## Q.NO.1. WRITE ABOUT LOCAL BODIES?

1. **Purpose of Local Bodies:**
   - **a.** Administration of a locality, i.e. village/town/city cantonment etc.
   - **b.** By a body representing the local inhabitants.
   - **c.** Possessing fairly large autonomy.
   - **d.** Raising at least a part of its revenue through local taxation e.g. Property taxes, professional taxes, fees & Licences, non taxes income (Rent of land, houses, incomes from commercial undertaking, govt.grants etc).
   - **e.** Spending its income on local services, distinct from state and central services, e.g. Education, Public, Health, Sanitation, medical relief, roads & public works.
2. **Types:**
   - **a.** Municipal Corporations.
   - **b.** Municipal Councils.
   - **c.** Notified area Committees.
   - **d.** Town area Committees.
   - **e.** Cantonment Committees.
3. **Functions**
   - **a.** Local areas covering
   - **b.** Regulatory
   - **c.** Maintenance
   - **d.** Development authorities
4. **Funds**
   - **a.** General or Reserve Fund
   - **b.** Water supply and Drainage Fund
   - **c.** Elementary Education Fund
5. **Expenditure:**
   - **a.** General Administration and revenue collection
   - **b.** Public Health
   - **c.** Public Safety
   - **d.** Education
   - **e.** Public Works
   - **f.** Interest Payments
6. **Incomes:**
   - **a.** Taxes on Property, Octroi, Advertisement taxes
   - **b.** Non tax incomes - licence fees, Sale of bonds, rents, interests, Grants etc.
7. The revenue grants are of three categories:
   - **a.** ***General Purpose Grants:*** These are primary intended to substantially bridge the gap between the needs resources of the local bodies.
   - **b.** ***Specific purpose Grants:*** These grants, which are tied to the provision of certain services or performance of certain tasks.
   - **c.** ***Statutory & Compensatory Grants:*** These grants, under various enactments, are given to local bodies as compensation on account of loss of any revenue on taking over a tax by state government from local government.

## Q.NO.2. WRITE A SHORT NOTE ON AUDIT OF LOCAL BODIES?

**1.** The external control of municipal expenditure is exercised by the state governments through the appointment of auditors to examine municipal accounts. The municipal corporations of Delhi, Bombay and a few others have powers to appoint their own auditors for regular external audit.

**2.** The important ***objectives of audit*** are:

**a.** Reporting on the fairness of the content & presentation of financial statements;

**b.** Reporting upon the strengths and weaknesses of systems of financial controls;

**c.** Reporting on the adherence to legal and/ or administrative requirements;

**d.** Reporting upon whether value is being fully received on money spent; and

**e.** Detection and prevention of error, fraud and misuse of resources.

**3.** ***Audit*** is another method of financial control on local governments. This provision is coupled with the privilege of ultra vires. An action of the local authority if it is beyond legal authority can result into 'Qualification' by audit. This procedure is a legacy of colonial days and even in England it is being resorted now also.

***4. Internal audit:***

**a.** In addition to the external audit, it is also felt that there should be a system of internal audit in all municipal institutions.

**b.** Internal audit should be provided by the institution's own staff.

**c.** It should be performed on a continuous basis according to a well defined programme. The external auditor should be able to rely upon the work of the internal audit.

**d.** Where there is no internal audit, as may happen in the case of small or poorly staffed Municipalities, the external editor himself has to go for detail checking.

**5.** Increasing attention is being given, to what is described as ***'Value for money'*** audit. This kind of audit focuses upon assessment of whether urban institutions are fulfilling their responsibilities with efficiency, economy and effectiveness (sometimes known as 'the three Es').

## Q.NO.3.DESCRIBE THE SALIENT FEATURES OF FINANCIAL ADMINISTRATION OF LOCAL BODIES.

**1.** ***Budgetary Procedure:*** The objective of local body's budgetary procedure is financial Accountability, control of expenditure, and to ensure that funds are raised and moneys are spent by the executive departments in accordance with the rules and regulations and with in the limits of sanction and authorization by the legislature or Council. Different aspects covered in budgeting are - determining the level of taxation, fees, rates, and laying down the ceiling on expenditure, under revenue and capital heads.

**2.** ***Expenditure Control:*** At the State and Central level, there is a clear demarcation between the legislature and executive. In local body, legislative powers are vested in the council where as executive powers are delegated to the officers, e.g. Commissioners. All matters of regular Revenue and expenditures are generally delegated to the executive wing. For special situations like, reduction in property taxes, refund of security deposits, etc. sanction from the legislative wing is necessary.

**3.** ***Accounting System:*** Municipal Accounting System has been conventionally prepared under the Cash System. In the recent past however, it is being changed to the accrual system of accounting. The accounting system is characterised by:

**a.** Subsidiary and statistical registers for taxes, assets, cheques etc.,

**b.** Separate vouchers for each type of transaction,

**c.** Compulsory monthly bank reconciliation,

**d.** Submission of summary reports on periodical basis to different authorities at regional state level.

## Q.NO.4. WRITE ABOUT AUDIT OF NON-GOVERNAMENTAL ORGANISATIONS?

**1.** NGO's can be ***defined as*** non-profit making organizations which raise funds from members, donors or contributors apart from receiving donation of time, energy and skills for achieving their social objectives.

**2.** Non-Governmental Organizations are generally ***incorporated*** as societies under the societies Registration, Act, 1860 or as a trust under the India Trust Act, 1882. NGO's can also be incorporated as a company under section 25 of the companies Act, 1956.

**3.** While planning the audit, the auditor may ***concentrate on the following***:

**a.** Knowledge of the NGO's work, its mission and vision, area of operations and environment in which it operates.

**b.** Reviewing the legal form of the organization and its Memorandum of Association, Articles of Association, rules and Regulations.

**c.** Reviewing the NGO's organization chart, Financial and Administrative Manuals, Project and Program guidelines, Funding Agencies Requirements and Formats, budgetary policies, if any.

**d.** Examination of minutes of the Board/Managing Committee/ Governing Body to ascertain the impact of any decisions on the financial records.

**e.** Study of the accounting system, procedures, internal controls and internal checks existing for the NGO and verify their applicability.

***4. Audit programme:***

**a.** ***Corpus Fund:*** The contributions/ grants received towards corpus are vouched with reference to the letters from the donor(s). The interest income is checked with investment Register and physical investments in hand.

**b.** ***Reserves:*** Vouch transfers from projects/ programmes with donor's letters and board resolutions of NGO.

**c.** ***Ear-marked Funds (Specific funds):*** Check requirements of donor's institutions, board resolutions of NGO, rules and regulations of the schemes of the ear-marked funds.

**d.** ***Project/Agency Balances:*** Vouch disbursements and Expenditures as per agreements with donors for each of the balances.

**e.** ***Loans:*** Vouch loans with loan agreements and receipts/repayments with counter-foil issued.

**f.** ***Fixed Assets:*** Vouch all acquisitions/ sale or disposal of assets including depreciation and the authorisations for the same. For immovable property, check title deeds, etc.

**g.** ***Investments:*** Check Investment Register and the investments physically ensuring that investments are in the name of the NGO. Verify further investments and dis-investments are made after approval by the appropriate authority.

**h.** ***Cash in Hand:*** Physically verify the cash in hand and impress balance, at the close of the year and whether it tallies with the books of accounts.

**i.** ***Bank Balance:*** Check the bank reconciliation statements and ascertain details for old outstanding and unadjusted amounts.

**j.** ***Stock in Hand:*** Verify stock in hand and obtain certificate from the management for the quantities and valuation of the same.

**k.** ***Programme and Project Expenses:*** Verify agreement with donor/contributor(s) supporting the particular programme or project to ascertain the conditions with respect to undertaking the programme/ project.

l. ***Establishment Expenses:*** Vouch, in the usual manner, all establishment expenses and enquire for if there is any unreasonable heavy expenditure. If any annual budget was prepared, see that any excess under any head over the amount budgeted was duly sanctioned by the Managing Committee. If not, bring it to the Committee's notice in your report.

**Q.NO.5. MENTION THE IMPORTANT ITEMS TO BE EXAMINED BY THE AUDITOR IN THE RECIEPTS/INCOME OF NGO'S?**

1. ***Contribution and Grants for projects and programmes:***

   **a.** Check agreements with donors and grants letters to ensure that funds received have been accounted for.

   **b.** Check that all foreign contribution receipts are deposited in the foreign contribution bank account as notified under the Foreign Contribution (Regulation) Act, 1976.

2. ***Receipts from Fund raising programmes:*** Verify in detail the internal control system and ascertain who are the persons responsible for collection of funds and mode of receipt. Ensure that collections are counted and deposited in the bank daily.

3. ***Membership Fees:*** Check fees received with membership register ensure proper classification is made between entrance and annual fees and life membership fees. Reconcile fees received with fees to received during the year.

4. ***Subscription:***

   **a.** Check with subscription register and receipts issued.

   **b.** Reconcile subscription received with printing and dispatch of corresponding magazine/circulars/periodicals.

   **c.** Check the receipts with subscription rate schedule.

5. ***Interest and Dividends:*** Check the interest dividends received and receivable with investments held during the year.