

## **Chapter-II**

### **Autonomous District Council Funds**

#### **2.1 Introduction to District Fund**

The Sixth Schedule provides for a District Fund for each autonomous region and a Regional Fund 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. The District Fund of KAAC has been constituted under the provisions of Sub-Paragraph (I) of Paragraph 7 of the Sixth Schedule. This fund is maintained as Deposit Account (8443 – Civil Deposit) in the Diphu Treasury and the Principal Secretary, KAAC is the authorised officer who operates the fund.

The ADC fund comprises receipts from its own resources, shared revenue and grants/ Loans and Advances from State/Central governments. Broad classification as per C&AG's prescribed form of Accounts is discussed:

#### **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 Government and also grants and contributions by the Council. The second division deals with expenditure of Capital nature met from borrowed funds. It also comprised of loans received and their repayments by the Council and loans and advances and their recoveries 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, as per the extant practise, funds received from the State Government for subjects/departments entrusted to the Council during 2017-18 were accounted for in Part-II Deposit Fund while own resources of the Council were accounted for in the District Fund. This has been discussed in Chapter-III of this Report.

During exit meeting (July 2023), the Council stated that all efforts would be made to compile the Annual Accounts from 2018-19 onwards in the format prescribed by CAG duly following the prescribed guidelines.

## 2.2 Sources and Application of Funds

### 2.2.1 Receipts and Disbursements

Details of receipts and disbursements of the current as well as previous year as per Annual Accounts of KAAC are provided in **Appendix-I**, while **Table-2.1** shows the summary of fiscal transactions of KAAC during 2017-18.

**Table-2.1: Summary of fiscal transactions of KAAC during 2017-18**

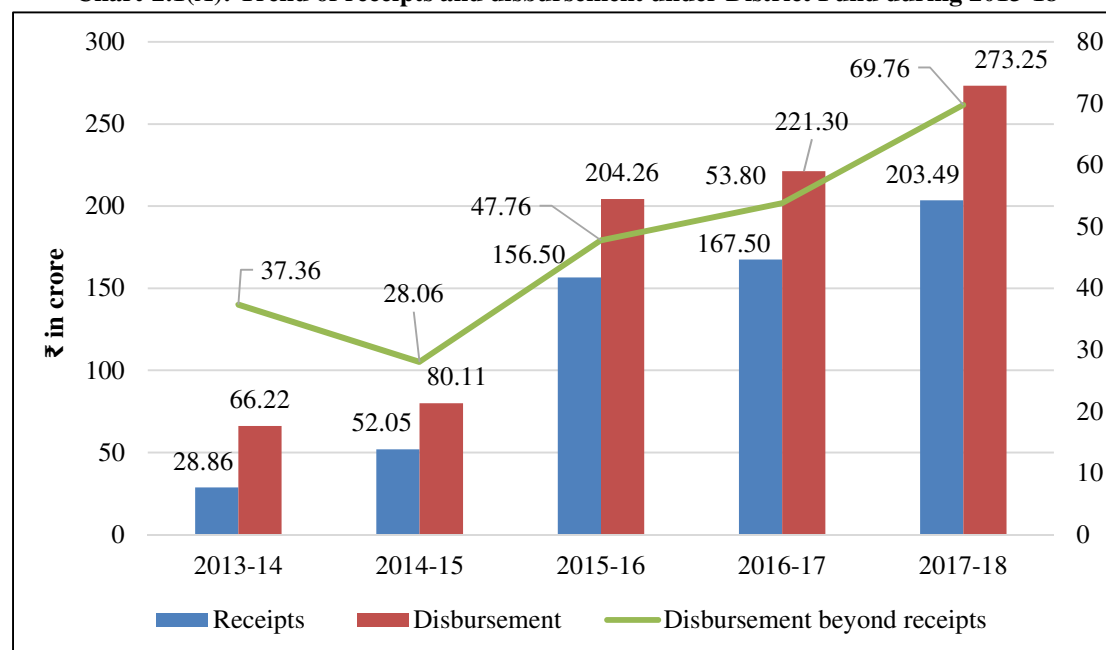
(₹ in crore)		
Receipts		Disbursement
203.49	District Fund	273.24
1,544.92	Deposit Fund	1,300.37
1,748.41	Total Receipts	Total Disbursement 1,573.61
493.83	Opening Balance	Closing Balance 668.63
<b>2,242.24</b>	<b>Grand Total</b>	<b>2,242.24</b>

Source: Annual Accounts

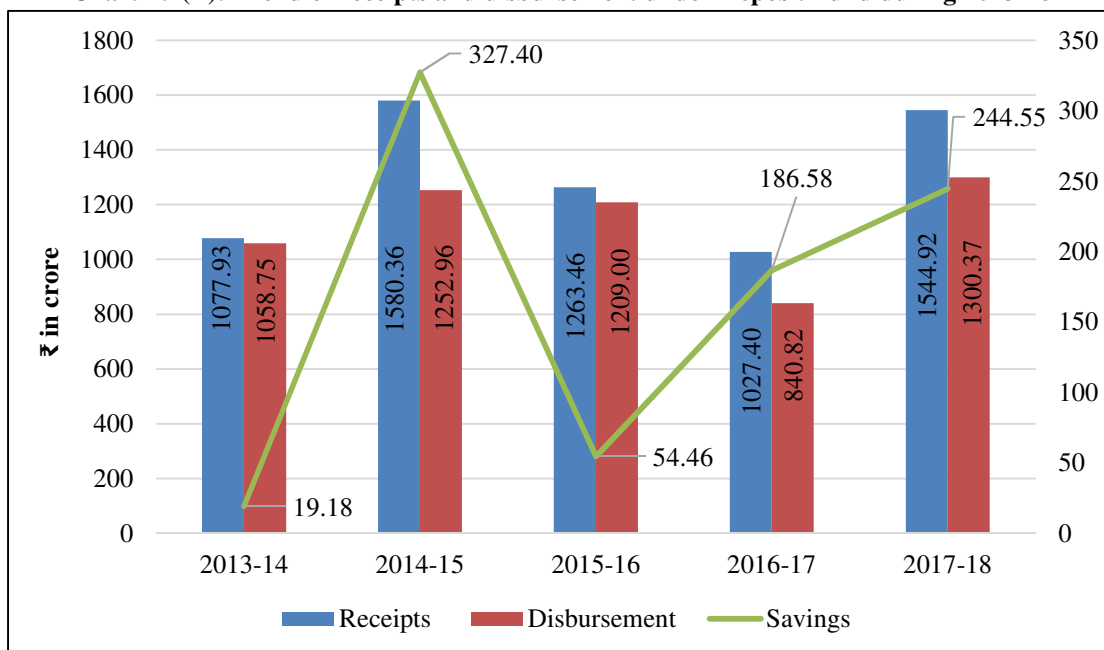
It can be seen from **Table-2.1** that bulk of the expenditure for activities (Approximately 80 per cent) undertaken by KAAC was met from the funds provided by the State Government, which has been accounted in the Deposit Fund.

**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 (2013-18).

**Chart-2.1(A): Trend of receipts and disbursement under District Fund during 2013-18**



As can be seen from **Chart-2.1(A)**, during all the years from 2013-14 to 2017-18 expenditure from District Fund exceeded the receipts (Own receipts). During 2017-18, the expenditure exceeded the receipts by ₹ 69.76 crore. The excess expenditure was met out of the balances available with the Council.

**Chart-2.1(B): Trend of receipts and disbursement under Deposit Fund during 2013-18**

Source: Council Budget and Annual Accounts

As far as Deposit Fund is concerned, the Council failed to utilise the fund received from the State Government as disbursements were always less than the receipts during the last five years. During 2017-18, the disbursement was less than the receipts by ₹ 244.55 crore. KAAC should therefore initiate steps to ensure that the funds released by the State Government is utilised for the purpose for which it was transferred.

During exit meeting (July 2023), the Council accepted the audit observation.

### 2.2.2 Revenue deficit under District Fund

Position of revenue receipts and revenue expenditure as well as excess of revenue expenditure over revenue receipts (revenue deficit) during 2017-18 is given in Table-2.2.

**Table-2.2: Position of revenue receipt, revenue expenditure and revenue deficit**

(₹ in crore)

Total Revenue Receipt	Council's own Revenue	Percentage of own Revenue to total Revenue	Revenue expenditure	Revenue deficit	Percentage of deficit to total Revenue
1	2	3	4	5 (4-1)	6
202.93	28.08	14	269.43	66.50	33

Source: Annual Accounts

It may be seen from **Table-2.2** that the Council's revenue expenditure exceeded its total revenue receipts under District Fund during the year. The revenue expenditure exceeded the revenue receipts ₹ 66.50 crore (33 per cent) during 2017-18. This was mainly due to lack of proper control over expenditure in respect of inherent functions (Council Sector) and inadequate revenue generation which was only ₹ 28.08 crore (14 per cent) of the total Revenue Receipts (₹ 202.93 crore) during 2017-18. Grants-in-aid from the State Government (₹ 174.86 crore) formed 86 per cent of the total Revenue Receipts during the year. The excess expenditure was evidently met

from the unutilised balances of earlier years. The Heads of Account from which funds were specifically diverted could not be ascertained in audit as the Council maintains consolidated balances for both District and Deposit Fund and also does not maintain Heads of Account-wise balances.

In absence of Heads of Account wise balances, Audit could not rule out diversion of funds from the funds released by the State Government for the entrusted functions towards discharging inherent functions during 2017-18.

During exit meeting (July 2023), the Council accepted the audit observations and stated that no disbursement beyond fund receipts had been made from the year 2018-19 onwards.

### 2.2.2.1 Non-receipt of Council's share of Motor Vehicle Tax

As per GoA directive HAD.61/82/216 dated 22 March 1991, the Deputy Commissioner of Karbi Anglong District was to release 90 *per cent* of Motor Vehicle Tax on quarterly basis to the KAAC.

Audit noticed that up to 2015-16, a total amount of ₹ 27.76 crore being Council's share of Motor Vehicle Tax remained unrealised by the Deputy Commissioner, Diphu. During 2016-17 and 2017-18, another ₹ 5.01 crore and ₹ 6.32 crore was collected, of which Council's share was ₹ 4.51 crore and ₹ 5.69 crore respectively, which was also not released to KAAC by the Deputy Commissioner. Thus, a total amount of ₹ 37.96 crore<sup>2</sup> being Council's share of Motor Vehicle Tax was not released to the Council up to 2017-18.

As a result, the Council was deprived of revenue to the extent of ₹ 37.96 crore.

During exit meeting (July 2023), the Council stated that the matter regarding non-release of Council Share on MV Tax would be pursued with the GoA for early release.

### 2.2.3 Unspent balances

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

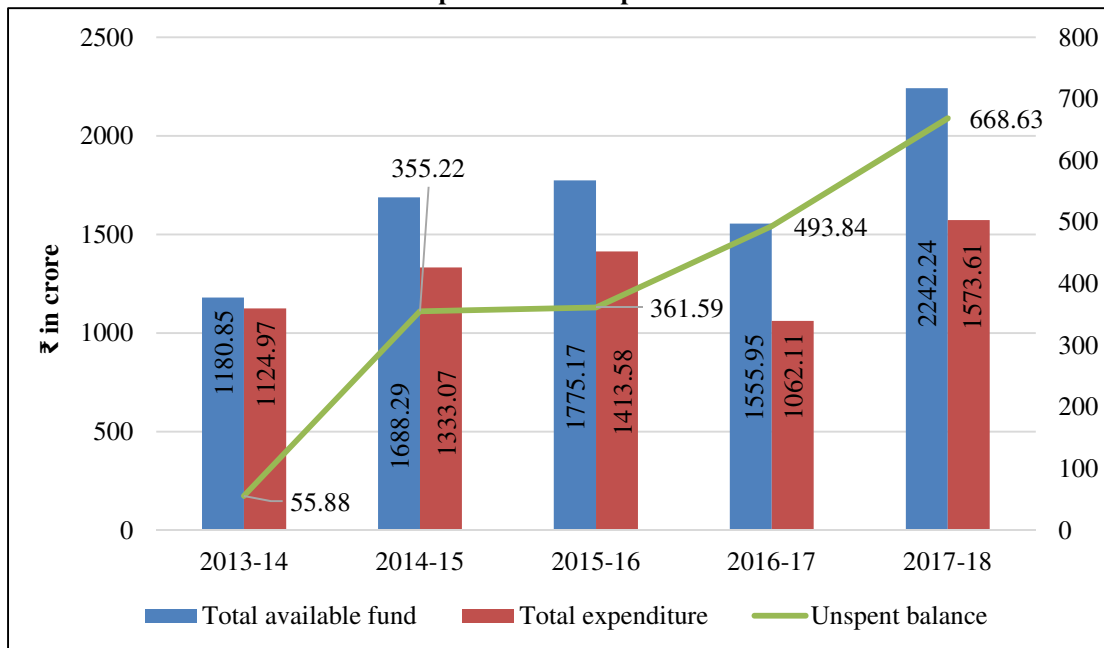
During 2017-18, KAAC received ₹ 1,544.92 crore for entrusted functions from the State Government. Of this, the Council disbursed ₹ 1,300.37 crore to the Drawing and Disbursing Officers, for performing entrusted functions leaving an unspent balance of ₹ 244.55 crore as of March 2018.

<sup>2</sup>

Year	MV Tax collected during the year (₹ in crore)	Share (90% on gross collection) of KAAC (₹ in crore)
Up to 2015-16	30.84	27.76
2016-17	5.01	4.51
2017-18	6.32	5.69
<b>Total</b>	<b>42.17</b>	<b>37.96</b>

**Chart-2.2** presents the position of unspent balances of last five years as per Annual Accounts.

**Chart- 2.2: Unspent balance as per Annual Accounts**



Source: Annual Accounts

Note:- Total Available funds include balances available with the Council

It can be seen from the chart above that unspent balance of the Council increased by 1097 per cent during the last five years from ₹ 55.88 crore at the end of 2013-14 to ₹ 668.63 crore as of March 2018. This indicated that expenditure was not commensurate with the fund receipts from the State Government.

Audit observed that the Annual Accounts of KAAC did not disclose grant-wise/ head-wise details of balances under which the unspent balances were kept. Maintenance of consolidated opening and closing balances without head/grant-wise details in the Personal Deposit Account with proper disclosure in the Annual Accounts made the Accounts opaque. This will weaken control over the public expenditure for various schemes/programmes and misutilisation of funds will go undetected. No assurance can be given for the fact that the expenditure was incurred for the purpose for which it was sanctioned.

During exit meeting (July 2023), the Council assured compliance to the audit observation for maintaining Head wise/Grant wise balances.

### 2.3 Comments on budgetary process

KAAC prepares two sets of budgets as detailed below:

- i) **Entrusted Budget:** KAAC prepares its entrusted budget in respect of Grant No. 76, for subjects entrusted to it as per 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 KAAC is that followed by GoA, which is in line with List of Major and Minor

Head (LMMH) of the Union and States. Funds from this Grant are released to KAAC in two instalments as advance.

- ii) **Council Budget:** KAAC also prepares another budget in respect of estimated own revenue receipts and estimated expenditure to be incurred therefrom. This budget is termed as Normal budget in common parlance. In this budget, KAAC follows the CoA prescribed by CAG.

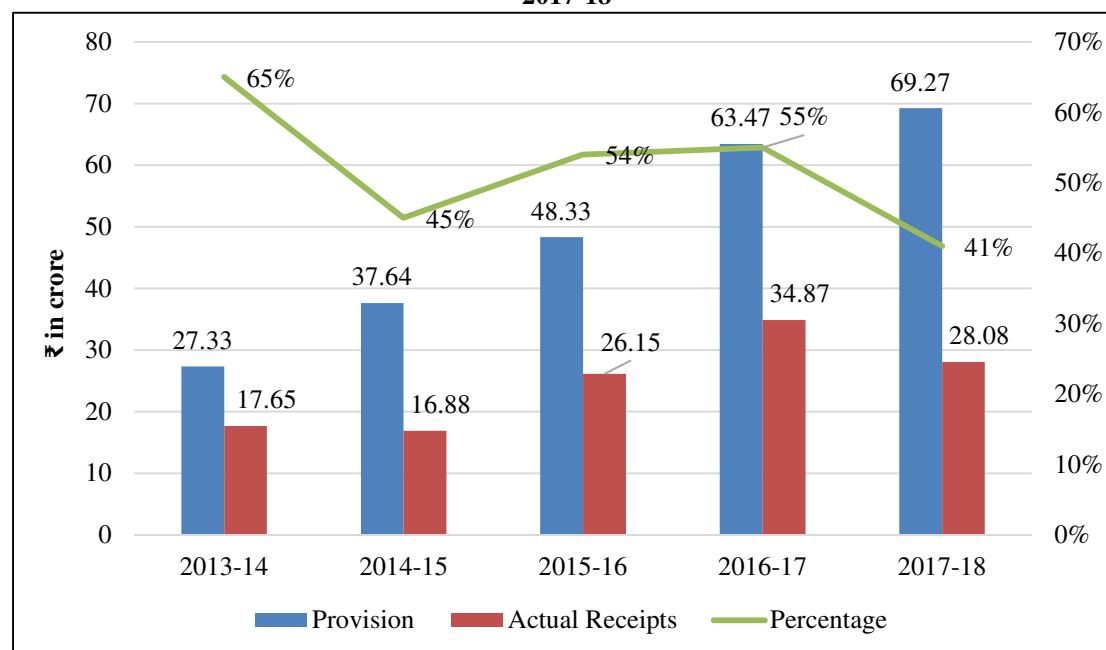
As KAAC did not disclose the details of receipts and expenditure in respect of funds received from the State Government in its Annual Accounts, variation between budgeted (Entrusted) and actual figures with respect to both receipts and expenditure could not be ascertained. There was also no assurance that the expenditure was actually incurred for the purpose for which it was sanctioned. Instances of variation between Revenue receipts/Revenue expenditure and Council Budget are discussed in the succeeding paragraphs.

During exit meeting (July 2023), the Council stated that the audit observation has been noted for guidance and all efforts would be made to disclose Heads of Account/ Grant-wise fund received and disbursed in the Annual Accounts from 2018-19 onwards.

### 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-2.3:

**Chart-2.3: Variation between estimated (budget) receipts and actual receipts during 2013-14 to 2017-18**



Source: Normal Budget and Annual Accounts

During the last five years, the actual revenue receipts of KAAC ranged between 41 and 65 per cent of its estimated (budget) receipts. Head-wise position of variations between estimates of receipts and actual receipts during 2017-18 showed that shortfall

ranging from 1 to 100 *per cent* occurred in 11 Heads of account while excess receipts over budget estimates, occurred in five Heads of account. These are detailed in **Appendix-II**.

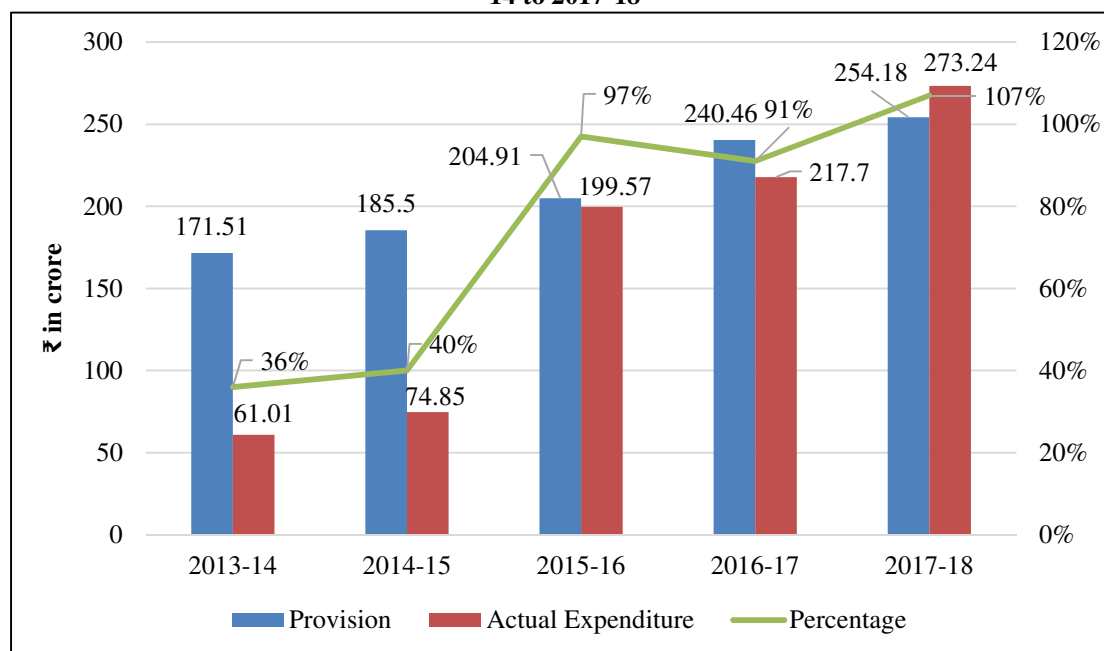
The wide variation between estimated and actual receipts including the shortfall against the budget estimates was indicative of deficiencies in budgeting exercise. The Council had not been able to make its revenue collection mechanism effective. There is a need for improvement in budget preparation and strengthening of the revenue collection mechanism of the Council.

During exit meeting (July 2023), the Council stated that the audit observation has been noted for guidance and all efforts would be made to prepare realistic budget from the year 2024-25.

### 2.3.2 Revenue expenditure compared with budget estimates

The position of revenue expenditure of KAAC *vis-à-vis* the budgetary provision during the last five years (2013-18) is depicted in Chart-2.4:

**Chart-2.4: Variation between estimated provision and actual revenue expenditure during 2013-14 to 2017-18**



Source: Normal Budget and Annual Accounts

As can be seen from the above chart, actual revenue expenditure of KAAC during the last five years ranged from 36 to 107 *per cent* of budgetary provision.

During 2017-18, against the estimated revenue expenditure of ₹ 254.18 crore under 27 heads of accounts, the actual expenditure was ₹ 273.24 crore resulting in overall excess expenditure of ₹ 19.06 crore *i.e.*, eight *per cent* of the total projection. On further examination of budget and expenditure, it was seen that the actual excess of ₹ 40.17 crore (25 *per cent*) occurred against seven heads of accounts, which was offset by shortfall of ₹ 21.10 crore (22 *per cent*) against 17 heads of accounts. Details are given in **Appendix-III**.

The above savings and excess expenditure against estimated provision indicated the need for improvement in budgetary process each year. To improve generation and collection of revenue, and expenditure position, the Council has to initiate steps to strengthen the existing administrative machinery.

During exit meeting (July 2023), the Council stated that the audit observation had been noted for guidance and all efforts would be made to prepare realistic budget from the year 2024-25.

## **2.4 Conclusion**

- i. The Council did not disclose the details of balances grant-wise/head-wise under which the unspent balances were kept. No assurance that the expenditure incurred out of unspent balance of previous years was actually incurred for the purpose for which it was sanctioned could be ensured.
- ii. Fiscal management was weak which led to substantial deficit/ surplus under District and Deposit Fund.
- iii. Budgetary exercise of the Council needs improvement to reduce the gaps in savings and excess expenditure for better financial discipline.

## **2.5 Recommendations**

- *Council may disclose head-wise breakup of consolidated opening and closing balances in the Annual Accounts so that assurance that the expenditures incurred was for the purpose it was sanctioned could be drawn.*
- *The Council may undertake budgetary reviews to identify the Head of Accounts for better estimate of revenue receipts & expenditure and to improve financial management of the Council.*