

PREFACE

This Report has been prepared for submission to the Governor of Assam under Paragraph 7(4) of the Sixth Schedule to the Constitution of India. It relates mainly to the issues arising from the audit of the Annual Accounts as also of the transactions of for the year 2014-15.

2. This Report contains four Chapters, the first of which deals with the Constitution of the Council, the rules for the management of the District Fund and maintenance of accounts by the District Council. Chapter-II depicts Autonomous District Council Fund position. Chapter-III deals with the Comments on Accounts and Chapter-IV deals with compliance issues noticed during test-audit of the transactions of the Council for the year 2014-15 including those which came to notice in earlier years but not dealt with in previous Reports. The Compliance audit observations on the DDOs of entrusted departments under the Council are also reported separately through the C&AG's Report from time to time, along with issue of Inspection Reports.



OVERVIEW

OVERVIEW

This Report contains four Chapters. Chapter-I provides a background on the formation of the Autonomous District Council, rules for the management of the District Fund and relevant constitutional provisions on maintenance of Accounts. Chapter-II gives an overview of the financial position of the Council and budgetary process during the year. Chapter-III deals with audit comments on annual accounts of the Council for the year 2014-15. Chapter-IV of the Report deals with the audit findings pertaining to transaction audit of the Council and contains two paragraphs.

Internal Control

An evaluation of the internal control system in the Council revealed that the internal control mechanism was weak, evidenced by persistent irregularities like large variations between the budget and the actual expenditure, inaccuracy of figures of Annual Accounts, *ad-hoc* management of revenue earning resources and environmentally sensitive issues in absence of proper policy, absence of effective mechanism for timely deposit of revenue earned by the different organs of the Council, absence of Internal Audit wing *etc.* Due to weak internal controls, the attempt on the part of Audit to examine the Annual Accounts and transactions of the Council was constrained. Above failure in internal controls under Financial Management is fraught with risks of fraud, misappropriation and financial irregularities, which might remain undetected.

A synopsis of the important findings contained in the Report is presented below:

2. Fund Management and Budgetary Process

- Funds received from the State Government for subjects/departments entrusted to the Council during 2014-15 were accounted for in Part-II Deposit in contradiction to the form of accounts prescribed by C&AG.

(Paragraph 2.1)

- Bulk of the activities (Approximately 90 *per cent*) undertaken by NCHAC during 2014-15 was from the funds provided by the State Government, which is currently being shown under Deposit Fund.

(Paragraph 2.2.1)

- During 2014-15, NCHAC received ₹ 476.45 crore for entrusted functions from the State Government. Of this, the Council disbursed ₹ 432.14 crore to the Drawing and Disbursing Officers, for performing entrusted functions resulting in surplus of ₹ 44.31 crore under Deposit fund.

(Paragraph 2.2.2)

- Variation between budgeted (Entrusted) and actual numbers with respect to both receipts and expenditure, if any remained unascertained as NCHAC did not disclose the details of receipts and expenditure in respect of funds received from the State Government in its Annual Accounts.

(Paragraph 2.3)

- Wide variations between budget estimates and actual receipts as well as expenditure indicated preparation of unrealistic budget during the year 2014-15.

(Paragraphs 2.3.1 and 2.3.2)

Recommendations

- Council may disclose Head-wise breakup of consolidated opening and closing balances in the Annual Accounts so as to provide assurance that the expenditure incurred was for the purpose it was sanctioned.
- Council may draw up action plan to increase its income from own sources and spend wisely on revenue generation activities for financial sustainability.
- Council may undertake detailed budgetary analysis and reviews to identify and increase productive expenditure on activities and schemes.

3. Comments on Accounts

- Revenue Receipts in respect of 'Professional Tax & Trade License fee' and 'Land Revenue' were overstated by ₹ 1.55 crore and ₹ 0.72 crore respectively in the Annual Accounts for the year 2014-15 and Revenue Receipts in respect of 'Stamp and Registration fees' and 'Entry Tax' were understated by ₹ 0.02 crore and ₹ 2.92 crore respectively during 2014-15 in the Annual Accounts of the Council.

(Paragraphs 3.1.1.1 and 3.1.1.2)

- Receipts and disbursements against Border Region Grant Fund and 13th Finance Commission Award were not accounted for in the Annual Accounts for the year 2014-15 leading to understatement of both receipts and expenditure by the Council.

(Paragraph 3.1.2.1)

- During 2014-15, NCHAC did not reconcile the discrepancies in opening and closing balances between two sets of records viz., Treasury records and Annual Accounts despite these having been pointed out in previous Audit Reports.

(Paragraph 3.2)

Recommendations

- Council may prepare its Annual Accounts in complete consistency with the Form of Accounts prescribed by C&AG incorporating all transactions appropriately under District Fund and Deposit Fund.
- Annual Accounts may show the details of funds received from State Government within the District Fund as against the current practice of showing the same within

Deposit Fund. The Funds received from State Government should also be disclosed minor head wise in Statement-5 and Statement-6 so as to assist greater accountability and transparency.

- *Council needs to maintain ledger account, which should be the basis of compiling the Annual Accounts.*
- *Council should ensure control over budgetary allocation and expenditure, and to avoid fund being locked up or diverted.*
- *Council may devise a system of periodical reconciliation of collateral accounting records to identify mistakes within the accounting period so that corrective action is taken.*

4. Compliance Audit Observations

- District Transport Authority did not release ₹ 56.39 lakh being the Councils share of Motor Vehicle Tax.

The NCHAC should take up the matter with the Government for early realisation of outstanding dues from the Transport Department.

(Paragraph 4.1)

- Transport and General Administration Department of the Council utilised ₹ 30.14 lakh towards departmental expenditure in violation of Fund Rules.

Council should evolve a system of checks so that revenues collected by various departments are deposited to PDA expeditiously as per the Fund Rules.

(Paragraph 4.2)

Chapter-I

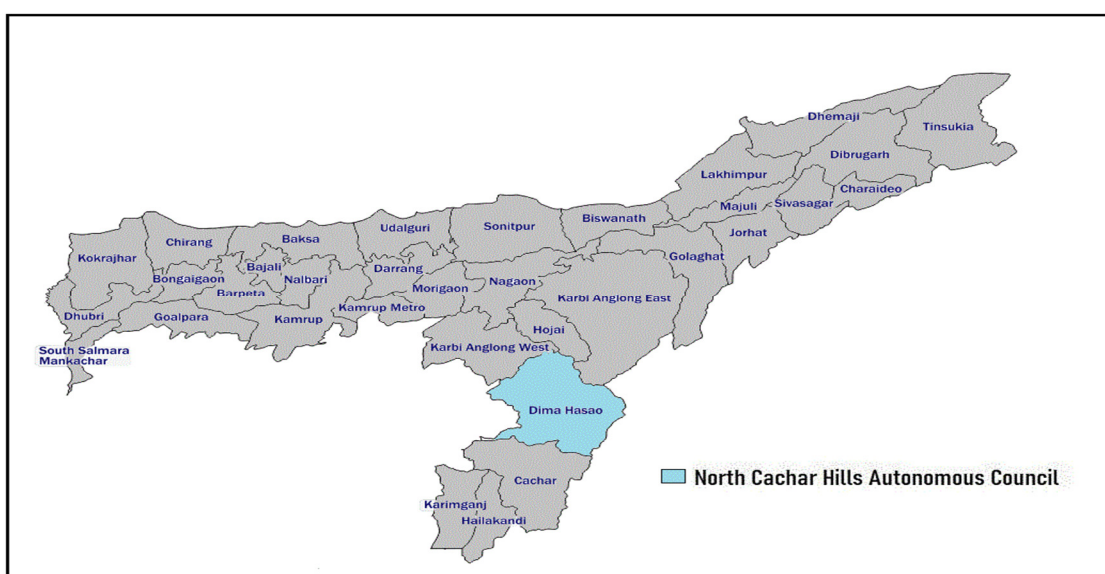
Constitution, Rules and Maintenance of Accounts

Chapter-I

Constitution, Rules and Maintenance of Accounts

1.1 Profile of North Cachar Hills Autonomous Council

The North Cachar Hills District Council in Assam was set up in April 1952 under Article 244(2) read with the Sixth Schedule to the Constitution of India. It was renamed as North Cachar Hills Autonomous Council (NCHAC) on 13 September 1995. NCHAC encompasses the district of North Cachar Hills covering 4,890 Sq. Km. area, which is about 6.23 *per cent* of total area of Assam. The Council renamed North Cachar Hills district as “Dima Hasao” on 30 March 2010 and the Council is using the nomenclature “Dima Hasao Autonomous Council” in its official records. However, amendment to the Sixth Schedule to the Constitution, in this regard, has not been carried out till date.



NCHAC is governed by a Council comprising 30 members, of whom 28 are elected through adult suffrage, while two members are nominated by the Governor of Assam.

The Sixth Schedule to the Constitution of India provides for administration of specified tribal areas by constituting a District/ Regional Council for each autonomous district/ region with powers to make laws on matters listed in paragraph 3(1) of the Sixth Schedule, mainly in respect of allotment, occupation, use of land, management of forests (other than reserved forests), use of any canal or watercourse for agriculture, regulation of the practice of shifting cultivation, establishment of village or town committees or councils and their powers, village or town administration, public health and sanitation and inheritance of property. Further, in terms of Paragraph 3A of the Sixth Schedule, NCHAC was vested with additional powers to make laws on the subjects, as specified under serial (a) to (o) in the Schedule *ibid*.

In terms of paragraph 6(1) of the Sixth Schedule, the Councils have the powers to establish, construct or manage primary schools, dispensaries, markets, cattle pounds, ferries, fisheries, roads, road transport and waterways in the respective autonomous districts. NCHAC also has the powers to assess, levy and collect within the autonomous

district, revenue in respect of land and buildings, taxes on professions, trades, callings and employments, animals, vehicles and boats, tolls on passengers and goods carried in ferries and maintenance of schools, dispensaries or roads as listed in paragraph 8 of the Sixth Schedule. Under paragraph 9 of the Schedule, the Council is also entitled to the share of revenue generated from licenses/ leases for extraction of minerals within the Council area as agreed upon between Government of Assam (GoA) and the Council. The above functions are called normal or inherent functions of the Council in common parlance.

In addition, the State Government entrusted additional functions, under Paragraph 6(2) of the Schedule *ibid*, (called entrusted functions) to NCHAC in relation to a total 30 subjects¹, since June 1970 (further revised in November 1979, November 1992 and December 1996). According to the terms of the latest entrustment, the State Government is required to make funds available to NCHAC in advance, primarily against Grant 77 of the State budget so that the latter can finance the expenditure relating to entrusted functions without difficulty. NCHAC is required to render monthly detailed accounts against their expenditure to the Principal Accountant General (Accounts and Entitlements), Assam for adjustment of such advance of funds provided through State Budget. Budget provisions for these functions are to be made in the State budget and in terms of Office Memorandum (31 December 1996) of GoA, the Council is responsible to the State Legislature in respect of all matters relating to such funds provided for discharging the functions entrusted to it.

Thus, while executive functions were delegated in stages to the Council by GoA under Paragraph 6(2) since June 1970, with the Constitution (Amendment) Act, 1995 (42 of 1995), and the consequent insertion of paragraph 3A in the Sixth Schedule, the Council has inherent legislative powers on these subjects.

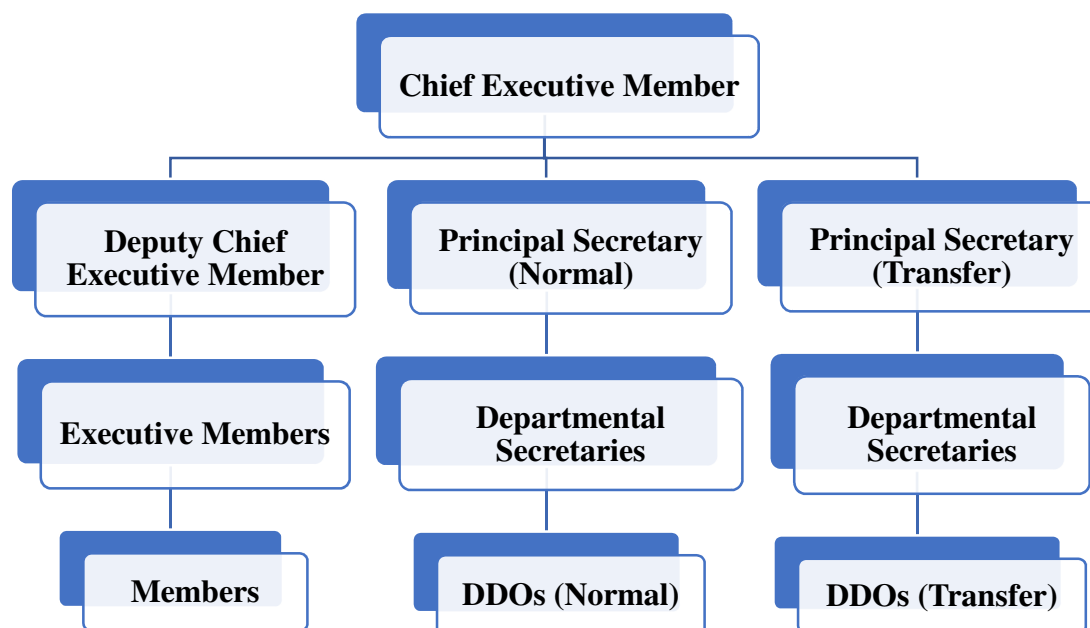
1.2 Organisational structure of NCHAC Secretariat

The NCHAC Secretariat was headed by two Principal Secretaries during 2014-15. The entrusted departments are headed by the Principal Secretary (Transfer), appointed by the State Government, who also operated the Personal Deposit Account (PDA) of the Council, while the inherent functions of the Council are looked into by the Principal Secretary (Normal), who is appointed by the Council. The Principal Secretaries are assisted by Secretaries, Additional and Joint Secretaries and other affiliated officers appointed by the Council and other state service officers deputed by GoA.

¹ (i) Industry (ii) Animal Husbandry & Veterinary (iii) Forest (iv) Agriculture (v) Education (vi) PWD (vii) Sericulture (viii) Cultural Affairs (ix) Soil Conservation (x) Co-operation (xi) Fisheries (xii) Panchayat & Rural Development including DRDA (xiii) Handloom & Textile (xiv) Health & Family Welfare (xv) Public Health Engineering (xvi) Irrigation (xvii) Social Welfare (xviii) Flood Control Department (xix) Sports & Youth Welfare (xx) Weight & Measures (xi) Food & Civil Supplies (xxii) Town & Country Planning (xxiii) College Education (General), including Library Services, District Museum & Archaeology (xxiv) Land Reforms (xxv) Publicity/Public Relation (xxvi) Printing & Stationery (xxvii) Tourism (xxviii) Transport (xxix) Excise and (xxx) Finance including sales Tax on purchase of goods other than Newspaper, Excise, Professional Tax.

The structure of NCHAC administration is detailed in the following organogram:

Organogram-1.1: Showing structure of NCHAC administration



Rule 126 of NCHAC Fund Rules, 1953 provides that the Council shall prepare a detailed statement of the permanent establishment existing on 1st April each year in a prescribed form. The Council did not comply with the aforesaid provision and failed to provide records pertaining to the Sanctioned Strength (SS) of the Council Sector. Information furnished to audit however, showed that Persons-in-position (PIP) during 2014-15 under Council Sector was 2,304 and there are 146 DDOs² under the control of NCHAC. SS and PIP in respect of Entrusted functions (State Sector) during 2014-15 was not available with the Council. The Council authority stated (May 2022) that the required information will be furnished after collection of the same from the concerned Departments.

1.3 Rules for the management of District Fund

In terms of provisions of Paragraph 7(2) of the Sixth Schedule, rules for the management of the District Fund *viz.*, North Cachar Hills District Fund Rules, 1953 were framed by the Council and notified in April 1953.

1.4 Maintenance of Accounts and Audit Arrangements

In terms of paragraph 7(3) of the Sixth Schedule to the Constitution, the form in which the accounts of the District Council are to be maintained, is to be prescribed by the Comptroller and Auditor General of India (CAG). The approved format *inter-alia* provides for two divisions of the accounts, 'Part-I District Fund' and 'Part-II Deposit Fund'. The Fund, as prescribed under paragraph 7(1) of the Sixth Schedule to the Constitution, is maintained in Haflong treasury as PDA of NCHAC.

² 16 under Council Sector and 130 under State Sector.

The accounts and records of the Principal Secretaries, NCHAC, Haflong are audited by CAG of India under Paragraph 7(4) of the Sixth Schedule to the Constitution of India. The NCHAC submitted its Annual Accounts for the year 2014-15 in November 2016 with a delay of more than a year.

Result of audit of Annual Accounts for the year 2014-15 and test-check of transactions of the Council during the year have been presented in Chapter-II to Chapter-IV of this Report.

1.5 Internal Control

Internal control system in an organisation ensures that proper checks and procedures are in place for efficient and effective discharge of its mandate, reliability of its financial reporting and compliance with applicable laws and regulations.

An evaluation of the internal control system in the Council revealed the following shortcomings:

- i. NCHAC did not maintain any ledger or consolidated abstract showing receipts generated from its own resources, fund received from the Government, disbursements made to Drawing and Disbursing Officers (DDOs) of different departments under administrative control of NCHAC (for entrusted function) and for the expenditure incurred by DDOs of NCHAC (for inherent function). However, a register showing head-wise, month-wise receipts and expenditure is maintained without detailed breakup like challan No., date, bill No., etc. Thus, control system did not assure accuracy of figures of Annual Accounts by itself.
- ii. Absence of any laid down policy in respect of revenue collection in the major revenue earning departments like Forests, Transport, Taxes, Mines and Minerals, resulting in *ad-hoc* management of revenue earning resources and environmentally sensitive issues.
- iii. There was no effective mechanism for timely deposit of revenue earned by different organs of NCHAC in the PDA of the Council.
- iv. There was no Internal Audit wing to strengthen the internal control system and enforce effective management.

1.6 Recommendations

- i. *Council may ensure submission of Annual Accounts to the Accountant General as per the prescribed timelines.*
- ii. *Council needs to strengthen its internal control mechanism and to take action on deficiencies in financial management and maintenance of records.*