

Municipal Council Samana  
Internal Audit report on Double entry accounting System  
For the year ended 31<sup>st</sup> march 2016

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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 2015-16.

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.

ਕਾਰਜ ਸਾਧਕ ਅਫਸਰ  
ਨਗਰ ਕੌਂਸਲ, ਸਮਾਨਾ ।



### 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 (based on test checking) on different heads of Balance sheet are as follow: -

### 5.1 Grants and Contributions

- 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 maintained with respect to grants received so that to ensure all grants received are accounted for in the books of accounts.
- Various Grants received for different purposes are accounted in different cash books and are duly received in their respective Bank accounts. But Grant for sewerage connections was direct received from govt. in municipal fund accounts on 08-03-2016 and same was still lying in municipal fund bank accounts as on 31-03-2016.

### 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 Secured Loans

- It is Clear from the records presented before us that the Municipal Council has not taken any type of loan from Government or from any other Financial institutions

### 5.4 Deposits received

- i. Earnest Money- These are recorded as per date of receipt but not on the name of the person from whom it is received
- ii. Contractor Securities- It is found that securities received are refunded to contractors after a fixed time from satisfactory completion of work. Securities are deducted at a Rate of 10% from the amount of bill. Registers for contractor securities are not maintained so verification of amount outstanding was not possible.
- iii. Water & Sewerage Security- It reflects the amount which is received as security for providing water & sewerage connections. This amount is to be adjusted or refunded at the time of disconnection of water & sewerage connections and on receipt of final payment.

As this amount is not refunded by the office we recommend the authorities to treat this amount as Income instead of liabilities.

### 5.5 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.

Recommendation- Creditors should be recorded on the basis of expenditure i.e. when the amount is due or the bill is presented for the payment whichever is earlier, Expenditure should be recorded on that date.



