

PRANSHU GOYAL & ASSOCIATES

CHARTERED ACCOUNTANTS

Municipal Council Khanna

Internal Audit report on Double entry accounting System

For the year ended 31st march 2015

5c/86 Goyal Niwas

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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 2014-15.

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 9 ERP Software.

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 safeguards 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

5. AUDIT OBSERVATIONS

Our Audit observations on different heads of Balance sheet are as follow: -

5.1 Grants & Contribution

- 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.

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 Deposits received

- i. Earnest Money- it is not clear from the records that all the earnest money received is refundable or adjustable further the balances of earnest money could not be verified.
- ii. Contractor Securities- It is found that securities received are refunded to contractors even before the payment of original bills/Vouchers. Securities are deducted at a Rate of 10% from the amount of bill.

- iii. Advance against sale of properties- It reflects the amount which is received as advance against sale of property of municipal council. This amount is to be adjusted at the time of execution of Sale deeds and on receipt of final payment. It cannot be ascertained from the records that whether these advances are adjusted or Sale deeds are executed or not.

5.4 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.
- 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.
- iii. Recoveries Payable-Variou s 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.
- iv. Other Liabilities-
 - Total Amount of Rs. 1,12,86,782/- is pending as on 31.3.2015 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.

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. Sanitation Expenses
 - vi. Sewerage Maintenance Expenses
 - vii. Water cess etc.

5.5 Fixed Assets

- 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.

5.5 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.

5.6 Stock in Hand

- Adjustments for Stock of Printing & stationary are made in the books of accounts. On further investigation, we come to know that out of total stock of Rs 5,82,368/- some Obsolete stock amounting to Rs 4,70,834/- is still remaining in stock is related to Octroi department which no longer exists. So we recommend to dispose off the above stock related to octroi department so that this cannot be used for any fraudulent purposes.
- No information was provided for the stock of-
 - i. Street Light Material
 - ii. Medicines
 - iii. Sanitation Material

5.7 Sundry Debtors

- Includes the amount outstanding as receivable from public as their dues for-
 - i. House Tax
 - ii. Water and Sewerage Bills
 - iii. Rent
- Opening and Closing Balances of the above accounts are not reconciled with other ledgers.
- Provisions Should be made for the amount which are receivable but are bad or Doubtful in nature.

5.8 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 on a monthly basis.
- Proper adjustment entries are passed for the difference in cash book balances and bank balances.
- Cash books of Grants are not properly maintained, and in the course of our audit we found that some cash book of grants is not written after 31-03-2014. So, that we could not verify those grants and their bank balances.
- Bank Statement for Some grant accounts were not Available with the office.

5.9 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 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.
- 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.

2. Others-

- Some Advances are given to employees and parties before 1-04-2008 amounting to Rs.26,61,239.67 which are still remaining adjustable. Here urgent actions are needed to be taken so that the amount can be saved from misappropriation. Proper Line of action is required for speedy recovery of the Amount
- Amount Outstanding from other Municipal council for retired employees shows the amount paid to retired employees which was otherwise payable by Municipal councils of other cities where services were rendered by retired employees during their tenure. Hereto Strict action is required so that the amount can be recovered or adjusted from the amount payable to respective Municipal Councils.
- An Amount of Rs. 4,57,99,000/- is outstanding towards Punjab water supply and sewerage board as per DCR. This amount should be adjusted against

any amount if payable to them for any Capital or Revenue Expenditure. Proper Communication Channel should be established with the concerned department for recovery.

5.10 Security Deposits

- Deposits are made with Punjab state power corporation ltd. as security paid to them for getting electricity connections.

5.11 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
 - 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.

For Municipal Council
Khanna

Date: 30-12-2016

Place: Dhuri

Executive Officer