

Chapter-III

Comments on Accounts

3.1 Introduction to Accounts and Comments on Council Accounts

In terms of paragraph 7(3) of the Sixth Schedule of 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.

3.2 Comments on Annual Accounts

KAAC prepared its Annual Accounts in the aforementioned seven statements. Audit found some deviations with respect to the format prescribed by CAG which are pointed below:

- a. Statement-1 of the Annual Accounts of KAAC exhibited revenue receipt of ₹ 166.95 crore from its own sources (including assistance of ₹ 132.09 crore received from State Government) and of ₹ 1,027.40 crore from the State Government for functions entrusted to it under Paragraph 3A of the Sixth Schedule of the Constitution. The receipts of ₹ 1,027.40 crore from the State

Government was, however, incorrectly accounted under Part-II Deposit Fund instead of Part-I District Fund.

- b. Statement-1 also shows the summary of expenditure made, both from its own revenue (₹ 221.30 crore) and from State Government for entrusted functions (₹ 840.82 crore). The amount of ₹ 840.82 crore was, however, incorrectly shown under Deposit Fund instead of District Fund.
- c. Statement-5 did not show details of revenue by Major Heads for ₹ 1,027.40 crore received from the State Government for the entrusted functions which forms nearly 80 *per cent* of its total receipts. There is no Minor Head wise breakup in Statement-5. Consequentially, Audit could not ascertain whether the expenditure made under different heads out of this fund was within the allotted budget.
- d. Statement-6 showed details of expenditure for District Fund (₹ 221.30 crore). The details of expenditure of ₹ 840.82 crore received from State Government were, however, not included in Statement-6 of the Annual Accounts.
- e. 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 Government of Assam to KAAC for subjects/departments entrusted to the Council has been accounted for incorrectly under Part-II Deposit Fund but as a single line item with no breakup of either receipt 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. Further, since both Statement-5 and Statement-6 provide insufficient information *vis-à-vis* the prescribed form of accounts, the accounts lacked completeness and comparability.
- f. KAAC is required to submit Monthly Accounts to Principal Accountant General (A&E) for funds transferred to it against Grant No. 76, based on which, the Appropriation Accounts is prepared. Appropriation Accounts of the said Grant indicated that during 2016-17, KAAC had made a total expenditure of ₹ 138.35 crore towards Capital Outlay. However, as per Statement-2, KAAC incurred ₹ 3.60 crore only towards Capital Outlay. Thus, Annual Accounts of KAAC did not provide the true and fair picture of the current and cumulative expenditure towards creation of capital assets as of March 2017.

Thus, it is evident that the Accounts lack transparency as the details regarding the receipts and expenditure from the funds⁴ provided by the State Government were not disclosed properly. This has also put a constraint for Audit to conduct detailed analysis of receipts and expenditure of KAAC. KAAC is required to rectify the mistake by

⁴ Approximately 80 *per cent* of total receipts and expenditure of the Council.

correctly accounting its financial transactions from the funds received from State Government in the Annual Accounts as per the format prescribed by the CAG.

During exit meeting (July 2023), the Council accepted the audit observation and stated that the Annual Accounts for the year 2018-19 would be compiled following CAG's guidelines on accounting and submit to Audit.

3.2.1 District Fund

3.2.1.1 Overstatement of receipts

The Annual Accounts (Statement-5) exhibited ₹ 34.87 crore as total revenue receipts (excluding grants-in-aid) during 2016-17 against the actual revenue receipts (excluding grants-in-aid) of ₹ 34.79 crore being remitted into the Personal Deposit Account (PDA) of KAAC. This resulted in overstatement of revenue receipts under Part-I District Fund as well as Closing balance by ₹ 0.08 crore during 2016-17.

During exit meeting (July 2023), the Council accepted and noted the audit observation for compliance.

3.2.1.2 Understatement and overstatement of revenue receipts

Scrutiny of Cash Book and Deposit challans for the year 2016-17 revealed that revenue receipts amounting to ₹ 0.71 crore collected during 2015-16 was entered in the Cash Book during 2016-17 (*Appendix-IV*), which resulted in overstatement of revenue receipts during the year 2016-17 to that extent.

Similarly, revenue amounting to ₹ 1.16 crore received during 2016-17 was not entered in the Cash Book during the same year. The amount was entered into the Cash Book during 2017-18 (*Appendix-V*), which resulted in understatement of revenue receipts for the year 2016-17 to that extent.

During exit meeting (July 2023), the Council accepted and noted the audit observation for compliance.

3.2.1.3 Overstatement of Capital Expenditure

Government of Assam released (between May 2016 and December 2016) ₹ 3.60 crore to KAAC towards Capital Outlay on Road Transport Service. Against the receipt, the Transport Department of KAAC incurred an expenditure of ₹ 1.43 crore towards Capital expenditure and balance amount of ₹ 2.17 crore was spent towards revenue expenditure *viz.*, rethreading of old tyres, repairing of KAAC bus *etc.* This resulted in overstatement of Capital expenditure by ₹ 2.17 crore with corresponding understatement of revenue expenditure by ₹ 1.43 crore.

During exit meeting (July 2023), the Council accepted the audit observation and stated that no Capital fund was disbursed towards Revenue expenditure from 2021-22 onwards.

3.2.1.4 Incorrect exhibition of Progressive Capital Outlay

Paragraph 2.4.3 of Audit Report of KAAC for 2011-16 has pointed out that there was understatement of Progressive Capital Outlay by ₹ 2,119.23 lakh. Progressive Capital Outlay at the end of 2015-16 was shown as ₹ 668.00 lakh in place of actual Progressive Capital Outlay of ₹ 2,787.23 lakh. It was recommended to reconcile the Progressive Capital Outlay and to exhibit correct figures in the subsequent Annual Accounts.

Scrutiny of Annual Accounts for the year 2016-17 revealed that no reconciliation had so far been made in this regard and the incorrect exhibition of Progressive Capital Outlay continued even during 2016-17. The Position of Progressive Capital Outlay during 2016-17 is detailed in Table-3.2.

Table-3.2: Position of Progressive Capital Outlay as on 31 March 2017

(₹ in lakh)				
Progressive Capital Outlay as on 31 March 2016	Capital Outlay during the year	Progressive Capital Outlay as on 31 March 2017	Progressive Capital Outlay shown in the Annual A/cs	Understatement of Progressive Capital Outlay
2,787.23	142.69	2,929.92	1,028.00	1,901.92

As can be seen from the table above, the Progressive Capital Outlay during 2016-17 has been shown as ₹ 1,028.00 lakh instead of ₹ 2,929.92 lakh leading to understatement of Progressive Capital Outlay by ₹ 1,901.92 lakh.

Thus, the Progressive Capital Outlay shown in the Statement-2 of the Annual Accounts needs to be reconciled and correct figures exhibited in the Annual Accounts of the Council.

During exit meeting (July 2023), the Council accepted and noted the audit observation for compliance.

3.2.1.5 Discrepancy in ways and means position

Statement-3 of Annual Accounts exhibits the position of Ways & Means of KAAC for discharging its inherent functions (Council Sector) during the year. The statement shows month-wise receipts, disbursement, Opening and Closing balances of Cash.

Scrutiny of Annual Accounts 2016-17 and Subsidiary Cash Book (Council Sector) revealed discrepancies in the Opening and Closing balances between the two sets of Accounts. The discrepancy is detailed in Table-3.3.

Table-3.3: Opening and Closing balance as per Cash Book and Statement-3 of the Annual Accounts

As per Cash Book ⁵		As per Statement-3 of the Annual Accounts	
Opening balance	Closing balance	Opening balance	Closing balance
179.16	277.26	178.04	303.07

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Cash Book	Balance as on 31-03-2016	Balance as on 31-03-2017
Council Sector (Inherent)	96,82,501.00	91,56,188.00
Council Sector (GIA)	82,33,948.00	1,85,69,430.00
Total	1,79,16,449.00	2,77,25,618.00

Reason for such discrepancies was not disclosed by way of explanatory notes in the Annual Accounts. Further, monthly receipts and disbursements as shown in the Statement could not be verified due to non-compilation of monthly accounts in respect of its inherent functions during the year 2016-17.

During exit meeting (July 2023), the Council accepted and noted the audit observation for compliance.

3.2.1.6 Understatement of receipts

Scrutiny of records revealed that during 2016-17 KAAC operated three savings bank accounts and earned bank interest of ₹ 40.21 lakh as detailed in Table-3.4.

Table-3.4: Bank interest earned

(in ₹)

Account No.	Name of Bank	2016-17	
		Date of crediting interest	Amount credited
xxxx2456 (ICDS & NLCPR)	IDBI Bank, Diphu	25-06-2016	6,73,715.00
		24-09-2016	7,03,022.00
		24-12-2016	6,34,787.00
		25-03-2017	1,88,147.00
		Total	21,99,671.00
xxxx8349 (Finance Commission)	HDFC Bank, Diphu	01-07-2016	1,11,148.00
		01-10-2016	1,01,235.00
		01-01-2017	1,01,097.00
		Total	3,13,480.00
xxxx5565 (RMSA)	Axis Bank, Diphu	25-06-2016	16,268.00
		24-09-2016	3,74,750.00
		31-12-2016	5,98,895.00
		31-03-2017	5,18,416.00
		Total	15,08,329.00
Grand Total			40,21,480.00

The interest earned was neither accounted for in the PDA Cash Book nor reflected in the Annual Accounts. This resulted in understatement of receipts to that extent in the Annual Accounts of 2016-17.

During exit meeting (July 2023), the Council accepted the audit observation and assured that all interest earned would be disclosed in Annual Accounts from 2018-19 onwards.

3.2.1.7 Irregular retention of revenue outside PDA

Rule 18 of the Karbi Anglong District Fund Rules, 1952 (DFR) provides that all money received by the Council shall be remitted into the treasury promptly.

Paragraph 3.2.3 of the Audit Report of the KAAC for 2011-16 stated that the revenue received from time to time by cash branch of KAAC was not deposited promptly into the treasury (PDA of KAAC) and a portion of it was retained by the Cashier.

Scrutiny of records of Cash Branch of KAAC revealed that revenue received from different sources from time to time were not deposited immediately into Treasury and a portion of it was retained with the Cashier. As of March 2017, ₹ 89.99 lakh⁶ of revenue collected was retained by the cashier. Besides this, Revenue Receipts Register exhibiting date of receipt and date of deposit into PDA was also not maintained by the Council. These receipts were also not reflected in the Annual Accounts of that year. This resulted in understatement of receipts by ₹ 89.99 lakh and was fraught with the risk of misappropriation/misuse of funds.

During exit meeting, (August 2023) the Council stated that the amounts were deposited into the treasury in the next financial year.

The reply is not tenable as non-deposit of revenue received by the Cash branch of KAAC into PDA promptly is in violation of the provisions of the DFR. Revenue received by the Cash branch should be deposited to PDA promptly.

3.2.2 Deposit Fund

Although, funds received from the State Government for subjects/departments entrusted to the Council, were 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.

3.2.2.1 Understatement of receipts

Scrutiny of main Cash Book, Treasury Receipt Schedule, sanction letters, Challans and bank statements pertaining to receipts from Government of Assam and other sources revealed that even though the total receipts under Deposit Fund was ₹ 1,033.16 crore, the amount of receipts exhibited under Deposit Fund in the Annual Accounts 2016-17 was only ₹ 1,027.40 crore leading to understatement of receipts under Deposit Fund by ₹ 5.76 crore as detailed in Table-3.5.

Table-3.5: Understatement in Annual Accounts

(₹ in crore)					
Total funds received from GoA as per PDA Cash Book and Treasury Schedule	Funds directly credited in bank accounts	Amount transferred to District fund	Total receipt under Deposit fund	Receipt under Deposit fund as per Annual Accounts	Understatement in Annual Accounts
1	2	3	4 (1+2-3)	5	6 (4-5)
1,027.72 ⁷	137.53	132.09	1,033.16	1027.40	(-) 5.76

The Council needs to ensure accurate disclosure of receipts under Deposit Fund.

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(in ₹)				
Year	Opening balance	Revenue received	Revenue deposited	Balance outside PDA
2016-17	96,82,501	31,05,42,266	31,12,25,913	89,98,854

7 In the Cash Book ₹ 2,45,00,000 was entered on 05/10/2016 against actual receipt of ₹ 1,45,00,000 and ₹ 1,32,50,000 (credited by treasury on 16-06-2016) was not accounted for.

During exit meeting (July 2023), the Council accepted the audit observation and stated that the difference would be reconciled regularly.

3.2.2.2 Diversion of salary funds towards non-salary expenditure

Paragraph 9.1 VIII(d) of the Budget Manual of Government of Assam prohibits any re-appropriation from savings under pay of officers or pay of establishment.

During 2016-17, GoA sanctioned and released (May 2016) an amount of ₹ 284.38 crore for salaries/wages under Non-Plan for 1st six months for the year 2016-17.

Audit noticed that out of the total funds of ₹ 284.38 crore, KAAC diverted ₹ 11.98 crore towards non-salary expenditure to seven DDOs based on the proposals submitted by them. The details are shown in **Appendix-VI**.

In reply, the Principal Secretary, KAAC, Diphu stated (October 2020) that the Primary Education Department is an inherent subject of KAAC, Diphu. Due to paucity of fund under Council Sector, sometimes the Primary Education Department has to make expenditure to meet the urgent need out of the balance fund available for salary payment. The Principal Secretary also assured that the same would be avoided in future.

3.2.2.3 A test-check of records of the Additional Director of Industries and Commerce (DICC), Diphu revealed that ₹ 3.18 crore was sanctioned and released for salaries/wages under Non-Plan to the Addl. DICC, Diphu by GoA during 2016-17. The sanction letters *inter alia* specified that unspent amount, if any, shall be refunded to the Government through treasury challan.

Audit, however, observed that out of the total funds of ₹ 3.18 crore, the DDO spent ₹ 2.36 crore⁸ under salary head and the KAAC re-appropriated ₹ 0.82 crore meant for salary & wages towards procurement of materials (sewing machine, cotton yarn and carpenter tools) for distribution among rural artisans without the approval of GoA.

3.2.2.4 Similarly, out of total allocation of ₹ 1.05 crore for salaries/wages for the year 2016-17, the Deputy Director, Food and Civil Supplies, (F&CS), Diphu saved ₹ 0.40 crore (38 *per cent*) and utilised ₹ 0.39 crore towards non-salary component (OE, advertisement, purchase of vehicle, construction work *etc.*) on the basis of approval of KAAC. However, the approval of Finance department, GoA authorising the re-appropriation from salary to non-salary was not found on records.

Thus, diversion of salary funds of ₹ 1.21 crore (₹ 0.82 crore + ₹ 0.39 crore) towards non-salary expenditure without the approval of GoA was irregular and unauthorised.

⁸

(₹ in lakh)						
	Budget	Release			Expenditure	Saving
		1 st instalment	2 nd instalment	Total		
Salary	305.53	107.93	197.60	305.53	227.57	77.96
Wages	12.48	6.24	6.24	12.48	8.35	4.13
Total	318.01	114.17	203.84	318.01	235.92	82.09

During exit meeting (August 2023) the Council accepted the audit observations and assured to avoid such diversion in future.

3.3 Personal Deposit Account

KAAC maintains a Personal Deposit Account (PDA) with the Diphu Treasury into which all receipts of KAAC 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 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 existed between the Opening and Closing balances in PDA as per KAAC Accounts and that of the Treasury.

Chart-3.1(A) Opening Balances as per Treasury records and Annual Accounts as on 31 March
(₹ in crore)⁹

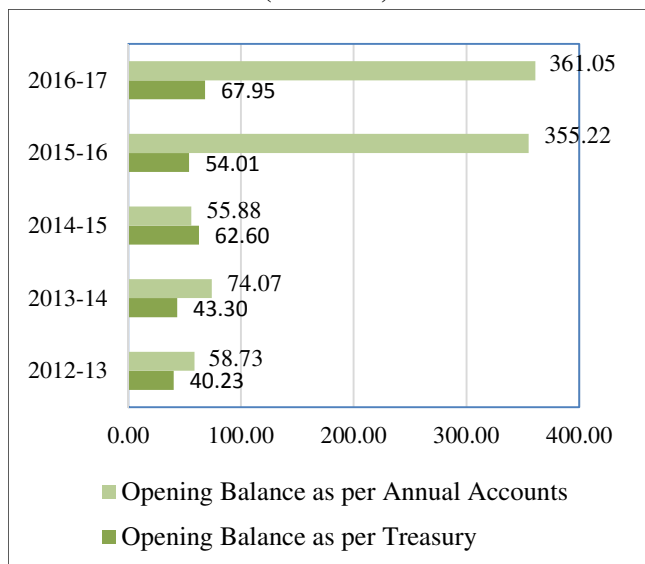
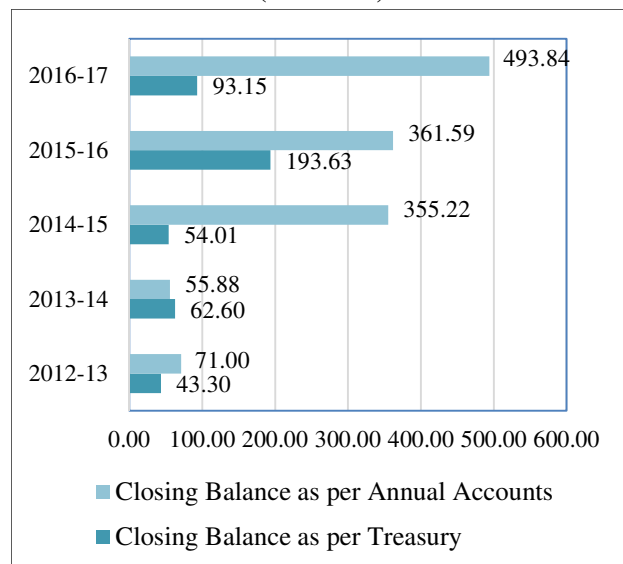


Chart-3.1 (B) Closing Balances as per Treasury records and Annual Accounts as on 31 March
(₹ in crore)



The discrepancy was not explained in the Annual Accounts as reconciliation between the two sets of records were not carried out. The above deficiency persisted despite being pointed out in previous Audit Reports and KAAC needs to take appropriate steps to carry out the required reconciliations.

During exit meeting (July 2023), the Council accepted the audit observation and stated that all efforts would be made to disclose correct opening and closing balances from the Annual Accounts for the year 2018-19 onwards.

⁹ The closing balance of 2015-16 as per Treasury (₹193.63 crore) was subsequently revised after preparing the *Plus and Minus Memorandum* and a revised figure of ₹67.95 crore was taken as opening balance of 2016-17.

3.3.1 Non-accounting in PDA

Rule 14(i) of the Karbi Anglong District Fund Rules, 1952 provides that all moneys pertaining to the Council shall be held in treasury and Rule 16(ii) provides that all monetary transactions shall be entered in the Cash Book as soon as they occur.

Accordingly, money received by KAAC from Administrative Departments of the State Government is required to be kept at Treasury and disbursements made out of it for implementation of schemes/programmes/policies, *etc.*, from time to time are to be reflected in the Cash Book.

During 2016-17, KAAC received ₹ 137.53 crore from several departments of the State Government for implementation of various development project/schemes. In contravention of Rule 14(i) *ibid*, the funds were, however, directly credited into current/savings accounts of different banks instead of depositing them into the PDA. The details of date-wise credit of funds into the Bank Account is given in **Appendix-VII**.

Further, it was also seen that out of the deposited funds of ₹ 137.53 crore, an amount of ₹ 37.83 crore was utilised from these Bank Accounts but was not accounted for in the Annual Accounts.

Thus, deposit of fund in bank accounts in violation of the Fund Rules and non-accounting of the funds received and disbursed from bank accounts in the Annual Accounts was irregular. This resulted in understatement of receipt, expenditure and the closing balance to that extent.

During exit meeting (July 2023), the Council accepted the audit observation and stated that all efforts would be made to disclose all financial transactions in the Annual Accounts from 2018-19 onwards.

3.4 Conclusion

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

- i. Form of Accounts followed by KAAC for preparing its Annual Accounts was not in conformity with 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 compiled from initial books of accounts (Cash Book/Revenue Collection Register *etc.*).
- iii. Receipts of fund from the State Government (State budget) with corresponding disbursements were not disclosed Minor head wise in the Annual Accounts leading to lack of transparency.
- 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. Salary funds of ₹ 11.98 crore was diverted towards non-salary expenditure.
- vi. Bookkeeping (accounting) was weak and required further strengthening. Many cases of discrepancies and lack of reconciliation with collateral records and under/over statement of receipt/expenditure in Annual Accounts were noticed.

3.5 Recommendations

- *Council may prepare its Annual Accounts consistent 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 for greater accountability and transparency.*
- *Council needs to maintain ledger account, which should be the basis of compiling the Annual Accounts.*
- *Council should maintain opening and closing balance not only fund wise but also head of account wise to ensure control over budgetary allocation and expenditure, and to avoid diversion of funds.*
- *Council may devise a system of periodical reconciliation with Treasury Officer to identify mistakes within the accounting period for completeness of Accounts and proper accounting of transactions.*