

## 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 CAG, which was done in 1977. The Form of Accounts prescribed by CAG comprised of seven statements. A brief description of the seven statements comprising the Accounts of ADC is given in **Table-3.1**.

**Table-3.1: Statements in the C&AG prescribed Form of Accounts of District Councils**

Sl. No.	Statement No. as per prescribed format	Particulars of Statements as per prescribed format
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 in the aforementioned seven statements. Deviations with respect to the format prescribed by CAG are pointed out below:

- a. **Statement-1** of the Annual Accounts of NCHAC exhibited revenue receipts of ₹ 58.99 crore from its own sources (including assistance of ₹ 18.26 crore received from the State Government) and of ₹ 521.07 crore from the State Government for functions entrusted to it under Paragraph 3B of the Schedule *ibid*. The receipts of ₹ 521.07 crore from the State Government was 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 form 90 *per cent* of the

total receipts. NCHAC did not account for the detailed head-wise breakup of ₹ 521.07 crore in **Statement-5**. Consequentially, Audit could not ascertain whether the expenditure made under different heads was within the allotted budget or not.

- b. **Statement-1** also shows the summary of expenditure made, both from its own revenue (₹ 58.70 crore) and from State Government for entrusted functions (₹ 469.96 crore). However, the amount of ₹ 469.96 crore was incorrectly shown under the Deposit Fund. While **Statement-6** showed details of expenditure for District Fund (₹ 58.70 crore) only, details of expenditure of ₹ 469.96 crore (89 *per cent* of total expenditure) were not included in Statement-6 of the Annual Accounts prepared by the Council.

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 the Government of Assam to NCHAC for subjects/ departments entrusted to the Council is accounted under Part-II Deposit Fund. Thus, treatment of the same as Deposit Fund in Statement-1 is contrary to the form of accounts prescribed by CAG. Moreover, since both **Statement-5** and **Statement-6** provide insufficient information *vis-à-vis* the prescribed form of accounts, the accounts lack completeness and comparability.

- c. **Statement-7** (Receipts, Disbursement and Balance under Heads relating to District fund and Deposit fund) of the Annual Accounts of NCHAC exhibited heads of Accounts which are not in conformity with either heads of accounts prescribed by C&AG or LMMH. Further, NCHAC under the head of accounts “*Deposit not bearing interest, Security deposit from the State Government for transferred items*” exhibited receipts of ₹ 539.33 crore, while ₹ 521.07 crore was accounted for as total receipts under Deposit Fund in **Statement-1**. The discrepancy between the figures in **Statement-1** and **Statement-7** was due to inclusion of ₹ 18.26 crore, which was received from the State Government as Grant-in-aid and exhibited in **Statement-5** under District Fund. This discrepancy should have been explained by way of notes.
- d. 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 by PAG (A&E). Appropriation Accounts of the said Grant indicated that during 2016-17, NCHAC had made a total expenditure of ₹ 52.28 crore towards Capital Outlay. However, as per **Statement-2**, NCHAC incurred ₹ 3.14 crore only towards Capital Outlay. Thus, Annual Accounts of NCHAC did not provide correct picture of current and cumulative expenditure towards creation of capital assets as of March 2017.

From 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 (which is approximately 90 *per cent* of total receipts and expenditure of

the Council) were not disclosed in the Accounts and thereby the detailed analysis of receipts and expenditure of NCHAC and the impact could not be ascertained by Audit.

Thus, NCHAC is required to rectify the mistake by correctly accounting its financial transactions from the funds received from 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 the State Government in a 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 Understatement of receipts**

Against the actual receipts of ₹ 5.46 lakh under the head '*Stamps and Registration fees, Court fees*', NCHAC accounted for ₹ 2.26 lakh in the Annual Accounts, which led to understatement of receipts as well as Closing balance by ₹ 3.20 lakh.

On this being pointed out, the NCHAC accepted (June 2018) the mistake with an assurance to avoid the same in future.

#### **3.1.1.2 Understatement of expenditure and overstatement of closing balance**

Against actual expenditure of ₹ 2.58 crore under the head '*Land Revenue*', NCHAC accounted for ₹ 2.38 crore in the Annual Accounts, which led to understatement of expenditure by ₹ 0.20 crore with corresponding overstatement of closing balance to that extent.

#### **3.1.1.3 Overstatement of expenditure and understatement of closing balance**

Against the actual expenditure of ₹ 44.93 lakh under the head '*Art and Culture*', NCHAC accounted for ₹ 57.40 lakh in the Annual Accounts, which led to overstatement of expenditure by ₹ 12.47 lakh with corresponding understatement of closing balance to that extent.

On this being pointed out, the NCHAC in reply (June 2018) accepted the mistakes with an assurance to avoid the same in future.

Such overstatements and understatements could have been avoided had head-of-account wise ledger been maintained by the Council.

#### **3.1.1.4 Non-disclosure of complete status of loans and advances from the State Government**

The format of the Statement-3 (Debt Position) of Annual Accounts prescribed for exhibition of Loans and Advances from the Government and other sources including summary of Council Contributory Provident Fund (CPF) *viz.*, fund available at the beginning of the year, receipts during the year, repayment during the year and balance at the end of the year. However, no details were exhibited in **Statement-3** of Annual

Accounts for the year except ₹ 97.79 lakh under “Repayment” being Council’s contribution towards CPF of the employees.

Scrutiny of records however, revealed that during 2016-17, the Council contributed ₹ 86.91 lakh<sup>4</sup> towards CPF of the employees, but the amount was not accounted for in Statement-6 (Detailed statement of expenditure) of the annual accounts leading to understatement of expenditure as well as overstatement of Closing Balance to that extent.

### 3.1.1.5 *Incorrect exhibition of Progressive Capital Expenditure in Statement-2 of the Annual Accounts*

**Statement-2** (Progressive Capital Outlay) of the Annual Accounts should exhibit (1) total progressive expenditure to the end of previous year, (2) expenditure during the current year; and (3) total progressive expenditure at the end of the current year.

During audit, it was seen that even though the total progressive Capital expenditure at the end of the year 2015-16 was ₹ 23.46 crore, **Statement-2** of Annual Accounts for 2016-17 exhibited progressive capital expenditure of ₹ 1.50 crore at the beginning of 2016-17. This incorrect exhibition of opening balance resulted in understatement of opening balance of Progressive Capital Outlay to the extent of ₹ 21.96 crore in **Statement-2** of the Annual Accounts for 2016-17. This was further understated by ₹ 0.28 crore due to incorrect accounting of ₹ 1.30 crore against actual expenditure of ₹ 1.58 crore during 2016-17 under Capital Outlay on Public Works.

Thus, the Progressive Capital Outlay at the end of 2016-17 should be ₹ 26.88 crore<sup>5</sup>, which needed reconciliation by the Council in the subsequent Annual Accounts.

### 3.1.1.6 *Misclassification of receipts*

Statement-5 (Detailed Accounts of Revenue by Minor Heads) of the Annual Accounts exhibits miscellaneous revenue receipts of ₹ 81.27 lakh under the head “Debt (Normal), Misc Receipts”, the classification of which is not in keeping with the Chart of Accounts prescribed by C&AG for Autonomous District Councils established under the provisions of the Sixth Schedule or List of Major and Minor Head provided by the Finance Ministry, Government of India.

## 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

<sup>4</sup> Not ₹ 97.79 lakh as shown in Statement 3.

<sup>5</sup>

Head of Accounts	Expenditure to end of 2015-16	Expenditure during 2016-17	Expenditure to end of 2016-17
40- Capital Outlay on Public Works.	15,26,33,605	1,57,90,857	16,84,24,462
41- Capital Outlay on Roads & Bridge	45,33,000	--	45,33,000
42- Capital Outlay on Road Transport Services	7,74,39,767	1,84,19,015	9,58,58,782
	<b>23,46,06,372</b>	<b>3,42,09,872</b>	<b>26,88,16,244</b>

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 of 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 transaction shall be entered in the cash book as they occur.

Scrutiny of records revealed that during 2016-17, ₹ 30.98 crore was received by the Council from GoA under One-time Special Central Assistance – NITI AYOOG and Fifth ASFC. The amount was kept in Bank account instead of depositing the same into the Council's PDA as required under the Rules. Out of the available fund of ₹ 33.08 crore (including unspent balance of ₹ 1.95 crore of previous year and Bank interest amounting to ₹ 0.15 crore earned during the year), the Council released ₹ 10.10 crore during 2016-17 to different implementing agencies for implementation of various schemes leaving ₹ 22.98 crore as unutilised balance as of March 2017.

The receipts, utilisation and opening and closing balances of the above funds were, however, not accounted for in the Annual Accounts submitted by the Council. Thus, receipts and disbursement under Part-II Deposit Fund and overall opening/ closing balances of Annual Accounts for the year 2016-17 were understated to the extent as shown in **Table-3.2**.

**Table-3.2 Extent of understatement of receipts and disbursement and overall opening/closing balance**

(₹ in crore)						
Scheme	Opening balance	Funds received <sup>6</sup>	Interest received	Total funds available	Disbursement	Closing balance
NITI Ayog & Fifth ASFC	1.95	30.98	0.15	33.08	10.10	22.98

*Source: Departmental records.*

The NCHAC in its reply (June 2018) accepted the mistake with an assurance to avoid the same in future.

### **3.1.2.2 Diversion of entrusted funds**

In terms of Office Memorandum (31 December 1996) of GoA, the executive power in respect of 30 (thirty) 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 prepare 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 estimate in their Council session, forward the estimate along with the synopsis within the stipulated time to the State government for appropriation by the State Legislature. Ordinarily, no change is made in the budget as proposed by the Councils. However, if for any reasons it becomes

<sup>6</sup> NITI AYOOG: ₹ 24.66 crore and Fifth ASFC: ₹ 6.32 crore

necessary to do so, the Council would be consulted and would be explained the reason for the change.

Further, in order to enable NCHAC to finance the expenditure of the entrusted functions of the thirty subjects/departments 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 of fund so released are to be made by the Council towards entrusted functions for which it was appropriated.

Test-check of annual accounts of NCHAC for the year 2016-17 and other relevant records, showed that against revised Plan allocation of ₹ 143.10 crore, GoA released ₹ 141.69 crore to NCHAC during the year. It was seen that out of the aforesaid fund, the Council irregularly sanctioned and released ₹ 9.64 crore to different DDOs of entrusted department 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.

On this being pointed out, it was stated that the deduction was made in terms of Executive Committee resolution mainly for payment of salary of the Council employees under inherent functions (Council Sector).

Thus, despite GoA had released ₹ 15.50 crore as Administrative Charge during 2016-17, deduction of another ₹ 9.64 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 also bound to have adverse impact on development activities for which the fund was released by the State Government.

### ***3.1.2.3 Diversion of capital fund towards revenue expenditure***

Government of Assam (GoA) sanctioned and released ₹ 170.00 lakh to NCHAC during 2016-17 for capital expenditure under the head of account 5055 - Capital Outlay on Road Transport Services (Plan) from the State budget. There was unspent balance of ₹ 117.78 lakh of previous year. Thus, the total fund available under the said heads of account as on 31 March 2017 was ₹ 287.78 lakh. As per terms and conditions of the sanction, NCHAC is required to utilise the funds for the purpose it has been released and the office of Development Commissioner for Hill Areas of Assam to monitor and evaluate the implementation/ expenditure.

NCHAC however, released only ₹ 184.19 lakh<sup>7</sup> to the Transport Department of the Council during the year 2016-17. Reasons for not releasing the balance amount of

---

<sup>7</sup> ₹ 117.78 lakh sanctioned during 2015-16 plus ₹ 66.41 lakh sanctioned during 2016-17.



₹ 103.59 lakh was not available on records. Out of the released amount of ₹ 184.19 lakh, the Transport Department incurred expenditure of ₹ 121.77 lakh towards Capital expenditure and the balance amount of ₹ 62.42 lakh was incurred towards revenue expenditure, like procurement of spare parts, *etc.*, for the existing vehicles.

Thus, diversion of capital fund amounting to ₹ 62.42 lakh towards revenue expenditure was irregular and frustrated the purpose of providing fund under capital head of account.

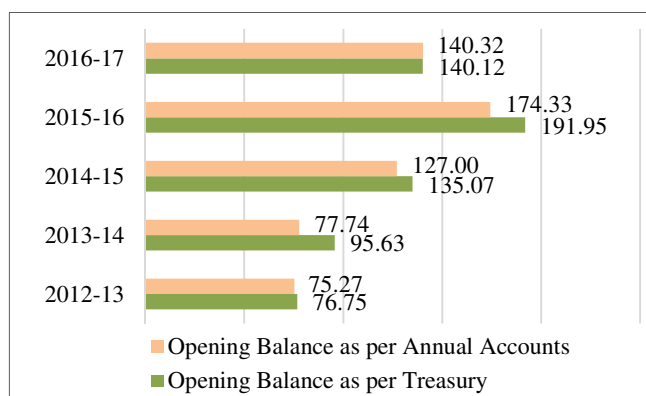
On being pointed out, Principal Secretary, NCHAC stated (June 2018) that due to paucity of funds, Transport Department diverted and utilised capital fund towards revenue expenditure.

### 3.2 Personal Deposit Account

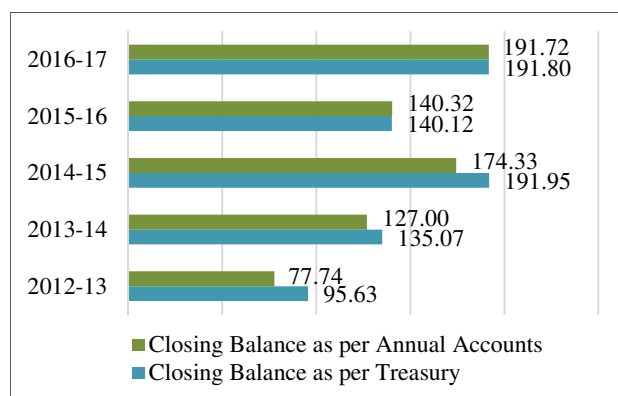
NCHAC maintains a Personal Deposit Account (PDA) with the Haflong Treasury, into which all receipts of NCHAC are credited and from which withdrawals for all expenditure are made. The balance held in PDA as per Cash Book as on 31 March of each financial year was required to be reconciled with the balance 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.

**Chart-3.1(A) and Chart-3.1(B)** show the differences that exists between the Opening and Closing balances in PDA as per NCHAC Accounts and Treasury.

**Chart-3.1(A): Opening Balances as per Treasury records and Annual Accounts as on 01 April**  
(₹ in crore)



**Chart-3.1(B): Closing Balances as per Treasury records and Annual Accounts as on 31 March**  
(₹ in crore)



The difference was not explained in the Annual Accounts as reconciliations of the figures between the two sets of records have not been made. The above deficiency persists despite being pointed out in previous Audit Reports and NCHAC needs to take appropriate steps for correct accounting. In reply, the Principal Secretary stated (June 2018) that necessary reconciliation would be done and intimated to audit. However, no such intimation was received from the Council (June 2021).

In this context, Audit further observed that during 2016-17 against the total receipts of ₹ 579.90 crore as per treasury records, NCHAC exhibited total receipts of ₹ 580.06

crore<sup>8</sup> in the Annual Accounts, which led to overstatement of receipts by ₹ 0.16 crore in Statement-1.

The NCHAC replied (June 2018) that reason for such overstatement would be looked into and efforts would be made to avoid such lapses in future.

### 3.3 Conclusion

The audit of accounts of NCHAC for 2016-17 disclosed that:

- i. The principles of accounting followed by NCHAC for preparing its Annual Accounts *e.g.*, accounting of State Government funds into Deposit fund instead of District fund was not as envisaged in the Form of Accounts prescribed by CAG for District Councils in 1977.
- ii. The figures of the Annual Accounts were not supported by ledgers/ consolidated abstracts.
- iii. The Annual Accounts lacked transparency due to non-disclosure of head-wise details of balances.
- iv. 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.
- v. Book-keeping (accounting) was weak and required further strengthening. Cases of discrepancies and lack of reconciliation with collateral records and under/ over statement of receipts/expenditure in Annual Accounts were noticed.

### 3.4 Recommendations

- *Council may prepare its Annual Accounts in complete consistency with the principles of accounting as envisaged in 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 the 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.*

---

<sup>8</sup> Part-I: District Fund = ₹ 58.99 crore and Part-II: Deposit Fund = ₹ 521.07 crore



- *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.*