

Chapter-III

Comments on Accounts

3 Introduction to Accounts and Comments on Council Accounts

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), which was done in 1977. The Form of Accounts prescribed by CAG comprises of seven statements. A brief description of these seven statements is given in **Table-3.1**.

Table-3.1: Statements in the CAG prescribed Form of Accounts of District Councils

Sl. No.	Statement No.	Particulars of Statements
1.	Statement No. 1	Summary of transactions showing summarised position of Receipts and Disbursement of District Fund and Deposit Fund, with breakup at the level of Revenue, Capital, and Debt.
2.	Statement No. 2	Progressive Capital Outlay to the end of the year showing Major Head wise Capital expenditure for the current year, and cumulative expenditure till the end of the year.
3.	Statement No. 3	Summarised position of the Debt taken by the Council, the receipts and repayments in the year, and balance outstanding. In addition, the Statement has a separate associated statement showing the monthly ways and means position of the Council.
4.	Statement No. 4	Loans and Advances by the Council showing category wise summary of loans and advances given by the Council, the payments and receipts, and the balance outstanding at the end of the year.
5.	Statement No. 5	Detailed account of revenue of the Council with Minor Heads wise breakup.
6.	Statement No. 6	Detailed account of expenditure of the Council with Minor Heads wise break up.
7.	Statement No. 7	Receipts, disbursements and balances under heads relating to District Fund and Deposit Fund showing summarised position of Opening Balance, Receipts, Disbursements, and Closing Balance for heads under District and Deposit Fund are given.

3.1 Comments on Annual Accounts

NCHAC prepared its Annual Accounts with the aforementioned seven statements. Deviations with respect to the format prescribed by C&AG were as under:

- a. Statement-1 of the Annual Accounts of NCHAC exhibited Revenue Receipts of ₹ 55.18 crore from its own sources (including assistance of ₹ 32.84 crore received from the State Government and miscellaneous receipts of ₹ 0.44 crore) and of ₹ 476.45 crore from the State Government for functions entrusted to it under Paragraph 3A of the Schedule *ibid*. The receipts of ₹ 476.45 crore from the State Government was, however incorrectly accounted under Part-II Deposit Fund. Statement-5 showed details of revenue by Major Heads only for own funds' receipts,

excluding funds received from the State Government for entrusted functions, which forms nearly 90 *per cent* of total receipts. NCHAC did not provide Minor Head wise breakup of ₹ 476.45 crore in Statement-5. Consequentially, Audit could not ascertain whether the expenditure made under different heads was within the allotted budget.

- b. Statement-1 also shows summary of expenditure made, both from its own revenue (₹ 52.15 crore) and from receipts from the State Government for entrusted functions (₹ 432.14 crore). However, the funds of ₹ 432.14 crore was incorrectly shown under the Deposit Fund. Statement-6 showed details of expenditure for District Fund (₹ 52.15 crore) only, while details of expenditure of out of ₹ 432.14 crore received from State Government were not included in Statement-6 of Annual Accounts.

The form of Accounts prescribed by CAG requires the Council accounts to be kept in two parts - the District Fund and Deposit Fund, analogous to the Consolidated Fund and Public Account in State and Union Government Accounts. However, the funds transferred by GoA to NCHAC for subjects/ departments entrusted to the Council has been accounted for under Part-II Deposit Fund as a single line item with no breakup of either receipts or expenditure being shown in the accounts. Thus, treatment of the same as Deposit Fund in Statement-1 is in contradiction to the form of accounts prescribed by CAG. Moreover, since both Statement-5 and Statement-6 as prepared by the Council, provide insufficient information *vis-à-vis* the prescribed form of accounts, the accounts lack completeness and comparability.

- c. NCHAC is required to submit Monthly Accounts to Principal Accountant General (A&E) for funds transferred to it against Grant 77, based on which, the Appropriation Accounts is compiled and prepared. Appropriation Accounts of the said Grant indicated that during 2014-15, NCHAC had incurred an expenditure of ₹ 47.61 crore towards Capital Outlay. However, NCHAC depicted ₹ 7.91 lakh only towards Capital Outlay in Statement-2. Thus, Annual Accounts of NCHAC did not provide correct picture of current and cumulative expenditure towards creation of capital assets as of March 2015.

From the above observations, it is evident that the Accounts lack transparency as the details regarding the receipts and expenditure from the funds provided by the State Government were not disclosed in the Annual Accounts.

Thus, NCHAC is required to rectify the mistake by correctly accounting its financial transactions from the funds received from the State Government in the Annual Accounts as per the format prescribed by the C&AG.

Since, NCHAC has not disclosed the transactions pertaining to the funds received from State Government in detailed manner, as prescribed, in its Annual Accounts, audit analysis is mainly restricted to NCHAC's own funds, which are discussed in succeeding paragraphs.

3.1.1 District Fund**3.1.1.1 Overstatement of receipts**

Receipts under the heads ‘Taxes on Income–Professional Tax and Trade License fee’ and ‘Land Revenue’ as exhibited in the Annual Accounts for the year 2014-15 did not tally with that of the records/ information as furnished by the department concerned. There was an overstatement of receipts to the extent of ₹ 2.27 crore in the Annual Accounts as shown in **Table-3.2**.

Table-3.2: Overstatement of receipts*(₹ in crore)*

Head of accounts	Receipts as per Annual Accounts	Actual receipts	Overstatement in the Annual Accounts (+)
Taxes on Income -Professional Tax & Trade License fee	4.16	2.61	1.55
Land Revenue Taxes	1.13	0.41	0.72
Total	5.29	3.02	2.27

Source: Annual Accounts and Departmental records

While accepting the observation, NCHAC assured (March 2017) to avoid such mistakes in future.

Thus, reconciliation of figures of initial books of accounts *e.g.*, Cash Books, records maintained by concerned departments with the Annual Accounts was needed to be ensured by the Council.

3.1.1.2 Understatement of receipts

Receipts under the head ‘Stamp and Registration fees’ was shown as ‘Nil’ in the Annual Accounts (Statement-5) for the year 2014-15. However, scrutiny of records of General Administration Department showed that an amount of ₹ 1.90 lakh was collected and deposited into Personal Deposit Account (PDA) of the Council under the head of account *ibid*. Again, records and information furnished to Audit showed that against actual receipts of ₹ 3.26 crore under the head of account ‘Other General Economic Services - Entry Tax’, only ₹ 0.34 crore was accounted for in the Annual Accounts. This resulted in understatement of receipts to the extent of ₹ 2.94 crore in the Annual Accounts for the year 2014-15 as detailed in **Table-3.3**.

Table-3.3: Understatement of receipts*(₹ in crore)*

Head of accounts	Receipts as per Annual Accounts	Actual receipts	Understatement in the Annual Accounts
Stamp and Registration fees	0.00	0.02	0.02
Other General Economic Services – Entry Tax	0.34	3.26	2.92
Total	0.34	3.28	2.94

Source: Annual Accounts and Departmental records

While accepting the observation, the Principal Secretary, NCHAC stated (March 2017) that steps would be taken to avoid such lapses in future.

3.1.2 Deposit Fund

Although, funds received from the State Government for subjects/departments entrusted to the Council, was to be accounted for under District Fund as per the format provided by the CAG, the Council accounted these funds under Deposit Fund. Audit comments on the Deposit Fund are discussed in the succeeding paragraphs.

3.1.2.1 Understatement of receipts and disbursement under Part-II Deposit Fund and overall opening/ closing balance depicted in the Annual Accounts

As per Rule 14 of NCHAC District Fund Rules, 1953, all money received by the Council shall be credited to the PDA (treasury) and as per Rule 16, all monetary transactions shall be entered in the cash book as they occur.

It was observed that the Council received ₹ 12.48 crore from Panchayat and Rural Development Department for implementation of schemes under Border Region Grant Fund (BRGF). The amount was kept in Bank account instead of depositing the same into Council's PDA as required under Rules. Besides, Bank interest amounting to ₹ 0.48 crore was earned during 2014-15. Out of the above funds, the Council released ₹ 12.38 crore to different implementing agencies during 2014-15 leaving an unutilised balance of ₹ 0.58 crore as of March 2015. Similarly, ₹ 6.67 crore (including interest ₹ 0.09 crore) was received as 13th Finance Commission funds, which was also kept in bank account (in the name of the Principal Secretary, NCHAC) instead of depositing it into the PDA. Besides, there was an unspent balance of ₹ 2.16 crore as on 01 April 2014 under 13th FC. Out of the available funds of ₹ 8.83 crore, the Council released ₹ 5.64 crore during 2014-15 to various implementing agencies for implementation of schemes under 13th FC leaving ₹ 3.19 crore as unutilised balance.

During audit, it was however, seen that the receipts, utilisation and opening and closing balances of the above funds were not accounted for in the Annual Accounts.

Thus, receipts and disbursement under Part-II Deposit Fund, overall opening/ closing balances of Annual Accounts for the year were understated to the extent as shown in **Table-3.4**.

Table-3.4: Extent of understatement of receipts and disbursement and opening/ closing balances

(₹ in crore)						
Scheme	Opening balance	Funds received	Interest received	Total funds available	Disbursement	Closing balance
BRGF	12.48	0.20	0.28	12.96	12.38	0.58
13 th FC	2.16	6.59	0.08	8.83	5.64	3.19
Total	14.64	6.79	0.36	21.79	18.02	3.77

Source: Departmental records

The NCHAC did not offer any specific reply on the observation.

3.1.2.2 Irregular receipts by way of diversion of fund for entrusted function

In terms of Office Memorandum (31 December 1996) of GoA, the executive power in respect of 30 subjects/ departments have been entrusted to NCHAC. As per modalities of entrustment, the State Government, before the beginning of a financial year, is to

give an indication to the Council of the overall Financial Plan allocations for the year. The NCHAC then prepares the estimated receipts and expenditure (Grant 77) pertaining to NC Hills District in respect of entrusted subjects/departments as per the allocations, norms, *etc.*, and after considering the estimates in their Council session, forward the estimates along with synopsis within the stipulated time to State Government for appropriation by the State Legislature.

Further, in order to enable NCHAC to finance the expenditure of the entrusted functions without difficulty, the State Government releases Plan and Non-Plan funds, appropriated heads of account wise, against Grant 77 as advance in two instalments. The expenditure is to be made by the Council towards entrusted functions for which it was appropriated.

Test-check of Annual Accounts of NCHAC for the year 2014-15 and other relevant records showed that against the total receipts of ₹ 476.45 crore during the year, NCHAC irregularly sanctioned and released ₹ 5.65 crore to different DDOs of entrusted departments as 7.5 *per cent* Administrative Charge and five *per cent* Contingency Charge directing the DDOs that fund so sanctioned be withdrawn and deposited again to the Personal Deposit Account of the Council. The deposit of funds by the DDOs was treated as revenue receipts under the head of account “Other General Economic Services” in the Annual Accounts of the District Fund and the same was utilised for discharge of inherent functions of the Council. Government approval or authorisation for deduction of funds out of Plan allocation was not available on records nor could be produced to Audit though specifically called for.

Thus, despite GoA having released ₹ 0.50 crore as Administrative Charge during 2014-15, deduction of another ₹ 5.65 crore in the form of Administrative/ contingency charge out of Plan fund released by the State Government for discharging entrusted functions, without approval of the Government was not only unauthorised but was also bound to have adverse impact on developmental activities for which the fund was released.

3.1.2.3 Diversion of Capital Fund towards Revenue expenditure

Government of Assam (GoA) sanctioned and released ₹ 143.00 lakh to NCHAC during 2014-15 for capital expenditure under the head of account ‘5055 Capital Outlay on Road Transport Services (Plan)’ from the State budget (Revised) provisions. The sanction order provided that the fund should be utilised for the purpose for which it has been released. Scrutiny of records showed that out of the total fund of ₹ 143.00 lakh, NCHAC released ₹ 83.70 lakh to the Transport Department of the Council during 2014-15. Out of the released amount, the Transport Department incurred an expenditure of ₹ 17.31 lakh towards revenue expenditure for procurement of spare parts for the existing vehicles, office stationery, *etc.*

Thus, diversion of capital fund amounting to ₹ 17.31 lakh towards revenue expenditure was irregular.

The Principal Secretary, NCHAC stated (March 2017) that due to paucity of funds, Transport Department diverted and utilised capital fund towards revenue expenditure.

3.2 Personal Deposit Account

NCHAC maintains a Personal Deposit Account (PDA) with Haflong Treasury, into which all receipts of NCHAC are credited and from which withdrawals for expenditure are made. The balance held in PDA as per Cash Book as on 31 March of each financial year was required to be reconciled with the balances shown in the records of the Treasury and discrepancy, if any, between the two sets of records is required to be settled for identifying the accounting errors.

Audit noticed that the Council was not aware of the differences that existed between the balances as per Cash Book and the balances as per the PDA held in treasury and the Annual Accounts were prepared without any reconciliation of the two sets of balances as depicted in **Chart-3.1(A)** and **Chart-3.1(B)**.

Chart-3.1(A): Details of Opening Balances
01 April (₹ in crore)

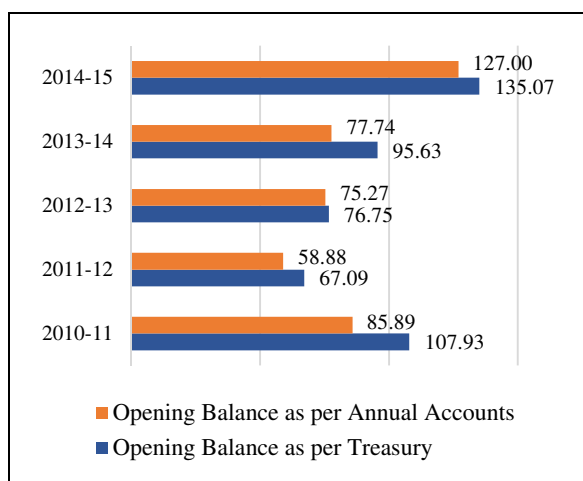
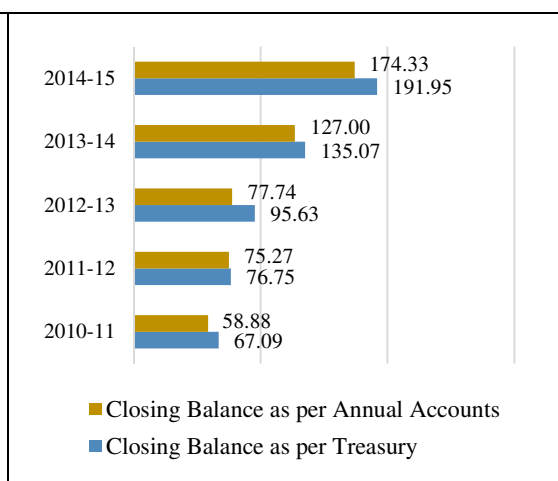


Chart-3.1(B): Details of Closing Balances
31 March (₹ in crore)



In reply, the Principal Secretary stated (March 2017) that necessary reconciliation would be done and intimated to audit. However, no such intimation was received from the Council (June 2021). The above deficiency persists despite being pointed out in previous Audit Reports and NCHAC needs to take appropriate steps for correct accounting.

In this context, Audit further observed that during 2014-15, Revenue Receipts amounting to ₹ 6.77 lakh, deposited into the PDA were not accounted for in cash book as detailed in **Appendix-IV**. This resulted in understatement of own receipts to that extent. Such instances of non-accounting in Cash Book led to discrepancies in opening/closing balances in the two sets of records.

3.3 Conclusion

The audit of accounts of NCHAC for 2014-15 disclosed that:

1. Form of Accounts followed by NCHAC for preparing Annual Accounts was not in conformity with the Form of Accounts prescribed by C&AG for District Councils in 1977.
2. The figures of the Annual Accounts were not supported by ledgers/consolidated abstracts compiled from initial books of accounts (Cash Book/ Revenue Collection Register, etc.).
3. Non-disclosure of head-wise details of balances in the Annual Accounts indicated lack of transparency.
4. Receipts of fund from State Government (State budget) with corresponding disbursements shown under Part- II Deposit Fund were not disclosed Minor head wise in the Annual Accounts.
5. Head-wise details of unspent balances of funds received for entrusted functions were not worked out both at the beginning and closing of the year. Thus, there was no assurance that the expenditure incurred out of unspent balance of previous years was actually incurred for the purpose for which it was sanctioned.
6. Book-keeping (accounting) was weak and required further strengthening. Many cases of discrepancies and lack of reconciliation with collateral records and under/ overstatement of receipts/ expenditure in Annual Accounts were noticed.
7. Non-reconciliation of figures booked in the cash book with those of the Treasury reflect poor internal control system of NCHAC and raises concerns relating to accuracy of accounts.
8. Capital funds were diverted towards revenue expenditure.

3.4 Recommendations

- i. *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.*
- ii. *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.*
- iii. *Council needs to maintain ledger account, which should be the basis of compiling the Annual Accounts.*

- iv. *Council should ensure control over budgetary allocation and expenditure, and to avoid fund being locked up or diverted.*
- v. *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.*