

**INTERNAL AUDIT REPORT  
OF  
RAIPUR MUNICIPAL CORPORATION  
(For the period ended 31<sup>st</sup> March, 2017)**



**SUBMITTED TO:**

**The Commissioner  
Raipur Municipal Corporation**

**(Near Mahila Police Thana, Gandhi Udyan,  
Raipur, Chhattisgarh)**

**SUBMITTED BY:**

**Internal Auditor:  
Sajjan Kanodia & Co.  
(Chartered Accountants)**

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## I. PROJECT BACKGROUND

The Central and State Governments, as also other agencies, have been providing the ULBs large sums of money to enable them to effectively discharge their duties and functions. The national reforms agenda for the urban sector includes reforms in municipal accounting practices and strengthening of financial discipline. As a step in this direction, it is proposed to introduce a system of pre-audit of the 169 ULBs' books of accounts by internal auditors. The entities have been clubbed into 5 clusters and we have been appointed as the internal auditor of 1 cluster, namely Raipur cluster.

To improvise municipal accounting practices and strengthening of financial discipline in the urban local bodies, it is vital requirement to introduce a system of Pre-audit of the ULBs books of account by internal auditors. Our firm of Chartered Accountants has been appointed in December, 2015 as internal auditor to conduct the audit of 34 urban local bodies of Raipur Cluster

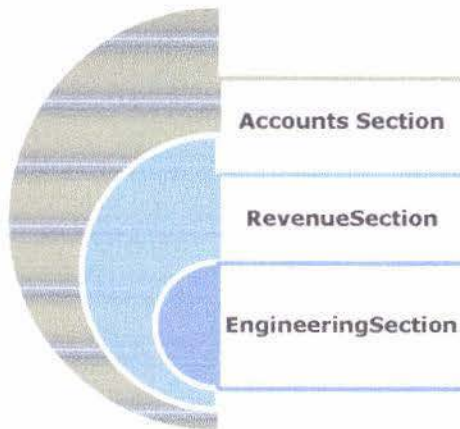
## II. PURPOSE OF PRE AUDIT

- To improve the state of check of accounts in ULB
- To facilitate quick and accurate finalisation of annual report at end of the financial year
- To ensure transparency in local governance
- To help the government to track proper end use of grants released to ULB
- To ensure correctness and compliance of all the rules and regulation followed in all day to day activities
- To ensure non diversion of fund in its ultimate end use



### III. UNDERSTANDING EXISTING PROCESS

During our inception visit we discussed about current accounting scenario of the ULB with each department and following things was covered:



- Procedure of Technical and Admin approval
- Procedure of contractor payment and files movement
- Procedure of Consultancy payments
- Procedure for office expenses and miscellaneous Expenses
- Procedure of Salary payment
- Details of Resources of Internal Revenue
- Procedure of for revenue demand
- Procedure of revenue collection
- Other

The process involves the verification of following points:

#### 1. Registers Maintained at ULB:

During the inception visit we asked the accountants to produce all register maintained at ULB for recording of receipt, Payment and daily transaction like cash books, grant register, demand register, register of statutory deductions, salary register etc.



## **2. Bank Account Details and Bank Reconciliation Statement:**

We have collected details of all bank accounts maintained at the ULBs. It is noticed that various bank accounts in-operative from a long time but not closed by the ULB. It is also noticed bank reconciliation statement has not been prepared.

## **3. Status of Statutory Compliances:**

We have discussed with the accountant in regard to statutory compliances which are applicable to the ULBs like TDS, Commercial Tax, Labour Cess, Royalty etc.

It is noticed that ULBs staff are not well aware about the statutory compliances and not regular in payment and return filling, which may lead a huge revenue loss to the ULBs in the future.

## **4. Audit conducted in previous years at ULB:**

We have discussed with the ULB official about audit conducted in previous year and a report on the same has been demanded by us. During the study of report is has been found that various observation are mentioned in the report but no action has been taken by the management to resolve the same.

## **5. Knowing other Processes:**

Other than above mentioned things, we have discussed about various things which are as below:

- Process of Advance to contractor and their refund
- Process of employee advance and their refund
- Grants allocation and their use
- Other



#### IV. AREA COVERED DURING THE AUDIT

1. Covered all payment related to contracted works, purchase bills, advance refund of all kind of work related deposits, all kind of consultancy fees and contingent bill of ULB according to rules and regulations as per Municipal Corporation Act 1956, Municipal Act 1961, Municipal Accounts manual & Rules.
2. Ensured that in each payment the terms & conditions of tenders and rate offers should be according to procurement law and policies.
3. Inquired & listed the fixed deposit and other funds currently available & whether in Nationalized banks/Approved financial institution earning maximum interest.
4. Ensured that all the expenditure i.e. Construction work, Material procurement, Diesel, Petrol, Grease, Vehicle bill, house rent etc. are covered under audit.
5. All recurring expenditures like establishment, electricity, telephone, etc. are covered under audit.
6. Ensured that all revenue receipts should be audited and entry have been reconciled with bank & cash book.
7. We have also accessed losses incurred to ULB's assets.
8. Ensured that all kind of tax deductions are deducted from the payment as applicable and deposited properly.
9. Ensure proper store accounting and physical verification of goods & material every six months. Ensured proper accounting of revenue and postal stamps.
10. Prepared quarterly report of revenue against target data of same quarter with justification on achievement of targets.
11. Prepared Bank reconciliation statement on monthly basis.



## V. FINDINGS AND OBSERVATIONS

### 1. Unregistered vehicles:

It was observed that Raipur Nagar Nigam possesses 13 number of such vehicles which are unregistered. Out of this 2 vehicles were temporarily registered which have been issued to some other person.

### 2. Work done without annual tender:

It was suggested to carry out an annual tender for supply of food, snacks and beverages for the corporation as they are very frequently required throughout the year for various meetings held. But in spite of continuous follow-up the same has not been carried out yet. Further, PAN card of the contractor and work order not attached with the file presented.

### 3. List of non-performing contractors:

The local bodies does not have list of contractors, who had left the work without completion or not initiated the assignment. There are many instances where final bill of the projects are pending since long, as major portion of the contract amount is being reimbursed in various running bills, hence the contractor are not financially bound to raised final bill (generally raised for less than 10% amount), as raising of final bill requires 'Work Completion Certificate', 'Royalty Clearance Certificate' and other such compliance. Apparently it is being felt that there may be non-compliance on any of such issue. As this trend is being continuously followed by contractor there may be below financial implication

(1) Loss of Royalty to Mining Department

(2) Contractor may quote their prices by inflating project cost by the amount which is not going to claim.



**4. Improper Documentation:**

In contract work there were many files which were reached to payment stage without compliance of requisite process (e.g. technical/ admin approval not obtained, quotation were not called)

**5. Issue related to statutory compliance:**

- (1) Fulfilment of statutory compliance is a big issue. Generally ULB does not have filled copy of periodical return as required for TDS, VAT, PF etc. Over dependency on consultant may lead to financial implication.
- (2) Bank reconciliation statement for all bank accounts was not found.
- (3) ULBs official are not updated about the recent regulations and that's why there are many files which has been returned.
- (4) Budget control register is not maintained at ULB Level.
- (5) Statutory compliances are not proper.
- (6) Vouchers do not have budget head information against which payment is being made.
- (7) Separate bank account for each grant has not been maintained.

6. In few of the cases of store procurement, invoices submitted by vendors consist of cash bill or credit memos instead of retail invoice. These invoices do not contain seal of the supplier entity. This is in violation of CG Saashan Bhandar Kraya Niyam. Rule 4.9, which states that Goods must be purchased from registered dealer only.

**7. Actual date of commencement & completion of projects are not maintained:**

We have noted that the concerning engineer does not maintain the actual date of commencement, actual date of completion, project updates deadline delays in their workings. Due to non-availability it is difficult to determine the project delay period & applicability of penal provision, etc.





8. **Manual attendance register are followed instead of Biometric attendance:** Payment has been made to placement employees on the basis of manual registers instead of Biometric attendance, which are not available in the file.
9. **Vehicle Log books are poorly maintained:** It was found that either log books are not available with concerning driver or not maintained in complete respect.
10. **Drafting of agreements are poor:** Following basic conditions are found missing in agreement entered:
  - a. Percentage above SOR or below SOR
  - b. Signature of Commissioner
  - c. Date of execution of the agreement
  - d. Seal of the contractor.

In this regard it is recommended that: All the ULBs should be encouraged using similar / common formats for making any agreement.

11. In few of the cases related to construction it was observed that Penalty is not deducted by the concerning officer even if work is not executed as per the agreed terms and conditions.
12. Actual date of commencement & completion of projects are not maintained: We have noted that the concerning engineer does not maintain the actual date of commencement, actual date of completion, project updates deadline delays in their workings. Due to non-availability it is difficult to determine the project delay period & applicability of penal provision, etc.



**13. Lack of co-ordination with the staff of ULBs:**

It has been observed at times that the staffs of ULBs restrain to share the information required by the audit team which results in delay in completion of review procedure. Hence, it effects the reporting to be made to SUDA and other regulatory organisations as and when required.

**14. Standard agreement for placement contract not present:**

It has been observed at times that the placement contracts given for supply of labours is not executed under a standard agreement with common terms and conditions due to which the files seems to be lacking in aspects like details of EPF, ESIC, ECR upload sheets, biometric attendance, payment acknowledgement, etc.

**15. Continuation of contract even after expiry of the term:**

It has been observed that in various zones and head office the contract given to the placement contractor is continued even after the expiry of the term of agreement with average period of six months on the basis of consent letter obtained by them and the contract is neither renewed nor retendering use to be done.

**16. Delay in work completion:**

It has been observed in most of the files of construction that the work is not completed within the time period allowed as per work order and neither the penalty has been imposed nor extension taken by the contractor noted in the file. Moreover the reasons for delay also use to be missing in the file and not clarified until asked in the file.




## VI. RECOMMENDATION FOR THE COMING PERIOD

1. ULB's personnel are not aware about recent regulations and due to much practical issue; there remain few lacunae in almost every files. As the internal audit has been commended recently, number of rejection/ returning of files are very high. No doubt it is creating resistance/ disturbance among ULB staff. Training session at least once a month for ULB's accountants and managerial persons should be conducted which will lead to capacity building in them.
2. List of black-listed/ non-performing contractors may be prepared and circulated at department level.
3. A Separate bank account for each payable head may be opened.
4. All register should be timely updated like demand registers, Advance register etc.
5. Statutory compliances should be proper and according to law.
6. Separate Register for Security deposit should be maintained.
7. Grant wise bank account should be maintained.
8. Monthly actual progress of revenue and expenses should be prepared in context of Budget.



9. Works like Vehicle repairs, food and snacks for different meeting, arrangement of sound system, stationery items, electric items, fuel, tent services, vehicles on rent, etc should be done from annual tender.
10. A standard agreement for placement contract should be enforced with common terms and conditions for all the zones and head office.

  
20.03.2018  
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