

Chapter-II

Autonomous District Council Funds

2.1 Introduction to District Fund

Sixth Schedule provides for a District Fund for each autonomous region and a Regional Fund for each autonomous region to which shall be credited all moneys received by the District Council for that district and the Regional Council for that region in the course of the administration of such district or region respectively in accordance with the provisions of the Constitution. District Fund is maintained as Deposit Account (8443-Civil Deposit) in Haflong Treasury and the Principal Secretary (Transfer), NCHAC is the authorised officer who operates the Fund.

The ADC fund comprises of receipts from its own resources, shared revenue and grants/ loans and advances from State Government. Broad classification as per CAG's prescribed Form of Accounts is as discussed below:

A. District Fund

District Fund further had two divisions namely: (i) Revenue Section for Revenue Receipts and Expenditure and (ii) Capital Section for Capital Receipts and Expenditure, Public Debt, Loans and Advances. The first division deals with the proceeds of taxation and other receipts classed as revenue and expenditure met therefrom. It also includes the grants and contributions received from the State Government. The second division deals with expenditure of Capital nature met from borrowed funds. It also comprises of loans and their repayments by the Council and also loans and advances to staff and others and recoveries thereof by the Council.

B. Deposit Fund

Deposit Fund covers transactions relating to Deposits, General Provident Fund (GPF), other funds and advances such as Cess, Income Tax, GPF, Sales Tax and Security Deposits, *etc.*, where the Council incurs a liability to repay the moneys received or has a claim to recover the amount paid.

Contrary to this, funds received from the State Government for subjects/departments entrusted to the Council during 2016-17 were accounted for in Part-II Deposit Fund. This has been discussed in Chapter-III of this Report.

2.2 Sources and Application of Funds

2.2.1 Receipts and Disbursements

Summary of financial transactions of NCHAC during 2016-17 is shown in **Table-2.1**, while **Appendix-I** provide details of receipts and disbursements of the current as well as the previous year as per Annual Accounts of NCHAC.

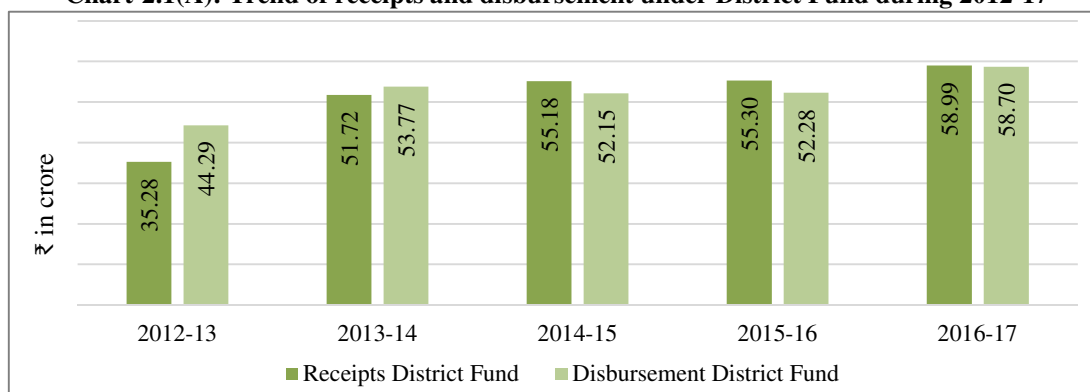
Table-2.1: Summary of fiscal transactions of NCHAC during 2016-17*(₹ in crore)*

Receipts		Disbursement
58.99	District Fund	58.70
521.07	Deposit Fund	469.96
580.06	Total receipts and disbursement	528.66
140.32	Opening/ Closing Balance	191.72
720.38	Grand Total	720.38

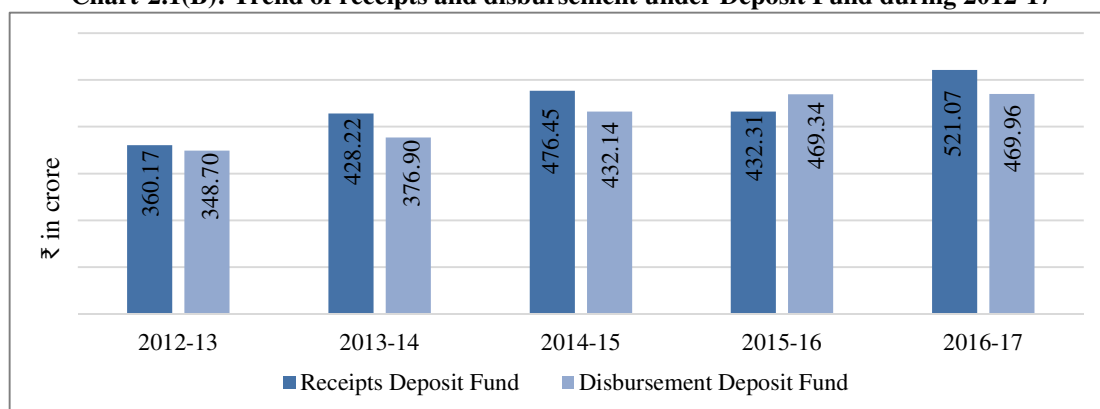
Source: Annual Accounts.

It can be seen from **Table 2.1** that the funds (Approximately 90 *per cent*) for the bulk of the activities undertaken by NCHAC is provided by the State Government, which is currently being shown under Deposit Fund.

Charts-2.1(A) and **2.1(B)** present the trends of receipts and disbursements under District Fund (fund generated from its own sources) and Deposit Fund (funds provided by the State Government) over a period of five years (2012-17).

Chart-2.1(A): Trend of receipts and disbursement under District Fund during 2012-17*Source: Annual Accounts.*

It is evident from the chart above that expenditure from District Fund was minimal and within own receipts during 2014-15, 2015-16 and 2016-17. However, during 2012-13 and 2013-14, it had exceeded the receipts under District Fund (Own receipts).

Chart-2.1(B): Trend of receipts and disbursement under Deposit Fund during 2012-17*Source: Annual Accounts.*

It is apparent from **Chart 2.1(B)** that the disbursement under Deposit Fund exceeded the receipts during 2015-16, while it was within the receipts during the remaining four years. Further, NCHAC has not received any funds under Article 275 (1) from Government of India during 2016-17.

2.2.2 Unspent balance

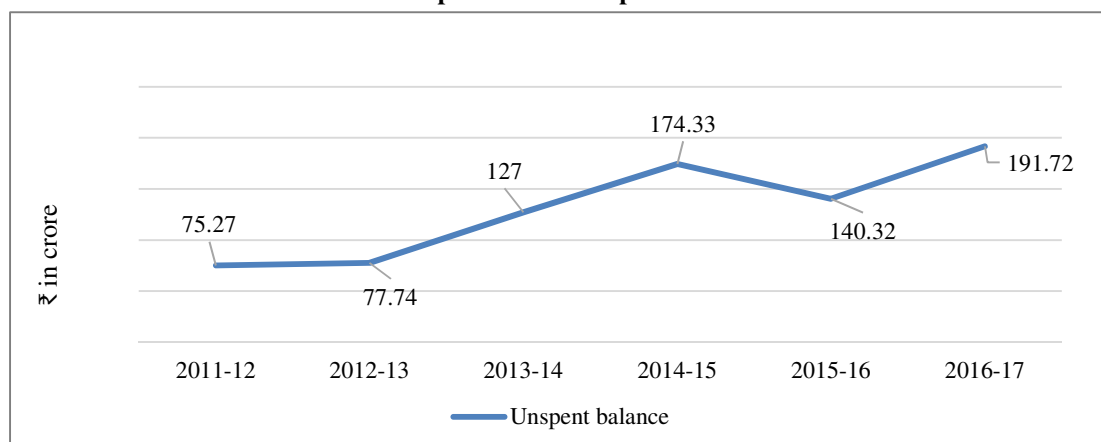
Unspent balance at the end of the financial year against funds received from GoA neither lapse automatically nor are surrendered by the Council. The savings accumulate in PDA of the Council and are utilised in subsequent years.

During 2016-17, NCHAC received ₹ 521.07 crore for entrusted functions from the State Government. Of this, the Council disbursed ₹ 469.96 crore to DDOs for performing entrusted functions. This resulted in surplus of ₹ 51.11 crore under Deposit Fund. Similarly, an unspent balance of ₹ 0.29 crore was also noticed under District Fund. The unspent balances resulted in increase in the closing balance of the Council from ₹ 140.32 crore in 2015-16 to ₹ 191.72 crore in 2016-17.

The Principal Secretary attributed the surplus under Deposit Fund to delay in finalisation of State Sectors Schemes due to which, funds could not be released during the year. The reply indicated the lack of a mechanism in the Council to expeditiously finalise the State Sectors Schemes and spend the money for the purposes for which it was meant.

Chart-2.2 presents the position of unspent balances of last six years as per Annual Accounts, which clearly shows the increase in the unspent balance during 2011-17, except for 2015-16, where closing balance increased from ₹ 75.27 crore at the end of 2011-12 to ₹ 191.72 crore as on March 2017.

Chart-2.2: Unspent balance as per Annual Accounts



Source: Annual Accounts.

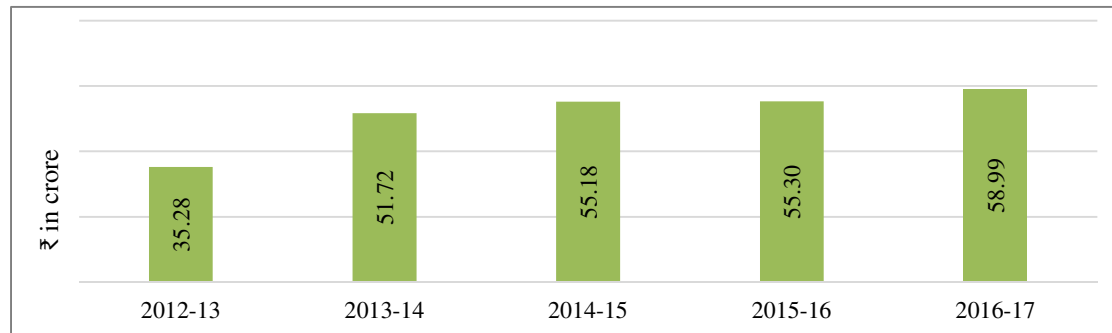
As Annual Accounts of NCHAC did not disclose grant-wise head-wise details of balances, the head of accounts under which full disbursements could not be made or disbursement was made in excess of funds, if any, during the year also remained undisclosed.

Maintenance of consolidated opening and closing balances without head/ grant-wise details in the PDA and non-disclosure of the same in the Annual Accounts defeats the very purpose of control over the public expenditure and is fraught with the risk of the funds released for various schemes/ programmes being locked up or diverted. There was also no assurance that the expenditure was incurred for the purpose for which it was sanctioned.

2.2.3 Receipts of Own Fund compared with previous year's position

Chart-2.3 presents the trends of revenue receipts by NCHAC from own fund during last five years (2012-17).

Chart-2.3: Trend of revenue receipts during 2012-17



As evident from **Chart 2.3**, there was a substantial growth of 47 *per cent* in revenue collection during 2013-14 compared to the previous year. While during 2014-17, the growth rate of revenue collection ranged from below one *per cent* to seven *per cent* only. Increase of receipts by seven *per cent* during 2016-17 over 2015-16 was mainly due to increase in revenue collection under three heads of accounts viz., Taxes on Vehicles, Mines and Minerals and Roads and Transport Services.

The position of revenue receipts of NCHAC during 2016-17 as compared to receipts of the previous year under different heads of accounts varied widely as detailed in **Appendix-II**.

2.3 Comments on budgetary process

NCHAC prepares two sets of budgets as detailed below:

- i) **Entrusted Budget:** NCHAC prepares its entrusted budget in respect of Grant 77, for subjects entrusted to it by the State Government as per Paragraph 6(2) of the Sixth Schedule. This budget is submitted to the State Government for appropriation by the State Legislature and release of funds. In this budget, the Chart of Accounts (CoA) followed by NCHAC is that of List of Major and Minor Head (LMMH) of the Union and States. Funds from this Grant are released to NCHAC in two instalments as advance.
- ii) **Council Budget:** NCHAC also prepares another budget in respect of estimated own revenue receipts and estimated expenditure incurred therefrom. This budget is termed as Normal budget in common parlance. In this budget, NCHAC follows the CoA prescribed by CAG.

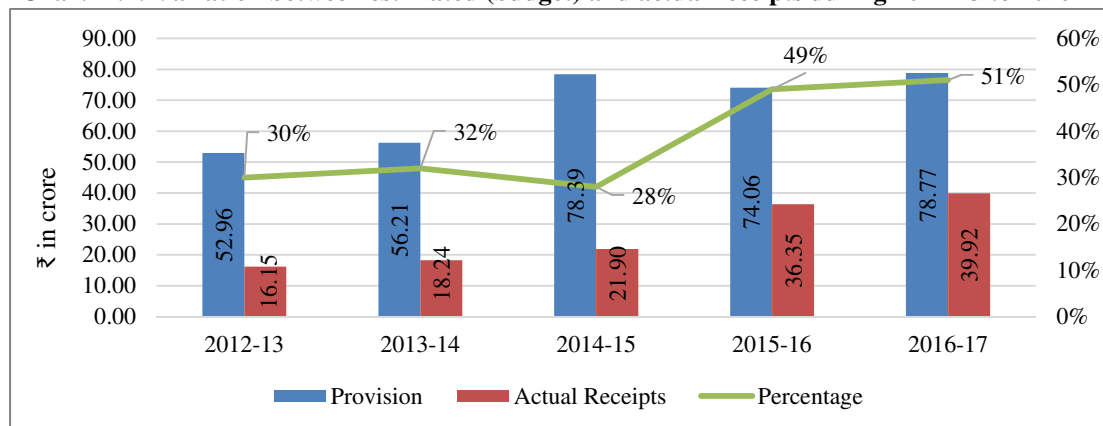
As NCHAC did not disclose the details of receipts and expenditure in respect of funds received from the State Government in its Annual Accounts, variation between budgeted (Entrusted) and actual numbers with respect to both receipts and expenditure, if any, could not be ascertained. Thus, there was no assurance that the expenditure incurred out of unspent balance of previous years was actually incurred for the purpose for which it was sanctioned by the State Government.

Instances of variation between Revenue receipts/ Revenue expenditure and Council Budget are discussed in the succeeding paragraphs.

2.3.1 Revenue receipts compared with budget estimates

The position of variation between budgetary provision and actual revenue receipts during the last five years is depicted in **Chart-2.4**:

Chart -2.4: Variation between estimated (budget) and actual receipts during 2012-13 to 2016-17



Source: Normal Budget and Annual Accounts.

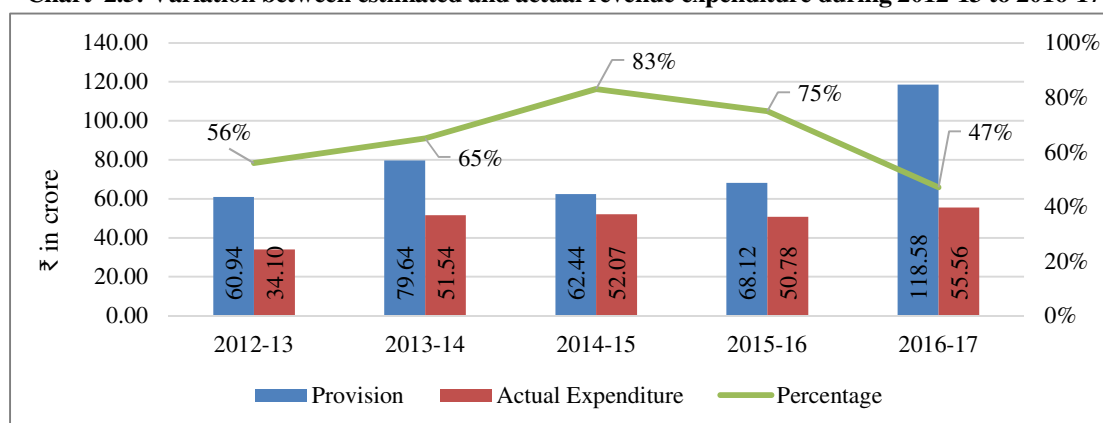
During the last five years, the actual revenue receipts of NCHAC ranged from only 28 to 51 *per cent* of estimated (budget) receipts. Head-wise position of variations between estimates of receipts and actual receipts during 2016-17 showed that shortfall ranging from 24 to 71 *per cent* occurred in four heads of account. Excess receipts over budget estimates occurred in six heads of account as detailed in **Appendix-III**.

The wide variations between estimated and actual receipts were indicative of unrealistic budget preparation. As such, streamlining of the process of preparation of budget was needed to be ensured by the Council.

2.3.2 Revenue expenditure compared with budget estimates

Similar to revenue receipts, the actual revenue expenditure of NCHAC during the last five years ranged from 47 to 83 *per cent* of estimated (budget) provision, as would be evident from **Chart-2.5**.

Chart-2.5: Variation between estimated and actual revenue expenditure during 2012-13 to 2016-17



Source: Normal Budget and Annual Accounts.

During 2016-17, actual revenue expenditure of NCHAC was 47 *per cent* of estimated (budget) provision. Head-wise position of variation between estimated and actual expenditure showed that savings ranging from 2 to 100 *per cent* in 15 heads of account had occurred. Excess expenditure over budget estimates (18 *per cent*) in one head of account had occurred during 2016-17, as detailed in *Appendix-IV*.

The above savings and excess expenditure against estimated provision underlined the need for a rational estimation process based on a critical review of necessity. Further, planning of expenditure and strengthening the monitoring mechanism at all level needs to be emphasised by the Council.

2.4 Conclusion

- i. There is an accumulation of unspent balance over the years in the PD Account. 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.
- ii. Financial management was inadequate which led to substantial surplus/ deficit under District and Deposit Fund, wide variations between estimated and actual receipts and expenditure.
- iii. Budgetary assumptions of the Council were not realistic during 2016-17 and budgetary estimates were off the mark by a considerable margin.
- iv. Variations between the budget estimates and actual receipts and expenditure during 2016-17 indicate that the estimates prepared by the Council were unrealistic.

2.5 Recommendations

- *Council may disclose Head-wise breakup of consolidated opening and closing balances in the Annual Accounts so as to provide assurance that the expenditures incurred was for the purpose it was sanctioned;*
- *The Council may review the process of preparation of its budget and undertake steps towards preparation of realistic budget.*