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CHARTERED ACCOUNTANTS

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**MUNICIPAL CORPORATION
PATHANKOT**

**INTERNAL AUDIT REPORT FOR THE FINANCIAL YEAR
2023-2024**



**PIYUSH MAHAJAN & ASSOCIATES
CAMPBELL ROAD, BACKSIDE KALI MATA MANDIR
PATHANKOT - 145001**

H.O:- Campbell Road, Backside Kali Mata Mandir Near Railway Crossing, Pathankot-145001

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Dated: Feb 18, 2025

**TO
MUNICIPAL CORPORATION
PATHANKOT**

Sub: Internal audit report for the period from 1st Apr 2023 to 31st March 2024.

We have conducted internal audit of Municipal Corporation Pathankot for Financial year ending as on 31.03.2024 & we are highlighting certain points in this regard in the report. The Scope of the internal audit was checking the efficiency & effectiveness of the internal controls and verification of related records. Further we have given recommendations for rectifying / strengthening the same as follows:

We believe that the given recommendations shall improve the existing controls. Further we hope that these recommendations are implemented as early as possible. We thank the management for their cooperation in conduct of this audit. Should there be any clarifications the management is free to revert to us.

Thanking you

For Piyush Mahajan & Associates
Chartered Accountants
FRN - 028669N

Piyush Mahajan
Partner
M. No. - 535190



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INTERNAL AUDIT REPORT FOR THE PERIOD FROM 01.04.2023 TO 31.03.2024

To
MUNICIPAL CORPORATION
PATHANKOT

1. Introduction

This Internal Audit Report is prepared for the Municipal Corporation of Pathankot for the Financial Year 2023-24, covering the period from April 1, 2023, to March 31, 2024. The audit was conducted in accordance with the guidelines issued by the applicable statutory requirements under the Punjab Municipal Corporation Act, 1976, and other relevant regulations. The objective of the audit was to evaluate the financial and operational processes, ensure compliance with legal and regulatory frameworks, and assess the effectiveness of internal controls.

2. Scope of Audit & Procedures

The following are various areas where more emphasis is laid out for the purpose of verification:

a. Cash Collection & Bank Arrangements:

Income received through the bank and at each cash office is adequately recorded. Cash and records of receipts are transferred promptly to the treasury. All cash / bank transfers are adequately recorded and witnessed. Payments from/to bank accounts are adequately controlled. All income streams are reviewed at least quarterly. However while conducting Internal Audit for the FY 2023-2024, we found significant amount of transactions credited in the Bank account but no effects for such transaction have been in the cash book. Therefore, in order to state true & fair view of financial statements, Bank Reconciliations Statements have been prepared for each month. The recorded transactions, assets and liabilities have been properly classified and recorded in the organization's financial records.



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b. Income and Debtor Arrangements:

All income and debtors relevant to the period of review have been recorded. The same have been taken into books of account as provided and verified by the management. Source documents used for tax calculations are adequate and properly authenticated. All income has been raised in accordance with established laws and regulations. Taxes raised are done in accordance with relevant statutory provisions except for payment of GST. GST is levied on certain incomes accrued to Municipal Corporation and the same is being collected on timely basis but such GST collected is not being deposited with concerned Department on due date. GST so collected shall be deposited by the 20th day of the following month. Outstanding debtors are periodically verified to source records to ensure the debt remains valid.

c. Payroll and Expense Arrangements:

All payments relevant to the period of review have been recorded. All recorded payments, and transactions to which they relate, actually occurred and were relevant to the period of review. All payments are in accordance with relevant legislation and other specific requirements. The deductions from payroll (e.g. income tax, provident fund) have been calculated in accordance with existing legislation.

d. Inventory and Fixed Assets Arrangements:

As corporation does not deal with any products, implied there from closing stock has been taken as Nil. All Fixed Assets are held securely. Fixed Assets are periodically verified to ensure they exist. **However, the no impairment or depreciation have been provided for the same.** Differences are properly investigated. Fixed Assets are periodically verified. Asset verification considers the present state and usefulness of the asset against its present value and ensures the asset's valuation is in accordance with the legislation. However, certain Vouchers could not found in the records.

e. Status of Statutory Compliances

We have discussed with the accountant in regard to statutory compliances which are applicable to the Urban Local Bodies like TDS, Commercial Tax, Labour Welfare Cess, Royalty etc. It is noticed that provisions TDS is not being complied with properly. However, there are certain pensioners whose TDS is liable to be deducted, but not being deducted.. ULBs staff are not well aware about the statutory compliances in respect of provisions EPF and not regular in return filling, which may lead a huge revenue loss to the ULBs in the future.

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f. 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

g. Miscellaneous:

There are various aspects which we covered and dealt with while conducting Internal Audit of Municipal Corporation Pathankot, a few of which are listed below: -

- Covered payments related to contracted works, purchase advances refund of all kind of work related deposits , Consultancy fees and contingent bill of ULB according to the rules and regulation as per Municipal Corporation Act 1956 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.
- Ensured that all the sanctioned advances cover under pre-audited and then advised for payment to disbursement officer.

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- Ensured that all kind of tax deductions are deducted from the payment as applicable and deposited properly.

3. Executive Summary

The Municipal Corporation of Pathankot has maintained its financial and operational activities in line with its objectives to provide civic amenities and services. The audit revealed that the Corporation has made efforts to adhere to regulatory requirements and improve service delivery. However, certain areas require attention to strengthen internal controls, enhance operational efficiency, and ensure full compliance with statutory obligations. Detailed observations will be provided in Point 5.

4. Methodology

The audit was conducted in the following phases:

1. **Planning Phase:** Understanding the Corporation's operations, reviewing prior audit reports, and identifying key risk areas.
2. **Fieldwork Phase:** Examination of financial records, verification of transactions, and assessment of internal controls through sampling and testing.
3. **Reporting Phase:** Compilation of findings, discussion with management, and preparation of this report.

The audit team reviewed ledgers, bank statements, contracts, payroll records, tax filings, and operational reports. Random sampling techniques were applied to ensure representative coverage of transactions.

There are various aspects which we covered and dealt with while conducting Internal Audit of Municipal Corporation, Pathankot, a few of which are listed below :-

- Covered payments related to contracted works, purchase advances refund of all kind of work related deposits, Consultancy fees and contingent bill of ULB according to the rules and regulation as per Municipal Corporation Act 1956 Municipal Accounts manual & Rules;



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- Ensured that in each payment the terms & conditions of tenders and rate offers should be according to procurement law and policies.
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- 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.
- Ensured that all the sanctioned advances cover under pre-audited and then advised for payment to disbursement officer.
- Ensured that all kind of tax deductions are deducted from the payment as applicable and deposited properly.

5. Audit Observations and Findings

The following observations were noted during the audit.

- Good & Services Tax (GST) is being duly collected and paid on Rent Received & Advertisement Charges. However, in Cash Book, it is not shown as income which is right treatment but the same is being shown as Expenditure under Other Expenses Head – 62.
- While conducting Internal Audit for FY 2023-24, we identified several errors & omissions in the Classified Ledger Abstract. Therefore, there had been certain variations between ledger balances as per Books of accounts & classified ledger. In this respect, Annexures forming part of Financial Statement had been duly prepared.

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- A Separate Bank Reconciliation statement has been prepared in respect of differences existing between Cash Book and Balances with Bank arising on accounts of cheques not presented for payment, Amounts appearing in Bank not mentioning in Cash Book or Bank Interest, Bank Charges & several related matters. Such difference has become quite significant as on 31.03.2024, therefore it is advised to kindly incorporate such entries in Cash Book in immediate future date.

6. Recommendations

Based on the observations, the following general recommendations are made to address common municipal challenges and improve operations:

- I. Strengthening Internal Controls:** Implement robust checks and balances to prevent errors and fraud in financial transactions.
- II. Revenue Optimization:** Enhance mechanisms for timely collection of property taxes, user charges, and other revenues.
- III. Compliance Monitoring:** Establish a dedicated team to ensure timely statutory filings, including GST, TDS, and other regulatory submissions.
- IV. Operational Efficiency:** Adopt technology-driven solutions for waste management, public grievance redressal, and infrastructure maintenance.
- V. Training and Capacity Building:** Conduct regular training for staff to improve financial reporting and compliance awareness.

7. Conclusion

The Municipal Corporation of Pathankot has demonstrated a commitment to fulfilling its civic responsibilities during FY 2023-24. While several processes are functioning adequately, addressing the identified observations and implementing the recommended measures will enhance the Corporation's financial health, operational efficiency, and compliance posture. The management is encouraged to act promptly on the findings to ensure sustainable governance and service delivery.

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8. Acknowledgment

We acknowledge the cooperation extended by the management and staff of the Municipal Corporation of Pathankot during the audit process. All relevant documents and clarifications were provided promptly, facilitating a thorough review.

For Piyush Mahajan & Associates

Chartered Accountants

FRN - 0286000000



Piyush Mahajan

Partner

M. No. - 535100