

CHAPTER – III

INTERNAL CONTROL MECHANISM

3.1 Internal Control

Effective Internal Control System has to provide reasonable assurance of adherence to laws, rules, regulations and orders, safeguard against fraud, abuse and mismanagement and ensures reliable financial and management information to higher authorities. The control activities includes documentation, system of authorisation and approval of payments, segregation of duties, reconciliation & verification, inspection and audit, review of operating performance and monitoring.

3.2 Maintenance of Accounts by ULBs

Under Section 87 of BMA, 2007, the State Government is required to prepare and maintain a manual containing details of all financial matters and procedures relating thereto in respect of Municipality. This manual is under preparation.

As per Rules 82 to 84 of BMAR, 1928, each ULB is required to prepare Annual Accounts. Further, Section 88 and 89 of the Act provides for preparation of Annual Financial Statements containing Income and Expenditure Account and Balance Sheet in the formats prescribed by the Government of Bihar.

A Memorandum of Understanding (MOU) has been signed between the UD & HD, Government of Bihar and Planning & Resources on Urban Development Affairs (PRUDA) for preparation of Municipal Accounts Code and training and implementation of Accrual Based Double Entry Accounting System in 49 ULBs on 05 December 2007.

3.3 External Audit

The State Government had entrusted the audit of ULBs to Examiner of Local Accounts, Bihar who submits audit reports to ULBs after completion of audit in compliance to Section 8 of LFA Act, 1925. The ULBs have to send compliance of the Audit Report to the ELA within three months.

Under Section 91 (6) of BMA, 2007, the Empowered Standing Committee (ESC) shall consider the report and shall, if necessary, take prompt action thereon. The State Government has constituted three tier committees - High Level, Departmental Level and District Level to deal with the reports and compliance thereof (March 2010).

In spite of the above initiatives, the position of settlement of outstanding paragraphs of Audit Reports of ULBs was not satisfactory as is evident from the table below: -

Table- 9
Position of Outstanding Paras in ULBs for last 3 years

Year	Issued Audit Report		Settled Audit Report		Closing Balance	
	Audit Report	Paras	Audit Report	Paras	Audit Report	Paras
2008-09	87	1327	-	797	87	530
2009-10	45	1541	-	601	45	940
2010-2011	39	1043	-	386	39	657
Total	171	3911	-	1784	171	2127