also remained doubtful in the absence of reconciliation with Bank Statement. In case of three ULBs (Jugsalai, Katras & Latehar), difference between two sets of balances could not be worked out due to non-maintenance/ non-production of Treasury Pass Books.

#### **2.6.4 Deficiencies in maintenance of Cash Books**

Due to lack of internal controls, Cash Books had several deficiencies in many ULBs as below:

- 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.

#### **2.6.5 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 Katras, Gumla, Bundu, Medninagar, Khunti, Koderma and Jharia, 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.

## **2.7 Internal Audit**

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

Internal audit is a vital component of all controls to enable an organization to assure itself that the prescribed systems are functioning reasonably well. But, there is no specific provision either in the JMA, 2000, RMC Act, 2001 or in the Municipal Accounts Rules made there under for internal audit of accounts of ULBs. As such, no ULBs have internal audit wing. It is recommended that the provision for Internal Audit may be made to ensure compliance to the Internal Controls in all ULBs.