

Chapter-II

Autonomous District Council Funds

2.1 Introduction to District Fund

The Sixth Schedule to the Constitution 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 administration of such district or region respectively in accordance with the provisions of the Constitution. The District Fund of NCHAC has been constituted under the provisions of Sub-Paragraph (1) of Paragraph 7 of the Sixth Schedule. This fund is maintained as Deposit Account (8443 – Civil Deposit) in the Haflong Treasury and the Principal Secretary (Transfer), NCHAC 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 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 shall deal with the proceeds of taxation and other receipts classed as revenue and expenditure met therefrom. It shall also include the grants and contributions received from the Government and also grants and contributions by the Council. The second division deal 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, funds received from the State Government for subjects/departments entrusted to the Council during 2017-18 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

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

Table-2.1: Summary of financial transactions of NCHAC during 2017-18

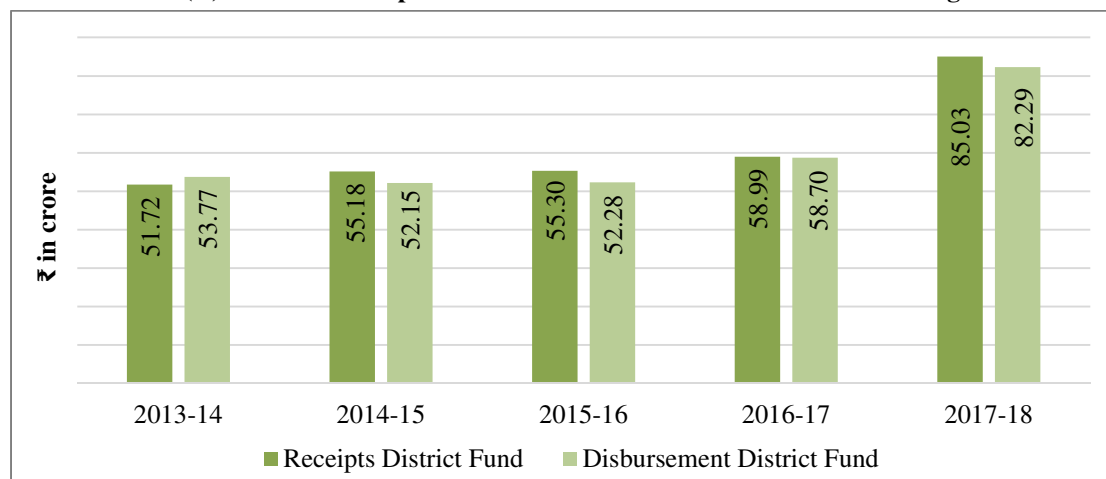
(₹ in crore)		
Receipts		Disbursement
85.03	District Fund	82.29
599.86	Deposit Fund	549.41
684.89	Total receipts and disbursement	631.70
191.72	Opening /Closing Balance	244.91
876.61	Grand Total	876.61

Source: Annual Accounts

It can be seen from **Table-2.1** that bulk of the expenditure for activities (Approximately 87 per cent) undertaken by NCHAC was met from the funds provided by the State Government.

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 over a period of five years (2013-18).

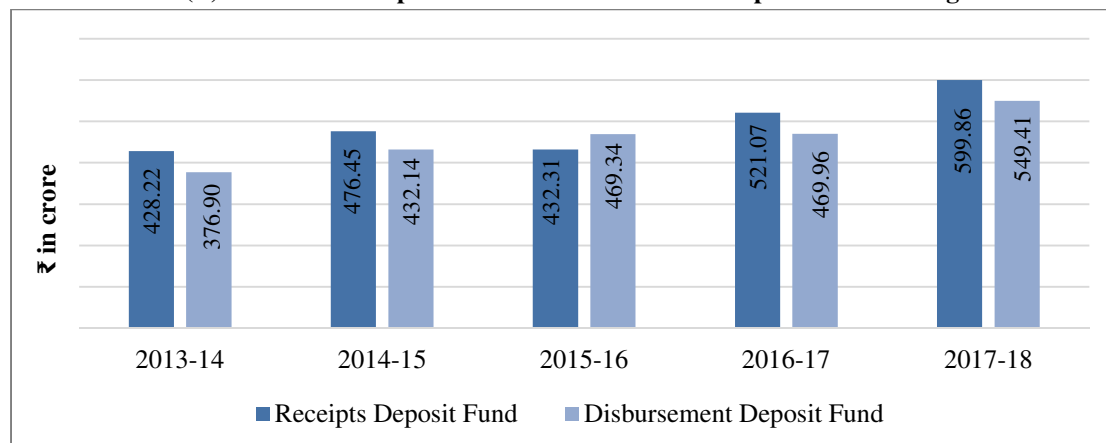
Chart-2.1(A): Trend of receipts and disbursement under District Fund during 2013-18



Source: Annual Accounts

It is evident from the above chart that expenditure from District Fund was minimal and within the own receipts during the last five years except during 2013-14. During 2017-18, the expenditure was lesser than the receipts by ₹ 2.74 crore.

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



Source: Annual Accounts

It is apparent from above that the Council failed to fully utilise the funds received from the State Government as disbursements was less than its receipts during the last five years except during 2015-16. During 2017-18, disbursement was less than its receipts by ₹ 50.45 crore. This less disbursement has resulted in increasing unspent balance as detailed in paragraph below. NCHAC should, therefore, initiate steps so as to ensure that the funds released by the State Government is utilised for the purpose it was transferred during the relevant years under District funds as per prescribed Form of Accounts.

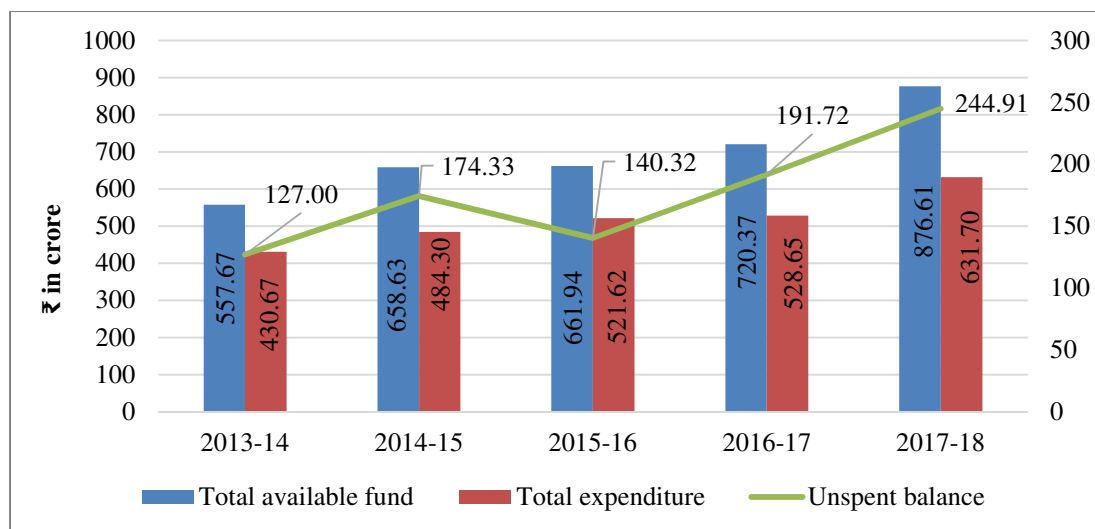
2.2.2 Unspent balance

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

During 2017-18, NCHAC received ₹ 599.86 crore for entrusted functions from the State Government. The Council disbursed ₹ 549.41 crore to the DDOs for performing entrusted functions leaving an unspent balance of ₹ 50.45 crore as of March 2018. Similarly, an unspent balance of ₹ 2.74 crore was also noticed under District Fund. The unspent balances resulted in the Council closing balance increasing from ₹ 191.72 crore in 2016-17 to ₹ 244.91 crore in 2017-18.

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

Chart-2.2: Unspent balance as per Annual Accounts



Source: Annual Accounts

It can be seen from the chart above that unspent balance of the Council increased by 93 per cent during the last five years from ₹ 127.00 crore at the end of 2013-14 to ₹ 244.91 crore as on March 2018. This indicated that expenditure was not commensurate with the fund receipts from the State Government.

Audit observed that the Annual Accounts of NCHAC 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 PDA as well as in the Annual Accounts made the Accounts opaque. This will weaken control over the public expenditure for various schemes/programmes and mis-utilisation of funds will go undetected. No assurance that the expenditure was incurred for the purpose for which it was sanctioned can be given.

2.3 Comments on budgetary process

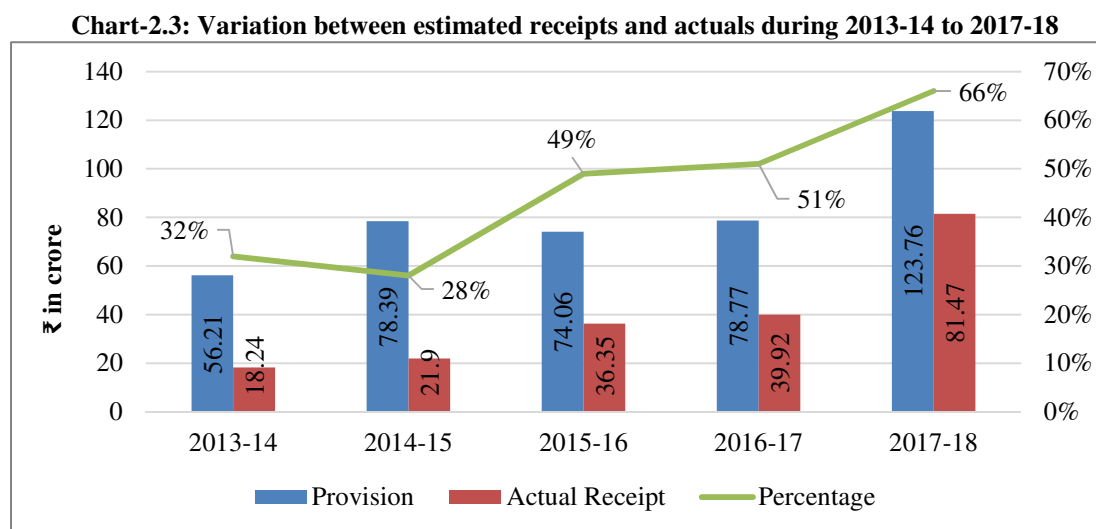
NCHAC prepares two sets of budgets as detailed below:

- i) **Entrusted Budget:** NCHAC prepares its entrusted budget in respect of Grant No. 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 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 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.

2.3.1 Revenue receipts compared with budget estimates

Position of variation between budgetary provision and actual revenue receipts during the last five years is depicted in **Chart-2.3:**



Source: Normal Budget and Annual Accounts.

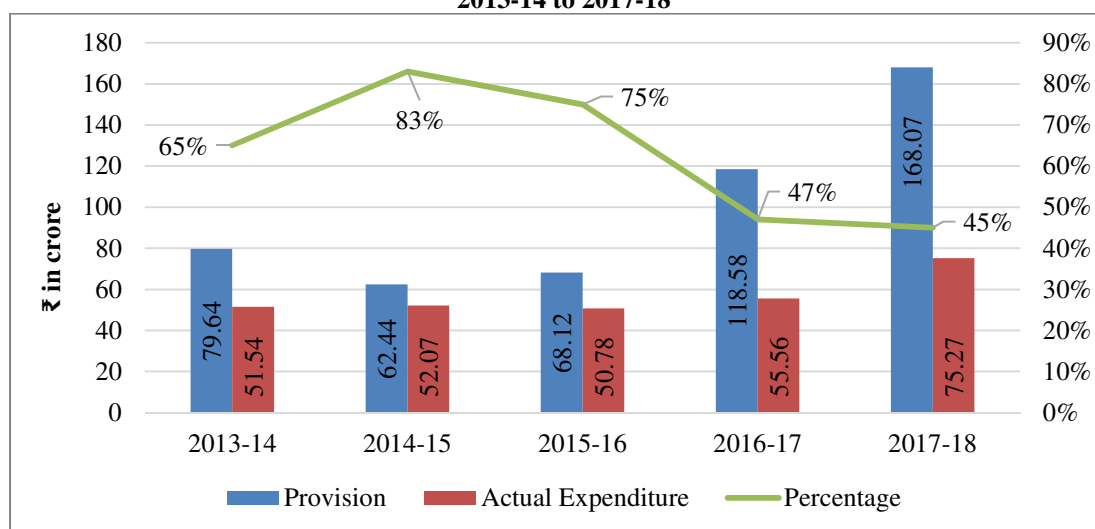
During the last five years the actual revenue receipts of NCHAC ranged from only 28 *per cent* to 66 *per cent* of estimated receipts. Head-wise position of variation between estimates of receipts and actual receipts during 2017-18 showed that shortfall ranging from 22 to 100 *per cent* occurred in six 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 the budgeting exercise. It also indicated that 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 revenue collection mechanism of the Council.

2.3.2 Revenue expenditure compared with budget estimates

Position of revenue expenditure of NCHAC *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 above, the actual revenue expenditure of NCHAC during the last five years ranged from 45 to 83 *per cent* of budgetary provision.

During 2017-18, against the estimated revenue expenditure of ₹ 168.07 crore under all the 16 Heads of Account, the actual expenditure was ₹ 75.27 crore resulting in overall shortfall of ₹ 92.80 crore *i.e.*, 55 *per cent* of the total expenditure projections. The details are given in **Appendix-III**.

Further, against the estimated receipts of ₹ 123.76 crore during 2017-18, NCHAC had made an expenditure provision of ₹ 168.07 crore which is ₹ 44.31 crore more than its receipts estimation. NCHAC, however, did not explained the source from which the deficit would be met in its own budget for the year 2017-18.

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

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 between the estimated provisions and actual for better financial discipline.

2.5 Recommendations

- *The Council may disclose head-wise breakup of consolidated opening and closing balances in the Annual Accounts so that assurance that the expenditure 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.*