

**AUDIT REPORT ON THE ANNUAL FINANCIAL STATEMENTS OF MADHYAMGRAM MUNICIPALITY FOR THE YEAR ENDED 31<sup>st</sup> MARCH, 2011**

We have audited the Balance Sheet of the Madhyamgram Municipality as at 31 March, 2011 along with Income & Expenditure Account and Receipts & Payments Account for the year ended on that date under section 86 of the West Bengal Municipal Act, 1993 as amended till date. Preparation of these financial statements is the responsibility of the Madhyamgram Municipality Management. Our responsibility is to express an opinion on these financial statements based on our audit findings.

2. This Audit Report contains the comments of the Examiner of Local Accounts (ELA) on the accounting treatment with regard to classification, conformity with the best accounting treatment, accounting practices, accounting standards and disclosure norms, etc. Audit observation on financial transactions with regard to compliance with the Laws, Rules and Regulations (Propriety and Regularity Audit) and efficiency-cum-performance aspects, etc., are reported through Inspection Reports/Audit Reports separately.

3. We have conducted our audit in accordance with the Auditing Standards generally accepted in India. These standards require that we plan and perform audit to obtain reasonable assurance about whether the financial statements are free from material misstatements. An audit includes examining, on a test basis, evidences supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall presentation of financial statements. We believe that our audit provides a reasonable basis for our opinion.

4. Based on our audit, we report that:

i. We have obtained all the information and explanations which, to the best of our knowledge and belief, were necessary for the purpose of our audit.

ii. The Balance Sheet and Income & Expenditure Account and Receipts and Payments Account dealt with by this report have been drawn up in the format prescribed under Accounting Manual for Urban Local Bodies (Part – 5 : Forms & Formats) subject to the observations made below.

iii. In our opinion, proper books of accounts and other relevant records have been maintained by the Madhyamgram Municipality as required under Accounting Manual for Urban

Local Bodies (Part – 5 : Forms & Formats) in so far as it appears from our examination of such books and subject to the observations made below.

Management adhered to appropriate internal controls [Comments as per Sub-rule (2) (1) (d) of the Rule 22 of West Bengal Municipal (Finance & Accounting) Rules, 1999 (Amends) is enclosed (Annexure – 1)]

iv) We further report that-

- A. Balance Sheet**
- A.1 Liabilities (Source of Fund)**
- A.1.1 Earmarked Fund (Sch-B-2)**
- A.1.1.1 Provident Fund ₹ 130.38 lakh**

Above Provident Fund balance of ₹ 13038139 was shown in the accounts against the provident fund of ₹ 13276069 as per P.F. ledger abstract. Thus the PF balance was not reconciled with the actual balance as per primary record.

Pending reconciliation of the above stated accounts, the wrong accounting resulted in understatement of 'Provident Fund' with the corresponding overstatement of 'Municipal Fund' to the extent of ₹ 2.38 lakh.

Municipal authority admitted the observation and stated that necessary rectification will be made in subsequent accounts.

**A.1.2 Grants, Contributions for Specific Purposes (Sch. B-4) ₹ 1555.81 lakh**

(i) Above Grants, Contributions for Specific Purposes included ₹305000 under Trade, Professions and Callings which was assigned revenue for the ULB as allotted by the State Government and was to be treated as Income for the year instead of showing liability.

(ii) Above also included ₹ 8439614 being the unspent revenue grants comprising Salary grant of ₹ 3452616, DA Subvention of ₹ 2658099, Fixed grant of ₹ 2320165, Pension Relief of ₹ 8734. The expenditure for allotted purpose (salary, pension and other operation & maintenance) was already incurred by the ULB out of its own fund during 2010-11. Hence all grants received during the year were to be treated as income instead of showing the same under liability.

Wrong accounting of the above resulted in overstatement of 'Grants Contribution for Specific Purposes' to the extent of ₹87.45 (3.05+84.40) lakh with corresponding understatement of Income thereby surplus to the same extent.

The Municipality accepted the observations and stated that necessary rectification/ modification will be made in subsequent accounts.

**A.2.2. Current Assets, loan & Advance**

**A.2.2.1 Sundry Debtors (receivable) B-15 ₹ 406.21 lakh**

Above did not include ₹ 958618 being the interest accrued for the year 2010-11 on the Provident fund deposit in Treasury which was not included in the Treasury General Provident Fund under Investment-Other fund. But the said interest was already included in the PF liability. Since, interest has been credited to the Provident Fund account out of Municipal fund; the interest receivable should be credited to the Municipal Fund.

Non-accounting of the above resulted in understatement of 'Sundry debtors' (receivable) with the corresponding understatement of 'Municipal Fund' by ₹ 9.59 lakh.

Municipal authority admitted the observation and stated that necessary rectification will be made in subsequent accounts.

**A.2.2.2 Loans, Advances and Deposits (Sch.B-18)**

**A.2.2.2.1 Employees Provident Fund Loans ₹ 4.29 lakh**

The Provident Fund Loan of ₹ 429182 were paid from the Provident Fund and was accordingly reduced from the Provident Fund. Thus the above Provident Fund loan was wrongly shown in accounts.

Wrong accounting of the above overstated the Loans, Advance and Deposits by ₹ 4.29 lakh with corresponding overstatement of Municipal Fund by the same amount.

Municipal authority admitted the observation and stated that necessary rectification will be made in subsequent accounts.

**A.2.3 Investment**

**A.2.3.1 Investment – Other fund Sch B-13 ₹ Nil**

Above did not include ₹ 9884418 being the matching investment of Pension Fund. Instead the same was shown in assets comprising ₹ 600000 under Investment-General Fund and ₹ 3884418 under Cash and Bank Balance (₹ 3192620 under SBI and ₹ 691798 under Treasury Special Fund for provident fund).

Thus wrong accounting of the above resulted in understatement of Investment –Other Fund –Pension by ₹ 98.84 lakh with corresponding overstatement of Investment-General Fund by ₹ 60.00 lakh and Cash and Bank Balance by ₹ 38.84 lakh by the same amount.

Municipal authority admitted the observation and stated that necessary rectification will be made in subsequent accounts.

**B. Income & Expenditure Account**  
**B.1. Expenditure**  
**B.1.1 Depreciation (Sch-I-0) ₹ 77.76 lakh**

As per Accounting Manual for ULB, the depreciation on assets created out of the grants was to be shown in expenditure as well as Income (Contribution Towards Asset) by charging the Fixed Asset as well as the reserve viz. Grants against Fixed Asset (GAFA) by the same amount.

But the above depreciation did not include ₹ 26616471 being the depreciation of assets created out of Grants (GAFA). Instead the above depreciation was directly charged to the Fixed Asset with simultaneous charging to GAFA.

This resulted in understatement of both Expenditure and Income by ₹ 266.16 lakh leading wrong depiction of Income & Expenditure (no impact on Surplus).

**C. Unusual entries in the receipts and payment Accounts.**

The Receipt and Payment Accounts should be the classified in such a manner to show the inflow and outflow of cash under certain heads. But the Receipt and Payment Account for 2010-11 included certain bank transaction (450) as both receipts and payments. These unusual receipts and payments were not commensurate with the Accounting Standards applicable for the purpose.

**D GENERAL OBSERVATION**

**D.1** The matching investment of Provident Fund was shown as Cash and bank balance instead of showing the same under Other Investment (Sch.B-13). The above misclassification should be rectified.

**D.2** The schedules B-2, B-4, B-11, B-15 and B-18 attached to the Balance Sheet were incomplete and not conforming to the provisions of the Accounting Manual for ULB. As a result,

the extent of addition, deduction, capital expenditure, revenue expenditure, out of grant/ own resources, movement of fund was implicit in the Financial Statement.

**E. Effect of Audit Comments on Accounts.**

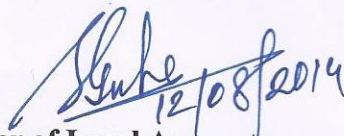
The net impact of the comments given in preceding paras is that the liabilities as on 31 March, 2011 were overstated by ₹ 82.15 lakh, the assets understated by ₹ 5.30 lakh and the Surplus was understated by ₹ 87.45 lakh.(working sheet enclosed)

v) Subject to our observations in the preceding paragraphs, we report that the Balance Sheet and Income and Expenditure Account and Receipts and Payments Account dealt with by this report are in agreement with the books of accounts.

vi) In our opinion and to the best of our information and according to the explanations given to us, the said financial statements read together with the Accounting Policies and Notes on Accounts, and subject to the significant matters stated above and other matters mentioned in Annexure - I to this Audit Report, give a true and fair view in conformity with accounting principles generally accepted in India:

- a) In so far as it relates to the Balance Sheet of the State of affairs of the Madhyamgram Municipality as at 31<sup>st</sup> March, 2011 and
- b) In so far as it relates to the Income & Expenditure for the year ended on that date.

**Place: Kolkata**  
**Date:**

  
**Examiner of Local Accounts**  
**West Bengal**

**Working Sheet on Net impact on Annual Accounts of Madhyamgram Municipality  
for 2010-11**

(₹ in Lakh)

Ref No	Liabilities		Asset		Surplus	
	U/S	O/S	U/S	O/S	U/S	O/S
A.1.1.1	2.38	2.38				
A.1.2.		87.45			87.45	
A.2.2.1	9.59		9.59			
A.2.2.2.1		4.29		4.29		
A.2.3.1			98.84	98.84		
B.1.1					nil	nil
<b>Total</b>	11.97	94.12	108.43	103.13	87.45	0.00

Liability overstated by ₹ (94.12-11.97) lakh = ₹ 82.15 lakh

Asset understated by ₹ (108.43-103.13) lakh = ₹ 5.30 lakh

Surplus of income over expenditure understated by ₹ 87.45 lakh

U/S – Understatement

O/S - Overstatement


**ANNEXURE -I**

**Audit comments on the information as asked under Sub rule 2 of Rule 22 of the West Bengal Municipal  
(Financial & Accounting) Rules, 1999 as amended in January, 2007  
Madhyamgram Municipality Annual Accounts for the year ended March, 2011.**

Sl. No	Item of information.	Audit comments.
1.	Whether all the expenditure incurred by the Municipality are authorized by appropriate provision in the sanctioned budget, whether made originally or subsequently and are in all cases such as are unauthorized by law.	Yes.
2.	Whether all sums due to and received by the Municipality have been brought to account within the prescribed time limits and are in all cases such as are authorized by law.	Yes.
3.	Whether all transaction (income, expenditure, assets and liabilities) are correctly classified and stated in sufficient details?	Yes, subject to comments in the report.
4.	Whether in respect of all bills for charges on accounts of all works and other expenditure proper certificates have been furnished in support of them and that no deviation has been made from the sanctioned plans and the estimate without other sanction of the competent authority?	Yes.
5.	Whether the amounts received as specific grants have been utilized for the purposes as stated in the grant sanction order?	Yes to the extent shown in accounts.
6.	Whether the special funds, if any, have been created as per the provisions of relevant statutes and whether the special funds have been utilized for the purpose for which created?	Yes, subject to comments
7.	Whether the Municipality is maintaining proper records showing full particulars, including quantitative details and situation of fixed assets? Whether these fixed assets have been physically verified by the management at reasonable intervals? Whether any material discrepancy was noticed on such verification and if so, whether the same have been properly dealt with in the Books of accounts?	Physical verification report was not available.
8.	Whether physical verification has been conducted at reasonable intervals in respect of stores?	No.
9.	Whether the procedures of physical verification of store followed by the Municipality are reasonable and adequate, if not, the inadequacies in such procedures should be reported.	No report was made available.
10.	Whether any material discrepancies have been noticed on physical verification as compared to books of records and if so whether the same have been properly dealt with in the books of accounts?	No report was made available.

11.	Whether the valuation of stores is in accordance with the accounting principles laid down by the State Govt. from time to time? Whether the basis of valuation of stores is same as in the preceding year. If there is any deviation in the basis of valuation, the effect of such deviation, if materials, should be reported?	No deviation was noticed.																								
12.	Whether the parties to whom the loans or advances in the nature of loans have been given by the Municipality, are repaying the principal amounts as stipulated and are also regular in payments of the interest and if not, whether reasonable steps have been taken by the Municipality for recovery of the principal and interest?	No such details was available																								
13.	Whether there exists an adequate internal control procedure for the purchase of store including components, plant and machinery, equipment and other assets?	The accounts and the subsidiary record did not indicate existence of any such procedure.																								
14.	Whether proper procedure are in place to identify any unserviceable or damaged stores and whether provision for the loss in this respect, if any has been made in the accounts?	No such procedure was in place.																								
15.	Whether the Municipality is regular in depositing Provident fund dues and Professional Tax deducted with the appropriate authorities and if not, the extent of arrears?	Yes.																								
16.	Whether the Municipality is regular in depositing deducted at source (Income Tax and Work contract tax) and other statutory dues, and if not, the nature and cause of such delay and the amount not deposited?	Yes.																								
17.	Whether any personal expenses have been charged to revenue accounts? If so the details thereof.	Not found during test check.																								
18.	Whether the total liabilities of the Municipality can be met out of the Municipal fund when falling due?	Yes, as calculated below:- (₹ in lakh)																								
		<table border="1"> <thead> <tr> <th>Head</th> <th>Amount</th> <th>Amount</th> </tr> </thead> <tbody> <tr> <td>Earmarked funds</td> <td>229.22</td> <td></td> </tr> <tr> <td>Unspent grant-</td> <td>1555.81</td> <td></td> </tr> <tr> <td>Loan</td> <td></td> <td>1785.03</td> </tr> <tr> <td>Current assets -</td> <td>1907.32</td> <td></td> </tr> <tr> <td>Current liabilities</td> <td></td> <td></td> </tr> <tr> <td>Investment</td> <td>409.45</td> <td>2316.77</td> </tr> <tr> <td><b>Excess of cash strength over liability</b></td> <td></td> <td><b>531.74</b></td> </tr> </tbody> </table>	Head	Amount	Amount	Earmarked funds	229.22		Unspent grant-	1555.81		Loan		1785.03	Current assets -	1907.32		Current liabilities			Investment	409.45	2316.77	<b>Excess of cash strength over liability</b>		<b>531.74</b>
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