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INTERNAL AUDIT REPORT

ON

IMPLEMENTATION OF ACCURAL BASED DOUBLE ENTRY SYSTEM OF ACCOUNTING

OF

MUNICIPAL CORPORATION, LUDHIANA

FOR THE FINANCIAL YEAR 2015-16

Internal Audit Report of MUNICIPAL CORPORATION, LUDHIANA for the financial year 2015-16.

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SCOPE OF WORK:-

Presently, Municipal Corporation, Ludhiana is following single entry system of accounting in which no Income & Expenditure account is prepared on accrual basis and no trial balance and balance sheets are prepared.

Our firm was appointed as internal auditor in the month of August, 2015 for internal audit of the financial year 2015-16 and to compile the annual financial statements under the double entry system of accounting on accrual basis. Since, the required information on opening balances, bank statements etc. were provided with very long delay, debit/credit balances of assets and liabilities are subject to confirmation/reconciliation with the statutory returns filed with the Govt. Authorities and with the balances of departments concerned.

OPENING BALANCE SHEET:-

Since, no balance sheet is prepared by the Municipal Corporation at the any particular period of time till date, no details of assets and liabilities were available as on 01.04.2015. After repeated reminders from our side for collection of information on the assets and liabilities as on 01.04.2015, the information was received in the month of February and March-2017 only. In some cases, no records have been maintained so as to compute the opening balance of assets and liabilities, for which the tentative values have been taken in compilation of the balance sheet as on 31.03.2016. Difference arising after the balance sheet period will be adjusted with the Municipal Fund in the subsequent period.

INTERNAL AUDIT OBSERVATIONS:-

Sr. No.	Account Head	Audit Remarks
1.	Municipal Fund	Municipal Fund represents the balance outstanding in the capital account of the Municipal Corporation. It represents the balancing figure after deducting the total value of Liabilities of the Corporation from the total assets of the Corporation.
2.	Secured Loans	Municipal Corporation has taken loans from GLADA, HUDCO and Canara Bank and the same has been shown under Secured Loans.
3.	Current Liabilities – Security Deposit from contractors	Municipal Corporation deducts the security from the contractor bills at the time of payment and the same is deposited into the bank account (account separately maintained for the security deposits) and payments are made from the same account after completion of the contract.
4.	Current Liabilities – Contractors Liabilities	There is no mechanism of booking of contractor liabilities as and when the engineering branch submit the completion certificate (running bill or final bill) but the

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		same is accounted for only at the time when the payment is made after pre audited by the audit department. We suggest that whenever the Invoice raised by the contractor/supplier or the bill is prepared by the Engineering/concerned branch, the same must be informed to the accounts branch immediately so that the same is accounted for as per accrual system of accounting so that expense/depreciation is accounted for accordingly.
5.	Current Liabilities – Gratuity to Staff	Gratuity is accounted for on payment basis. No fund has been created to set aside the gratuity liability. No Actuarial Valuation is done in any year to ascertain the gratuity liability. We suggest that fund be created for the same and liability is set aside every year after actuarial valuation.
6.	Current Liabilities – Telephone & Electricity Payable	Telephone and Electricity expenses have been accounted for on due basis.
7.	Sundry Debtors	Sundry Debtors represents pending demand on account of Water & Sewerage Tax Recoverable and Disposal Income Recoverable. The same are subject to reconciliation with the billing section.
8.	Cash Balance	As informed to us, no cash in hand is there as on 31.03.2016 as cash received is deposited on the same day of receipt.
9.	Bank Balance	As per current system of accounting under single entry system of accounting, bank receipts and payments are accounted for in the cash/bank book in a single account, whereas the same are receipt/paid from different bank accounts.. Bank balances are subject to confirmation as opening bank reconciliation statement is not available as bank balances are un-reconciled for many years.
10.	Revenue Recognition	Revenue of Water & Sewerage And Disposal have been recognized on the basis of billing information received from the billing section. All other incomes have been recognized on receipt basis. Property tax has also been recognized on receipt basis as there is no system of demand generation for the same. We suggest that proper demand register to be maintained for property tax so that the record of demand and collection is available and necessary steps could be taken for the recovery of pending demand and the income is accounted for on accrual basis.
11.	Expenses	Expenses have been recognized on accrual basis.
12.	Depreciation	No depreciation has been provided in the financial year

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		2015-16 as year wise purchase/construction/acquisition of some fixed assets has not been provided e.g. Water & Sewer Line, Drains, Tube wells etc. where the exact date of installation/construction/acquisition is not provided. Depreciation would be calculated after the complete information of the fixed assets is available.

COMPLETE MIGRATION OF SINGLE ENTRY TO DOUBLE ENTRY SYSTEM OF ACCOUNTING:-

At present both the systems of accounting i.e. single entry system of accounting and double entry system of accounting are in place. As informed to us by the accounting branch that no changes have been done in the Municipal Code by the Govt. till date, therefore, complete migration is not possible. Both the systems has to be run parallel till the changes are done in the Municipal Code and adoption of Double Entry System based accounting is approved.

For Naveen R. K. Aggarwal & Co.
Chartered Accountants

(Naveen Kumar Aggarwal)
Partner

For Municipal Corporation, Ludhiana

(Deputy Controller Finance & Accounts)

Deputy Controller (F & A)
Municipal Corporation
LUDHIANA

Dated. 29.03.2017