

CHAPTER II

ACCOUNTING PROCEDURES AND FINANCIAL MANAGEMENT

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All Urban Local Bodies (ULBs) are required to present the budget estimates before the Board of Councillors (BoC) for examination and subsequent adoption. A financial statement consisting of the Balance Sheet, Income and Expenditure Account, Receipt and Payment Account and Fund Flow Statement has to be prepared in the form and manner prescribed and presented before the BoC within six months from the annual closing of the year. The succeeding paragraphs bring out the deficiencies in the system of accounting noticed during audit of 50 ULBs.

2.1 Budget Provision

Rule 27 of the West Bengal Municipal (Finance and Accounting) Rules, 1999, states that the departmental heads of a Municipality, under the direction of the Member-in-Charge in the Chairman-in-Council, shall prepare their estimated receipts and expenditure of the following year in consultation with the Borough Committees or the Ward Committees, as the case may be, and report the same to the Chairman. The Accounts Department shall, in consideration of the departmental requirements and having regard to the probable financial resources, prepare the Draft Annual Budget Estimate for the following year which shall be finalised by the Chairman with the help of the officers.

According to section 82 of the West Bengal Municipal Act, 1993, no deficit shall be shown in the budget estimate so prepared.

After necessary consideration by the Chairman-in-Council, the said draft Annual Budget Estimate shall be placed before the BoC at a meeting specially convened for the purpose as provided under the law.

2.1.1 Budgeting and control thereof

Out of 50 ULBs audited, 29 ULBs did not furnish any / proper information on budget to Audit. In the remaining 21 ULBs, there were persistent savings in budget provisions during the last three years, indicating unrealistic estimates and absence of definite work plans. The budget estimate and expenditure of these ULBs for the period 2011-14 are given in **Table 2.1** while the unit-wise position is detailed in **Appendices 2A, 2B and 2C**.

Table 2.1 : Budget estimate and expenditure in respect of 21 ULBs

Year		Budget estimate	Actual expenditure	Savings	Percentage of savings
		(₹ in crore)			
2011-12	Revenue	2214.03	1990.85	223.18	10
	Capital	1845.11	972.19	872.92	47
2012-13	Revenue	2339.85	2303.86	35.99	2
	Capital	1428.59	1075.73	352.86	25

Year		Budget estimate	Actual expenditure	Savings	Percentage of savings
		(₹ in crore)			
2013-14	Revenue	2704.38	2396.18	308.20	11
	Capital	1551.42	1012.46	538.96	35

(Source: Figures as furnished by ULBs)

From the above **Table**, it would be clear that there were substantial savings under the capital heads (25 to 47 *per cent*) during 2011-14 as against 2 to 11 *per cent* under revenue heads. Eight ULBs¹⁰ stated that the reasons for savings were due to shortfall and delay in receipt of grant from State Government. Other ULBs did not furnish the reason for such variations.

As per section 69 (2) of the West Bengal Municipal Act, 1993 and section 127 of the Kolkata Municipal Corporation Act, 1980, no payment shall normally be made out of municipal fund unless such expenditure is covered by a current budget grant and a sufficient balance of such budget grant is available for the purpose.

It was, however, noticed in Audit that four ULBs incurred excess revenue expenditure of ₹ 61.79 crore and three ULBs incurred excess capital expenditure of ₹ 3.19 crore over and above the budget provisions during 2011-14 as shown in **Appendices 3A and 3B**.

Further, section 69 (3) of the West Bengal Municipal Act, 1993 and section 128 of the Kolkata Municipal Corporation Act, 1980, stipulate that whenever any sum is paid for purposes not covered by budget grant, the matter shall forthwith be communicated to the Chairman-in-Council / Mayor-in-Council (as the case may be) who shall take such action under the provisions of the Act, as may appear feasible and expedient for covering the amount of such payments. However, timely action had not been taken by any ULB to obtain sanction of the respective BoC for regularising the excess expenditure.

2.2 Annual Accounts of ULBs

2.2.1 Preparation of Annual Accounts

Out of 801¹¹ Annual Accounts of 127 ULBs¹² up to the year 2012-13, 59 ULBs submitted 143¹³ Annual Accounts till 31 March 2014. However, 658 Annual Accounts were outstanding as of 31 March 2014. The Annual Accounts of 78 ULBs are pending for six (68 ULBs) to seven years (10 ULBs). The Annual

¹⁰ Bansberia, Champdany, Dalkhola, Konnagar, Maheshtala, Nabadwip, North Dum Dum and Rishra.

¹¹ 41 for 2006-07, 126 for 2007-08, 126 for 2008-09, 127 for 2009-10, 127 for 2010-11, 127 for 2011-12 and 127 for 2012-13.

¹² Excluding Kolkata Municipal Corporation.

¹³ Thirty-one ULBs submitted Annual Accounts for the year 2006-07, 59 ULBs for 2007-08, 24 ULBs for 2008-09, 13 ULBs for 2009-10, 10 ULBs for 2010-11 and 6 ULBs for 2011-12.

Accounts of Kolkata Municipal Corporation had been finalised up to the year 2012-13.

2.2.2 Audit of Annual Accounts of ULBs

Twenty-seven Separate Audit Reports on annual accounts in respect of 17 ULBs were issued during 1 April 2013 to 31 March 2014 as per details given in **Appendix – 4**. Out of 27 Annual Accounts, Audit certified 24 Accounts as ‘true and fair’ but three Accounts of Barrackpore Municipality for 2008-09, 2009-10 and 2010-11 did not give true and fair view.

Results of audit comments on accounts are given in **Appendix – 5**.

Apart from the above, other general audit observations were as follows :

1. Six ULBs passed 2,425 Journal Vouchers (while preparing Annual Accounts) without authorisation of the competent authority as detailed in **Appendix – 6**. The related vouchers were also not supported by proper documentation.
2. The accounting software PUROHISAB¹⁴ had no locking arrangement. Vouchers could be incorporated at a later date after closing of a particular accounting year, which rendered the system unreliable.
3. Physical verification of cash as well as stock of stores was not being done regularly.
4. Figures generated by the functional departments sometimes did not tally with the figures maintained by the Finance Department.

2.3 Utilisation of funds

Government of India and State Governments give specific grants from time to time to ULBs for specific purposes, which are required to be spent for the purposes specified as per orders or scheme guidelines. It was noticed in Audit that 10 ULBs diverted grants amounting to ₹ 10.96 crore for purposes other than the stipulated ones (as shown in **Appendix – 7**).

Thus, by diverting the scheme funds for meeting other expenditure, the ULBs deprived the target groups of the schemes from availing the desired benefits.

2.4 Outstanding loans

Outstanding loans and interest accrued against 20 ULBs were ₹ 935.24 crore (**Appendix – 8**). As per municipal laws of the State, sinking funds were to be created against each loan for debt servicing which, however, was not created in any of these ULBs. Besides, non-compliance with the existing laws would lead to indefinite liability by creating additional burden on the revenue of ULBs.

¹⁴ Accounting software developed for expediting switch over to double entry accounting system by all ULBs except Kolkata Municipal Corporation which was already following the double entry accounting system.

2.5 Cases of theft /defalcation / misappropriation

In terms of Rule 26 of the West Bengal Municipal (Finance and Accounting) Rules, 1999, in case of loss of money by embezzlement, theft, or otherwise, the Chairman or the Vice-Chairman or the Executive Officer or the Secretary should lodge a First Information Report (FIR) in the local police station, and promptly report the matter to the Chairman-in-Council. When the matter has been fully enquired into, he shall submit a complete report showing the total sum of money lost, the manner in which it was lost and the steps taken to recover the amount.

Cases of theft /defalcation / misappropriation reported by the ULBs / noticed by the Audit are detailed below:

Table 2.2

Name of ULB	Period	Particulars	Amount (₹ in lakh)
Asansol	Up to May 2013	Audit noticed that the Mayor, Asansol Municipal Corporation, lodged (23 May 2013) a complaint with the Asansol South Police Station, District – Burdwan, against the Environment Officer of the Municipal Corporation for 'embezzlement of Corporation fund' of more than rupees one crore.	More than ₹ 1 crore
Hooghly-Chinsurah	2010-12	On scrutiny of miscellaneous receipts, Audit noticed that a casual worker, employed as collecting agent of fees relating to issue of enlistment certificate, did not deposit an amount of ₹ 3,50,700 collected during April 2010 to July 2011. After the matter being pointed out by Audit, the Municipality stated (March 2013) that investigation was being taken up under the supervision of Executive Officer and follow-up action would be intimated to the Audit.	3.51
Memari	2009-13	Two tractors valued at ₹ 6,81,275 were stolen from the Municipal building on 8 March 2010 and 8 April 2012. The Municipality lodged FIRs with the local police station in both cases and the concerned night guard (same person in both cases) was issued show-cause-notice in the first case but suspended in the second consecutive case. However, the Municipality received insurance claim of ₹ 4,48,375 against two tractors.	6.81
Rishra	2012-13	A commission-based agent engaged for collection of property tax did not deposit the collected amount and tampered with the concerned records. It was found that ₹ 20,000 were misappropriated and the concerned agent was ordered by the Municipal Authority to deposit ₹ 25,000 (in anticipation of further misappropriation) to the Municipal Fund by February 2013. But no action was initiated by the Municipality as per Rule 26 of the Rules, <i>ibid</i> .	0.20

Delay in settlement of these cases may result in postponement of recoveries/non-recovery and officers/officials responsible for irregularities going unpunished.

2.6 Unwarranted expenditure

In terms of notification dated 15 April 1992 of the Government of West Bengal, all primary schools under the municipalities stood transferred to the District Primary School Council (DPSC) together with their lands, buildings and other properties and all teachers and staff were deemed to be employed by DPSC from that date.

Despite the above arrangement, five ULBs did not transfer the schools to DPSC and incurred total expenditure of ₹ 3.36 crore from municipal funds towards salary of primary school employees and maintenance of primary schools during the period 1992-2013 as shown below.

Table 2.3

Name of ULB	Year	No. of schools	Total Expenditure	Expenditure reimbursed by State Government	Expenditure borne by ULB
			(₹ in lakh)		
Bankura	2010-12	7	100.96	-	100.96
Durgapur	2011-13	2	66.97	-	66.97
Garulia	1992-2013	6	386.30	260.79	125.51
Rishra	2011-13	5	147.68	108.64	39.04
South Dum Dum	2011-12	2	16.44	12.70	3.74
Total		22	718.35	382.13	336.22

No reasons were furnished by ULBs for not transferring the schools to the DPSC. Thus, ULBs were incurring expenditure on behalf of the State Government that could have been used for providing municipal services to the people.

2.7 Adjustment of advances

In terms of Rule 189 of the West Bengal Municipal (Finance and Accounting) Rules, 1999, different accounts in the advance ledger shall be balanced quarterly and signed by the Executive Officer, Finance Officer or any other authorised officer, who shall also satisfy himself that steps are being taken to recover or adjust advances outstanding for more than three months.

Scrutiny of records revealed that advances aggregating ₹ 24.62 crore granted to Chairpersons, Councillors, employees, suppliers, contractors etc. by 21 ULBs for various purposes remained unadjusted as of March 2013 (**Appendix – 9**). Further, it was noticed that Dainhat, Dubrajpur, Habra, Kharar and North Dum Dum municipalities granted fresh advances to the same persons without obtaining adjustment of the previous advances.

This was indicative of weak internal control mechanism in following up regular adjustment of advances resulting in blocking of institutional funds and chances of misuse.

2.8 Timely credit of Provident Fund subscription in the treasury

Provident Fund subscriptions are required to be credited to the fund account in the treasury within 15 days of the next month to avoid loss of interest. It was, however, observed in Audit that the subscription towards Provident Fund collected by nine ULBs, by deduction at source, was not remitted into the treasury within the stipulated date. The delay in remittance by nine ULBs resulted in loss of interest of ₹ 2.07 crore accrued during the intervening period as shown in **Appendix – 10**.

2.9 Monitoring of Property Tax collection

The information on property tax was furnished by only 19 ULBs and the position of current demand, collection and outstanding property tax (including service charge on Central Government properties) during 2011-14 is detailed below.

Table 2.4 : Demand and Collection of Property Tax

(₹ in crore)

Year	Demand			Collection			Total outstanding dues	Percentage of collection
	Arrear	Current	Total	Arrear	Current	Total		
2011 – 12	43.22	19.54	62.76	5.94	13.31	19.25	43.51	31
2012 – 13	43.27	19.95	63.22	5.89	13.60	19.49	43.73	31
2013 – 14	45.30	22.98	68.28	5.72	15.08	20.80	47.48	30

(Source: Figures as furnished by ULBs)

Year-wise details are given in **Appendices – 11A, 11B and 11C**.

Collection out of the current demand was around 66 to 68 *per cent* during the period. This resulted in increase in arrears and hence, collection out of the total demand was restricted to 30 to 31 *per cent*. Only five¹⁵ ULBs collected up to 50 *per cent* or more of the total dues (property tax) during the period 2012-13. Non-payment of property tax / service charge by Government holdings, closed and sick industries also resulted in accumulation of tax arrears.

Municipal Laws, provide that tax levied under respective Acts may be recovered in accordance with the following procedure :

- by presenting a bill, or
- by serving a demand notice, or
- by distraint and sale of a defaulter's movable property, or
- by attachment and sale of a defaulter's immovable property, or
- by attachment of rent due in respect of land or building, or

¹⁵ Chandernagore, Hooghly-Chinsurah, Khardah, North Dum Dum and Panihati.

- as a public demand under the Bengal Public Demands Recovery Act, 1913.

Section 149 of the West Bengal Municipal Act, 1993 provides that when a property tax becomes due on any land or building, the Chairman shall cause to be presented to the owner or the occupier thereof a bill for the amount due. As per section 150(2) of the Act *ibid*, such tax shall be payable in quarterly instalments and every such instalment shall be deemed to be due on the first day of the quarter in respect of which it is payable. Similar provisions also exist for Municipal Corporations.

The ULBs did not enforce the above provisions to ensure prompt recovery of municipal dues resulting in accumulation of outstanding dues. It is also evident from **Table 2.4** that there is a difference between the closing balance of a financial year and opening balance of the succeeding year. The reasons for difference of ₹ 0.24 crore and ₹ 1.57 crore in opening balance for 2012-13 and 2013-14 were due to difference in figures of closing balance and opening balance as furnished by nine ULBs¹⁶. This indicated lack of proper reconciliation of respective figures by the said ULBs.

2.10 Collection of labour welfare cess and remittance thereof

In terms of section 3 of the Building and Other Construction Workers' Welfare Cess Act, 1996, a cess shall be levied and collected at such rate not exceeding two *per cent*, but not less than one *per cent*, of the cost of construction incurred by an employer. ULBs shall collect the cess through demand draft along with the application for sanction of building plan. Proceeds of cess so collected shall be paid by the local authority to the Board¹⁷ after deducting the cost of collection within thirty days of collection.

The State Government further stipulated (December 2007) that every local body, construction contractor and individual, who employ such workers in any building or construction works in relation to his own residence, shall be liable to pay a cess at the rate of one *per cent* of the cost of construction incurred by them, if the cost exceeds ₹ 10 lakh.

Information received from 22 ULBs revealed that these ULBs did not collect / short collected the cess of ₹ 17.18 crore while approving building plans and contracts exceeding the estimated cost of ₹ 10 lakh as detailed in **Appendix – 12**. Thus, ULBs not only violated the Government orders by not collecting cess amounting to ₹ 17.18 crore but also deprived workers from the intended benefits as envisaged in the Act. ULBs also lost revenue of ₹ 17.18 lakh towards cost of collection at the rate of one *per cent* of total cess.

¹⁶ Bankura, Diamond Harbour, Dubrajpur, Guskara, Hooghly-Chinsurah, Jangipur, Nabadwip, Panihati and Rishra.

¹⁷ West Bengal Building and Other Construction Workers' Welfare Board constituted under the Labour Department Notification No. 1182 – IR, dated 20 September 2005.

Seven ULBs deducted cess at source but did not deposit the amount of ₹ 3.24 crore to the Board till March 2013 details of which are given below.

Table 2.5

Name of ULB	Period	Cess deducted at source	Cess deposited to the Board	Amount lying with ULB
		(₹ in lakh)		
Baranagar	2008-12	143.75	-	143.75
Bhadreshwar	2012-13	2.82	-	2.82
Bidhannagar	2010-13	113.36	-	113.36
Dalkhola	2008-13	14.19	0.74	13.45
Howrah	2006-13	82.74	66.44	16.30
Ranaghat	2008-13	31.73	-	31.73
Sainthia	2010-13	2.74	-	2.74
Total				324.15

2.11 Replenishment of loan at the instance of Audit

The Barrackpore Municipality took loan of ₹ 1.50 crore between February 2012 and September 2013 from the West Bengal Municipal Development Fund Trust (WBMDFT) for Trans-municipal Water Supply Scheme under Jawaharlal Nehru National Urban Renewal Mission. Audit noticed that the Municipality misused the loan for other purposes (like, construction of market complex, payment of salary and wages, etc.) during March 2012 to October 2013.

On the matter being pointed out by Audit in October 2014, the Municipality replenished the entire loan amount in January 2015.

2.12 Maintenance of Cash Book / Stock Register

Test check of records of 19 ULBs¹⁸, revealed several deficiencies in maintenance of Cash Book and Stock Register. Number of pages of the Cash Book and transactions were not properly authenticated. Pages were also left blank. Transactions were not recorded on the day of occurrence. Daily cash balances were not computed and certified. Monthly closing cash balances were not reconciled. Physical verification of closing balances was not done. As a result, actual Cash Book balances were not ascertainable.

2.13 Maintenance of basic records

Scrutiny of records revealed that one or more prescribed basic records *viz.* work register, investment register, loan register, register of un-paid bills, self cheque register, deposit ledger, asset register, register of tools and plants, register of civil suits, demand and collection register of different revenue, appropriation register,

¹⁸ Bankura, Birnagar, Chandernagore, Diamond Harbour, Dalkhola, Dubrajpur, Hooghly-Chinsurah, Howrah, Jhargram, Kalna, Kamarhati, Kandi, Maheshtala, Midnapore, NDITA, South Dum Dum, Suri, Taherpur and Taki.

remission register, mutation register, assessment register, stamp register, register of security deposit, register of adjustment, register of lands, register of disbursement of cash drawn on cheques, annual financial statement, prosecution register, scheme register, advance ledger, etc. were not being properly maintained by 17 ULBs¹⁹.

2.14 Internal Audit

In terms of section 91 of the West Bengal Municipal Act, 1993, the State Government may by rules provide for internal audit of the accounts of a Municipality in such manner as it thinks proper. Similar provision also exists for Municipal Corporations.

Rule 24 of the West Bengal Municipal (Finance and Accounting) Rules, 1999, stipulates that the Chairman-in-Council (CIC) of the Municipality shall cause a checking of accounts of the municipal fund, at least once in every month. During the course of such checking, the officer authorised on this account shall identify the errors, irregularities and illegalities, if any, in the matter of maintenance of accounts and make notes of the same. The CIC shall also cause the preparation of report on checking of accounts of the Municipal Fund for every quarter which shall be placed before the Municipal Accounts Committee and the Director of Local Bodies, for examination and report.

Test check of 50 ULBs revealed that 46 ULBs²⁰ did not conduct any internal audit during 2008-13. Howrah Municipal Corporation (HMC) and Nabadiganta Industrial Township Authority conducted internal audit for 2011-12 and 2011-13 respectively but HMC did not provide internal audit report to Audit. Midnapore Municipality did not provide any information on conduct of internal audit.

2.15 Conclusion

Lack of budgetary control was evident. Although ULBs dealt with substantial sums, budget preparation and accuracy in accounts continued to be lacking in most of the ULBs. Most ULBs failed to present accounts in time. Increasing liability of unpaid loans, non-adjustment of advances, loss of interest due to delay in deposit of provident fund subscription into the treasury and irregular maintenance of Cash Book indicated inadequate internal control and lack of monitoring to ensure proper accounting of substantial public funds spent by the ULBs.

¹⁹ Bally, Bankura, Bidhannagar, Birnagar, Chandernagore, Dainhat, Dalkhola, Dubrajpur, Hooghly-Chinsurah, Kalna, Kandi, Maheshtala, NDITA, Pujali, Ranaghat, Taherpur and Taki.

²⁰ Asansol, Bally, Bankura, Bansberia, Baranagar, Bhadreswar, Bidhannagar, Birnagar, Champdany, Chandernagore, Dainhat, Dalkhola, Diamond Harbour, Dubrajpur, Durgapur, Garulia, Guskara, Habra, Haldia, Hooghly-Chinsurah, Jangipur, Jhargram, Kalna, Kamarhati, Kanchrapara, Kandi, Kharar, Khardah, Khirpai, Konnagar, Maheshtala, Mathabhanga, Memari, Nabadwip, North Dum Dum, Panihati, Pujali, Rajpur-Sonarpur, Ranaghat, Rishra, Sainthia, South Dum Dum, Suri, Taherpur, Taki and Tarakeswar.

2.16 Recommendations

To bring in more transparency in the financial transactions of ULBs, it is recommended that -

- budget should be prepared in a realistic manner, based on the trends of expenditure in the previous years and savings over a period of time;
- arrear in preparation of Accounts needs to be cleared;
- timely action in case of defalcation/misappropriation of funds should be ensured which would act as a deterrent;
- timely remittance of funds into the treasury should be ensured;
- collection of labour welfare cess (as per norms) should be ensured; and
- internal audit should be conducted at regular intervals and follow-up action on the said reports may be ensured.