

**INTERNAL AUDIT REPORT**  
**OF**  
**KORBA MUNICIPAL CORPORATION**  
(For the period ended 31st March, 2017)



**SUBMITTED TO:**

**The Commissioner**  
**Korba Municipal Corporation**  
(Korba, Chhattisgarh)

**SUBMITTED BY:**

**Internal Auditor:**  
***Borkar & Muzumdar***  
(Chartered Accountants)



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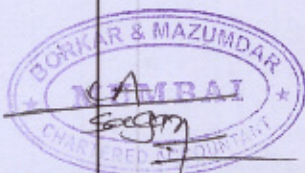
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## PROJECT BACKGROUND

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 Bilaspur cluster.

To improve 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 as internal auditor to conduct the audit of 46 urban local bodies of Bilaspur Cluster which Includes Korba Municipal Corporation.



## UNDERSTANDING EXISTING PROCESS

During our audit we discussed about current accounting scenario of the Korba Municipal Corporation with each department and following things was covered:

- Procedure of Technical and Admin Approval
- Procedure of Tenders
- Procedure of Agreement and work order
- Procedure of contractors 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 revenue collection
- Procedure of Release of EMD/TDR/FDR
- Procedure for payment of Retirement benefits

**The process involves the verification of following points:**

### **1. Registers Maintained at Korba Municipal Corporation:**

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



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## 2. Audit conducted in previous years at ULB:

We have discussed with the Korba Municipal Corporation official about audit conducted in previous year and a report on the same. We observed that various observations given in the report but no action has been taken by the ULB.

## 3. 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

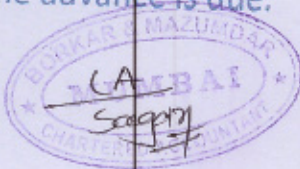


## APPROACH ADOPTED

**Inception Visit of Korba Municipal Corporation:** We have conducted field visit of Korba Municipal Corporation in the month of November, 2015.

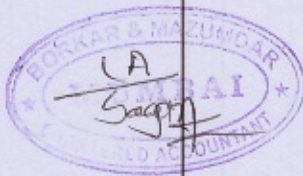
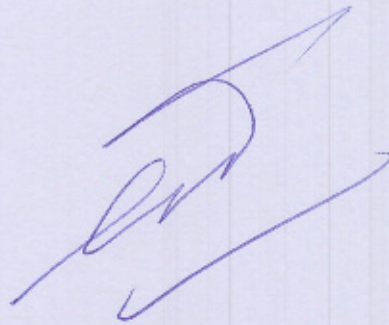
Activities carried out during Inception Visit were:

- Covered all the payment related to contracted works, purchase bills, advances refund of all kind of work related deposits , all kinds of Consultancy fees and contingent bill of ULB according to the rules and regulation as per Municipal Corporation Act 1956, Municipality Act 1961, Municipal Accounts manual & Rules;
- Ensured that in each payment the terms & conditions of tenders and rate offers should be according to procurement law and policies.
- Ensured that expenditure incurred is within the Budget provision allocated to particular head.
- Inquired & listed the fixed deposit and other funds currently available & whether in Nationalized banks/Approved financial institution earning maximum interest.
- Ensured that all the expenditure i.e. Construction work, Material procurement, Diesel, Petrol, Grease, Vehicle bill, house rent etc. are cover under pre-audit.
- All recurring expenditures like establishment, electricity, telephone, etc are advised for payment after pre-audit.
- Ensured that all revenue receipts should be pre audited and entry have been reconciled with bank & cash book.
- List of all unpaid bills and missing bills have been included..
- Ensured that all kind of tax deductions are deducted from the payment as applicable and deposited properly.
- Ensure proper store accounting and physical verification of goods & material every six months. Ensured proper accounting of revenue and postal stamps.
- Prepared Bank reconciliation statement on monthly basis, since November 2015 (i.e. as per work order).
- Inquired and verified about the outstanding liabilities as on the closing date of the respective Months.
- Inquired and verified advance given and period of advance from which the advance is due.



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- Verified and summarized the remaining balance available in the different fund at the end of the month.
- No queries have been received by us from any local fund auditors / A G Office / CAG, etc.
- Ensured that all observation and findings during the course of internal audit have been furnished monthly to ULB/J.D.O./SUDA.
- All other areas/reporting/certification required and directed by ULB/J.D.O./SUDA.



## INTERNAL CONTROL

A built in internal control mechanism to ensure effectiveness in carrying out the traditional functions and the transferred functions by the Urban Local Bodies (ULBs) is provided in the Municipal Corporation Act 1956, rules made there under and Government Orders and guidelines. The internal control system in ULBs was very weak as rules regarding various control measures were not complied with the system could not ensure efficiency and economy of operation & there would be chances of loss & misappropriation.

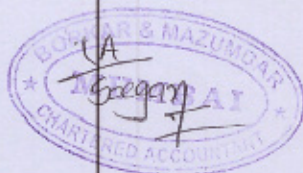
### Audit findings

The audit findings are grouped under the following sections.

- Observance of internal controls
- Adequacy of internal controls
- Internal audit
- Man power
- Monitoring and evaluation

### Observance of internal controls

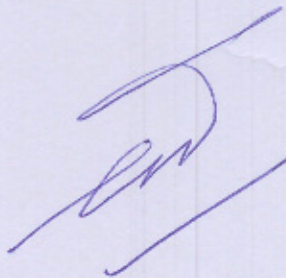
Specific internal control measures were prescribed in the Municipal Corporation Act 1956, orders and guidelines issued by the State Government. These controls intended to utilize the resources of ULBs in the best possible way avoiding risks of infructuous expenditure, loss, manipulations, mistakes, etc. thereby increasing the efficiency and performance standards of ULBs. However, the ULBs failed to implement the internal controls prescribed in the Act, Rules.





Weakness found in Internal control System:-

- Poor control while levying penalty- Many work is delayed but due to improper authorization and time extension penalty is not levied.
- Poor Technical Estimation- many estimate exceeds while doing the actual work which results in extra cost over estimate.
- Poor attendance system- as per the SUDA directives attendance must be maintained in Bio Metric system, but much time manual attendance was presented.
- Too much delay in taking measurement- it is observed that there is too much delay in taking the measurement of the civil work done.
- Poor Control over Municipal Fixed Assets- Very poor internal control is exercised to safeguard the assets of the Corporation.
- Leakage of Revenue from Shop Rents- Collection of Shop rents is Very Poor.



## OUR FINDINGS AND OBSERVATION

- **List of non-performing contractors:**

The local bodies does not have list of contractors, who had left the work in mid 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

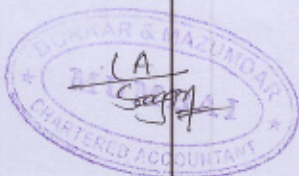
- Loss of Royalty to Mining Department
- Contractor may quote their prices by inflating project cost by the amount which is not going to claim.

- **Calculation Error:**

Calculation error like summation error, etc in estimation are observed in majority of the construction files.

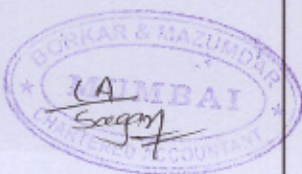
- **Actual date of commencement & completion of projects are not maintained:** We have noted that the concerning engineer does not maintain the actual date of commencement, actual date of completion, project updates deadline delays in their workings. Due to non-availability it is difficult to determine the project delay period & applicability of penal provision, etc.
- **Vehicle Log books are not being maintained:** In ULBs it was found that either log books are not available with concerning driver or not maintained in complete respect & in most of vehicle it was also found that their meter was not in working condition.

**Average monthly expenditure of fuel is Rs 18 lakh (approx 28000 Liter)**



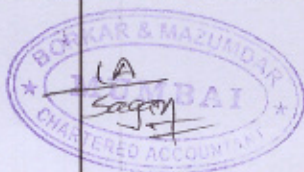
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- In few of the cases of store procurement, invoices submitted by vendors consist of cash bill or credit memos instead of retail invoice. These invoices do not contain seal of the supplier entity. This is in violation of CG Saashan Bhandar Kraya Niyam. Rule 4.9, which states that Goods must be purchased from VAT registered dealer only.
- **Compliance with Penal provisions is not proper:** - many works is much delayed and without any sufficient reason penalty is not deducted which is required to be deducted as per the term and condition of tender and agreement.
- **File No. is not mentioned on some file.**



• Arrear rent receivable from Nigam owned rented complex & shops as on 31.03.2017

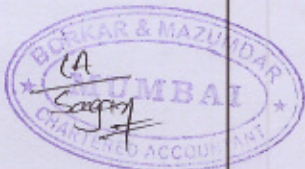
Zone	Name of complex/shop	Amount( Rs)
Korba	vikash complex	75271
	Gitanjali bhawan	646197
	itwari bazar korba	244698
	Chitra takij k samne complex	29450
	sitamari complex	111517
	sarwamangala road complex	218089
	sarda bihar mukhya mantri	502400
	All thela	1928725
	Dairy organisation raipur	202810
	subha dairy pvt korba	89550
Darri	complex at Appu ghar	27850
	Pashchami hotel complex 15491	154910
	New compex at zel gaon	138976
	Jel gaon chowk complex	60700
	compex at jamni pali Petrol pump	82508
	pratiksha bus stand compex dari	161900
	complex at dari bazar	67800
	itwari bazar complex under mukya mantri swalamban	197600
	sardar valbh bhai patel complex	357800
	Nehru chowk cpmplex	621759
kosabri zone	indra commercial complex ghanta ghar	54500
	IDSMT Yojna ghantaghar complex	1397726
	maharanapratap nagar HiG 21	8000
	Mahanadi Vistar complex	782226
	Pushpanjali complex	1091847
	Mahandi complex	44403
	shop behind Neharika Takij	96600
	Pushplata garden canteen	442320
	shmariti garden complex	219150
	Nilambari complex	1103392
	New Nilambari complex	116617
	shop infront of old bus stand	73595
	kadambari bhawan	629510
	100 bed hospital complex	45446
	maharanapratap nagar colony	361169
	budhbari bazar complex	72271
	shop Near by neharika takij under Rajiv swalamban Yojna	142131
	shop near by district court	255289
	shop at budhbari Bazar under mukhya mantri swalamban yojna	469800
	Maharanapratp nagar Mukhya mantri swalamaban Yojna	217600
	shopt at nehru chowk	175300
	shop near by budhwari bajar mahila samridhi	355800
	shop at pandit ravi shanker shukla	385600
	shop at Tahshil office	226000
	gumti at budhbari bazar	264400



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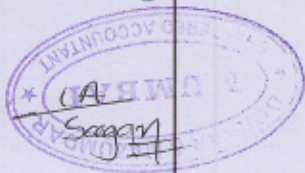
	subhda complex	334663
	pandit dindyal commercial complex	82450
	new bus stand	838290
	Block I	442021
	Vishal hotel complex	1309348
	sport complex	84894
	Major dhyan commer complex	34152
	Alka complex	278084
	Commercial mcomplex	3472207
	Pandit deen dyal sanskritl bhawan	383376
	shop at cg Mandal chowk	48364
	stadium road complex	1786400
TP Nagar zone	TP nagar parking gumti	264625
	sarwamangla barm chowk complex	90828
Banki mongra zone	baki mongra complex	62350
Balco Zone	Bhadra para balco ki shop	438700
	<b>Total</b>	<b>2,49,01,954</b>

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## 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. A CAP on Payment to be made in running bill (Say 80% of total project cost) should be made.
3. List of black-listed/ non-performing contractors may be prepared and circulated at department level.
4. New Budget Format may be implemented in FY 2017-18.
5. A Separate bank account for each payable head may be opened and relevant portion may be deposited and paid there from
6. All register should be timely updated like demand registers, Advance register etc. 7. Statutory compliances should be proper and according to law.
8. Separate Register for Security deposit should be maintained.
9. If, ULBs covers in reverse charge mechanism than service tax should also to be implemented
10. Grant wise bank account should be maintained.
11. Monthly actual progress of revenue and expenses should be prepared in context of Budget.



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13. The ULB must take steps to improve efficiency.
14. Prepare a Defaulter list of every type of revenue on weekly basis and shall provide to every a demand notice to every defaulter.
15. Maintain Proper records regarding demand raised, recovered and outstanding with complete details of every person from which revenue has been collected.
16. Calculate the revenue of particular month after excluding arrears of past month for better and accurate understanding.

For Borkar & Muzumdar  
(Chartered Accountants)  
FRN: 101569W

*Vinod*  
23-02-18

CA Vinod Vijay Agrawal  
(Partner)  
M. No. 404449



*Rishi*  
Commissioner

Korba Municipal Corporation

आयुक्त,  
नगर पालिक निगम  
कोरबा (उ. प्र.)