

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)