

Municipal Council Malerkotla  
Internal Audit report on Double entry accounting System  
For the year ended 31<sup>st</sup> March 2017

**BANSAL ARUN & ASSOCIATES**

# 612 Sector 3-A Railway Road  
Mandi Gobindgarh,  
Pincode-147301

Mo: 09417040317  
: 09815700317  
Email-bansal.arunbansal@gmail.com



## Table of Contents

<u>Area of Report</u>	<u>Page Number</u>
1.0 Introduction	1
2.0 Background	1
3.0 Scope and Objectives	2
4.0 Management Responsibility	2
5.0 Audit Observations	3-10
6.0 Conclusion	11

*Arun Bansal*



## 1. INTRODUCTION

1.1 The internal audit assignment was conducted in accordance with the approved internal audit plan, covering the Double entry accounting system.

1.2 This report records the results of our internal audit findings and recommendations looking at possible ways in which the controls and operations could be improved to overcome identified weaknesses in control and increase the adequacy, efficiency and effectiveness of controls based on the risk identified.

1.3 The matters raised in this report are only those, which have come to our attention arising from our audit that we believe they need to be brought to your attention. It is not a comprehensive record of all the matters arising and in particular we cannot be held responsible for reporting all risks and all internal control weaknesses.

1.4 The maintenance of effective control measures still remains the responsibility of management and not that of Internal Audit.

1.5 Sample testing was conducted for the financial year 2016-17.

1.6 Acknowledgement is given to the staff concerned for their help and assistance during the course of the audit.

## 2. BACKGROUND

2.1 Municipal Council prepares its accounts on Manual basis which are further based on single entry accounting system. This is an integrated system that comprises General Cash book, Classified, Establishment Check register, Demand collection registers, Contractor ledgers etc.

2.2 Now Municipal council has started to convert its single-entry system to double entry system using computerized environment and TALLY 9ERP Software.

*Arjun Bansal*



### 3. SCOPE AND OBJECTIVES

3.1 Scope of our Audit assignment is to evaluate the double entry accounting system.

3.2 The objective of the audit is to evaluate the system with a view to delivering reasonable assurance to the Authority over the adequacy of this System. Further to review the nature of income and expenses that they are properly accounted for. To find out discrepancies so that Double entry accounting System can be properly implemented.

### 4. Management Responsibility

4.1 For Completeness and accuracy of the underlying data and complete disclosure of all material and relevant information of the accounts.

4.2 For Maintaining adequate accounting and other records and Internal controls and selecting and applying appropriate accounting policies.

4.3 Establishing Controls to safeguard the assets of the entity and preventing and detecting frauds or other irregularities.

4.4 Establishing controls for ensuring that the activities of the entity are carried out in accordance with the applicable laws and regulations and preventing and detecting any non-compliance.

4.5 Risks are identified, appropriate risk responses selected, communicated, and managed

*Bansal Arun*



## 5. AUDIT OBSERVATIONS

Our Audit observations(based on test checking) on different heads of Balance sheet are as follow: -

### 5.1 Grants and Contributions

- Various grants are received during the year which are accounted for as per the nature of grant. Any expenditure of capital nature from grant fund is transferred to capital contribution account and expenditure of revenue nature is transferred to Revenue grants account under Income and Expenditure.
- Grant registers are not maintained with respect to grants received so that to ensure all grants received are accounted for in the books of accounts.
- Various Grants received for different purposes are accounted for in a single cash book e.g. Grant For Night Shelter And Grant for Swatch Bharat Mission, so it was not possible to ascertain the amount utilized of a particular grant hence Balance standing as on 31-03-2017 could not be verified.
- Closing Balances of some Grants like UD-11, PIDB, PMIDC etc. Could not be verified as no bank statements were provided by the office.
- Grant received from 14<sup>th</sup> Finance commission is received in Municipal fund accounts and part of that grant is not taken in separate cash book so bifurcation of expenditure related to that grant was not possible.

### 5.2 Capital contribution

- The amount which is received as grants and further spent on creating Fixed assets are transferred to this account so that the balance of grants can be reduced.



- Recommendation- The amount in this account is getting accumulated year over year so it should be reduced by the amount of depreciation which is provided on fixed assets created by using grant funds.

### 5.3 Secured Loans

- It is Clear from the records presented before us that the Municipal Council has not taken any type of loan from Government or from any other Financial institutions.

### 5.4 Deposits received

- i. Earnest Money- As per the opening balances provided, balance of earnest money shows a debit balance which represents amount receivable, which is unrealistic.
  - Recommendation- Amount in this account should be written off as per the Registers maintained for earnest money received from various contractors and suppliers.
  - Amount of Earnest money received during the Financial year is not accounted in the cash book maintained and no bank statements were available so balance of earnest money could not be ascertained.
  - Further earnest money is refunded without previously recording in cash book so these payment can lead to fraudulent activities as earnest money is being refunded without accounting for its receipt if proper registers are not maintained as chances of double payment increases.
  - Further earnest money was recorded as income in previous years so Actual amount outstanding cannot be verified.
- ii. Contractor Securities- It is found that securities received are refunded to contractors after a fixed time from satisfactory completion of work. Securities are deducted at a Rate of 10% from the amount of bill.



- Registers for contractor securities are not maintained so verification of amount outstanding was not possible.
  - Some of Contractor securities shows debit balance which could not be verified as registers for securities deducted are not maintained.
- iii. Water & Sewerage Security- It reflects the amount which is received as security for providing water & sewerage connections. This amount is to be adjusted or refunded at the time of disconnection of water & sewerage connections and on receipt of final payment.
- As this amount is not refunded by the office we recommend the authorities to treat this amount as Income instead of liabilities.

#### 5.5 Other Liabilities

- i. Creditors- Provisions are not made for the bills which are received but not paid. As Explained to us Bills/Vouchers which are presented for payment, are accounted for on Cash basis.

In the process of our audit we have found some excess payments made to contractors e.g.

Rs. 7160/- Excess paid to M/s Aspect solutions on 11-08-2016,

Rs. 52000/- excess paid to M/s Kuthala Co op Society on 17-11-2016,

Rs. 27000/- Excess paid to M/s Maharane co op society on 10-06-2016.

Recommendation- Creditors should be recorded on the basis of expenditure i.e. when the amount is due or the bill is presented for the payment whichever is earlier, Expenditure should be recorded on that date. And registers should be maintained contractor wise so that excess payments could be verified.

- ii. Employees Liabilities- Major proportion of this head reflects the amount which is payable to employees as salary for the month of march to be paid in April and retirement benefits payable to employees. Further it shows the balance payable to employees for purchases made by them for running day to day administration.



A Debit balance of Rs. 3, 48,709/- and 2, 13,369/- is remaining outstanding towards Sunita w/o Raju and Tarsem Lal Respectively, which does not exist as per the records. These balances were also standing as same in last year also. So, again it is recommended to write off these balances after proper confirmation with the concerned department.

- iii. Recoveries Payable-VariouS Deductions are made from the salaries of employees as per the prevailing Laws and Statues. Further these deductions are deposited to the respective account of Government or employees as per the provisions of Law. Like TDS is deducted as per the "Income tax act 1961" and deposited with the Government.

There were some instances when amount was not deducted from the salary of employee but the same amount was deposited with different departments. The reason for the above is that salary statements are not updated correctly in each month so excess amount is deposited by the department which should be recovered from the respective employees.

iv. Other Liabilities-

- Total Amount of Rs.18,93,484/- is pending as on 31.3.2017 on account of TDS, VAT, LABOUR CESS and EPF.
- Above amount is deducted from the payment of contractors but these are not timely deposited by the Municipal council which will further attracts interest and penalty provisions as per the respective Laws. Further Returns to be filled with various department are not timely filled which again attracts penalty.
- Various Statutory returns filed by the office with authorities were not available with the office so we could not be able to verify the balances of Govt. dues.
- Rs. 40,01,583/- are payable towards Building Approval Labour cess which should be deposited on a monthly basis but nothing was deposited during the FY 16-17.

*Dr. Joon Santal*



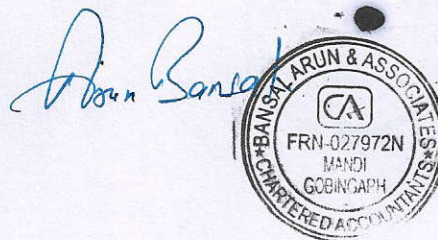
## 5.6 Provisions

- Provisions are made for the expenditure which are incurred in the current Financial Year But are Payable in Following years.
- Payables of the following nature are provided for-
  - i. Fuel Charges\*
  - ii. Electricity Expenses\*
  - iii. Telephone Expenses
  - iv. Double Entry Charges
  - v. Internal Audit of Double entry system
  - vi. Water cess
  - vii. Seweragemaintenance
  - viii. Sanitation maintenance
  - ix. Street light maintenance
  - x. Tube well & disposal maintenance
  - xi. Water Supply maintenance

\* Fuel Charges Payable and electricity bill payable represents only the amount of bills which were received in April 2017, if any Bills for the FY 2016-17 are received after April they are not taken in account here.

## 5.7 Fixed Assets

- Construction or Commissioning date of the assets which are standing as on 01-04-2014 is not ascertainable.
- To provide Depreciation on SLM basis on Opening balance of assets, Year 2014 is taken as base year.



- Fixed assets are recorded in the books as per the payments made to the Contractors but not on the basis of commissioning or Installation of that asset.
- No Fixed asset register is maintained by the Municipal council.
- Depreciation on Fixed assets is provided on Straight Line method basis and life of asset provided by the office, which are as follows-

Name of Fixed Asset	Life	Rate of Depreciation
1.Premix Roads	3	30%
2.PC Roads	5	18%
3.CC Flooring	5	18%
4.DB Paving	15	6%
5.Road and Gully	5	18%
6.Drains	15	6%
7.Boundary Wall	25	3.6%
8.Buildings	50	1.8%
9.Tubewell Machinery	15	6%
10.Water supply Machinery	15	6%
11.STP	30	3%
12.Sewerage lines	30	3%
13.Main Hole	30	3%
14.Fire tender	15	6%
15.Fire brigade machinery	40	2.25%
16.Street Lighting	15	6%
17.Truck, Jeep, Tractor	15	6%
18.Dustbin, Trolley	5	18%
19.Sanitation Equipment	5	18%
20.Office Equipment	15	6%
21.Furniture & Fixtures	25	3.6%

- Fixed Asset registers should be maintained so that Assets can be properly accounted in the books.



### 5.8 Investments

- As per the information provided to us this office has not made any type of investment in Govt. securities, Bank FD or in any Financial Instruments.

### 5.9 Stock in Hand

- No information was provided for the stock of-
  - i. Street Light Material
  - ii. Medicines
  - iii. Sanitation Material
  - iv. Printing & Stationary

### 5.10 Sundry Debtors

- Includes the amount outstanding as receivable from public as their dues for-
  - i. House Tax
  - ii. Water Bills
  - iii. Rent
  - iv. Tehebzari
  - v. Installment of ISLS
- Opening and Closing Balances of the above accounts are not reconciled with other ledgers as the DCR's are not maintained by the office.
- Provisions Should be made for the amount which are receivable but are bad or Doubtful in nature.
- Amount outstanding under the head Installment of ISLS could not be verified.
- Arrears for Property tax are not accounted for as provisions of self-assessment are applicable.

*Don Sanjay*



### 5.11 Cash & Bank Balances

- There is no balance of cash in hand as the amount collected is deposited into the bank accounts on day to day basis, for bank holidays it is deposited on following working day and all the payments are routed through banking channels.
- Cash book is reconciled with the balance of Bank accounts .
- Proper adjustment entries are passed for the difference in cash book balances and bank balances.
- Bank Balances of Municipal Fund Cash book as on 31-03-2017 are reconciled only with the bank reconciliation statement attached on 31-3-2017 but balances during the year could not be verified because bank statements or balance confirmation certificate were not available with the office.
- Necessary adjustment entries were passed to reconcile the balances as on 01-04-2014 which were provided by the office.
- Bank statements of various accounts were not provided to ascertain the Closing balances as on 31-03-2017.

### 5.12 Loans Advances and Deposits

#### 1. To Employees-

- Loans are given to Employees on various instances as per their need. Installments for the same are deducted from their salaries on time.
- Balances are not tallied with DCR maintained.
- Temporary Advances are given to employees for purchases to be made by them for running office administration. But the adjustment entries for the same are not posted in cash book and adjustment vouchers were not available to confirm whether the advances are adjusted or not.
- Some advances are standing adjustable for more than 1 Year and further advances are given to them without adjustment of the earlier advances.

*Am Saral*



- We recommend to pass the necessary adjustment entries in cash book so that advances can be traced easily and to adjust the old standing advances from their salaries or any other dues.
- Amount of Rs. 4,71,562/- and 8,88,045/- representing towards ETT teachers and Employees GPF Loans respectively as same in last year are unrealistic so necessary adjustments should be passed to write off these balances.
- Amount of Rs. 36,600/- towards PF Employees is outstanding throughout the year and which also could not be verified at the end of year so necessary adjustments should be passed to write off these balances.
- No registers are maintained from where we can ascertain the amount which is receivable from Municipal office of other cities.

#### 5.13 Security Deposits

- No records were available for deposits made with Punjab state power corporation Ltd. as security paid to them for getting electricity connections.

#### 5.14 INCOME AND EXPENDITURE

- Incomes are recorded through G-8 and cash book.
- Incomes are categorized differently as per the nature of Income. Most of the income are covered under these 4 heads-
  - i. Tax revenue- Amounts received for the Taxes levied by the Municipal council as per the Municipal Act
  - ii. Assigned Revenue- Amounts that are directly assigned by the state government or central government and these are received directly into the bank accounts
  - iii. Rental income- Amounts that are received from the let-out property of the Civic body

*Anil Bansal*



- iv. Fees and user charges – Amounts that are received from the public for providing any kind of service.
- Revenue Grants & Contributions reflects the amount which are received as grant and utilized for the purpose of revenue expenditure
- Expenditures are also categorized differently as per the nature of Expenditure. Most of the Expenses are covered under these 3 heads-
  - i. Establishment Expenses
  - ii. Administrative Expenses
  - iii. Operation & Maintenance

## 6. CONCLUSION

- Most of the accounting provisions are complied with as per given under “National Municipal Accounting Manual” Issued by Govt of India.
- More Internal Controls are required for payment to Contractors and Employees and others. Accounting for the same should be done on Accrual basis but not on payment basis.
- Provisions should be made for Bad and Doubtful Amounts.
- The problems raised by this audit report are seen in a serious light and can be attributed to a lack of sufficient control measures.
- Comments by management would be noted and the steps taken to rectify deficiencies will be evaluated during the next audit or a follow-up audit.



*Bansal*  
For Municipal Council Malerkotla

Date: 19-02-2018

Place: Mandi Gobindgarh

Executive Officer