

## 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 comprised of seven statements. A brief description of these seven statements 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 Disbursements 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

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 ₹ 201.49 crore from its own sources (including assistance of ₹ 96.49 crore received from State Government) and of ₹ 676.84 crore from the State Government for functions entrusted to it under Paragraph 3A of the Schedule of the Constitution. The receipts of ₹ 676.84 crore from the State Government was, however, incorrectly accounted under Part-II Deposit Fund.

b. Statement-1 also shows the summary of expenditure made, both from its own revenue (₹ 161.42 crore) and from State Government for entrusted functions (₹ 744.05 crore). The amount of ₹ 744.05 crore was, however, incorrectly shown under the Deposit Fund.

c. Statement-5, as prepared by the Council, did not show details of revenue by Major Heads for ₹ 676.84 crore received from the State Government for the entrusted functions which forms nearly 77 *per cent* of its total receipts. There is no Minor Head wise breakup in Statement-5. Consequently, 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 (₹ 161.42 crore). The details of expenditure of ₹ 744.05 crore (82 *per cent* of total expenditure) received from State Government were, however, not included in Statement-6 of the Annual Accounts by the Council.

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 the Government of Assam to NCHAC for subjects/departments entrusted to the Council have been accounted incorrectly under Part-II Deposit Fund but as a single line item with no breakup of either receipts 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. NCHAC is required to submit Monthly Accounts to Principal Accountant General (A&E) for funds transferred to it against Grant No. 77, based on which, the Appropriation Accounts is prepared. Appropriation Accounts of the said Grant indicated that during 2018-19, NCHAC had made a total expenditure of ₹ 95.74 crore towards Capital Outlay. However, as per Statement-2, NCHAC spent ₹ 26.69 crore only towards Capital Outlay. Thus, Annual Accounts of NCHAC did not provide the true and fair picture of the current and cumulative expenditure towards creation of capital assets as of March 2019.

Thus, it is evident that the Accounts lack transparency as the details regarding the receipts and expenditure from the funds<sup>4</sup> 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 NCHAC. NCHAC is required to rectify the mistake by correctly accounting its fiscal transactions from the funds received from State Government in the Annual Accounts as per the format prescribed by the CAG.

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<sup>4</sup> Approximately 77 and 82 *per cent* of total receipts and expenditure of the Council.

### 3.2.1 District Fund

#### 3.2.1.1 Understatement of receipts

Against the actual receipts of ₹ 24.49 lakh (details in **Appendix-IV**) under the head “Road and Transport Services”, NCHAC accounted for ₹ 17.95 lakh in the Annual Accounts, which led to understatement of receipts by ₹ 6.54 lakh.

The Principal Secretary, NCHAC stated (March 2022) during exit meeting that reasons for such understatement would be looked into and efforts would be made to avoid such lapses in future.

#### 3.2.1.2 Overstatement of Revenue/Capital expenditure

During 2018-19, NCHAC released ₹ 2.08 crore to the Transport department of the Council, which was spent towards Revenue expenditure (₹ 1.24 crore) and Capital expenditure (₹ 0.84 crore).

The Annual Accounts of 2018-19, however, exhibited Revenue expenditure of ₹ 1.99 crore and Capital expenditure of ₹ 1.37 crore in Statement-6 (24-Roads Transport Services) and Statement 2 (42-Capital Outlay on Road Transport Services) respectively. Thus, Revenue and Capital expenditure was overstated by ₹ 0.75 crore and ₹ 0.53 crore in Statement-6 and Statement-2 respectively in the Annual Accounts of 2018-19 as shown in **Table-3.2**:

**Table-3.2: Overstatement of Revenue/Capital expenditure**

(₹ in crore)

Funds received from NCHAC	Expenditure incurred by Transport Dept.		Expenditure shown in Annual Accounts		(+ ) Overstatement	
	Revenue	Capital	Revenue	Capital	Revenue	Capital
2.08	1.24	0.84	1.99	1.37	(+) 0.75	(+) 0.53

The Principal Secretary, NCHAC during exit meeting accepted the audit observation and stated (March 2022) that steps would be taken to avoid such errors in future.

#### 3.2.1.3 Incorrect exhibition of Progressive Capital Expenditure in Statement 2 of the Annual Accounts

Statement-2 (Progressive Capital Outlay) of the Annual Accounts should exhibit (i) total progressive expenditure to the end of previous year, (ii) expenditure during the current year and (iii) total progressive expenditure at the end of the current year.

It was noticed that as per Statement-2 of the Annual Accounts for the year 2014-15, total progressive Capital expenditure at the end of the year 2014-15 was ₹ 21.96 crore. However, Statement-2 of Annual Accounts for 2015-16 exhibited progressive expenditure of ₹ 0.08 crore at the beginning of 2015-16. This incorrect exhibition of opening balance resulted in understatement of Progressive Capital Outlay to the extent of ₹ 21.88 crore (₹ 21.96 crore – ₹ 0.08 crore) in Statement-2 of the Annual Accounts for 2015-16, which continued till 2016-17 as shown in the **Table-3.3**:

**Table-3.3: Understatement Progressive Capital Outlay****(In ₹)**

	<b>40- CO on public works</b>	<b>41- CO on roads &amp; bridge</b>	<b>42- CO on Road Transport Services</b>	<b>Total</b>	<b>Shown in Annual Accounts</b>	<b>Understatement</b>
Expenditure to end of 2014-15	14,75,44,505	45,33,000	6,75,14,531	21,95,92,036	21,95,92,036	0
Expenditure during 2015-16	50,89,100	--	99,25,236	1,50,14,336		
Expenditure to end of 2015-16	15,26,33,605	45,33,000	7,74,39,767	23,46,06,372	1,58,05,013	21,88,01,359
Expenditure during 2016-17	1,29,70,439	--	1,84,19,015	3,42,09,872		
Expenditure to end of 2016-17	16,56,04,044	45,33,000	9,58,58,782	26,59,95,826	4,64,03,790	21,95,92,036

In the Annual Accounts of 2017-18, the error was rectified by showing the Progressive Capital Outlay of ₹ 26,59,95,826 being the expenditure to the end of 2016-17.

However, as observed in CAG's Report for the year 2016-17 vide Para-3.1.1.5, the Progressive Capital Outlay was further understated by ₹ 28,20,418 due to incorrect accounting of ₹ 1,29,70,439 in Statement-2 against actual expenditure of ₹ 1,57,90,857 during 2016-17 under Capital Outlay on Public Works. This observation was not taken into consideration while preparing the Annual Accounts for the year 2017-18. Thus, the Progressive Capital Outlay remained understated by ₹ 28.20 lakh in the Annual Accounts of 2017-18 as well as in the Annual Accounts of 2018-19.

The Principal Secretary, NCHAC stated (March 2022) during exit meeting that the matter would be examined in detail and corrected position would be exhibited in the next Annual Accounts.

### **3.2.2 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 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 and disbursement under Part-II Deposit Fund and overall closing balance of the Annual Accounts**

Rule 14(i) of the North Cachar Hills District Fund Rules, 1953 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 Cash Book as soon as they occur.

In contravention of the above, during 2018-19, a total fund of ₹ 5.44 crore, received by NCHAC from various departments of the State Government for various development projects/schemes, were directly credited in bank accounts with different banks instead of depositing into the Council's PDA. Details of date-wise credit of the amounts are given in **Table-3.4:**

**Table-3.4: Funds credited directly in Bank Account<sup>5</sup> without routing through PDA**

Date of credit	Amount (In ₹)	Received from	Purpose
21-02-2019	2,72,00,000.00	GoA (Finance Department)	Devolution grant under Fifth Assam State Finance Commission (1st Instalment)
20-03-2019	2,72,00,000.00		-do-(2nd Instalment)
<b>Total</b>	<b>5,44,00,000.00</b>		

The receipts, utilisation, and closing balance of the above funds were, however, not accounted for in the Annual Accounts of the Council. Thus, receipts and disbursement under Part-II Deposit Fund and overall closing balance of Annual Accounts for the year 2018-19 were understated to that extent.

The Principal Secretary, NCHAC stated (March 2022) during exit meeting that some funds were received through RTGS/NEFT/Direct Bank Transfer, which were kept in the bank accounts. Thus, these were not accounted for in PDA. The funds being central/state fund were kept in the bank for proper implementation of time bound schemes and UCs were submitted to the concerned departments.

The reply is not tenable as the funds were kept outside the PDA in violation of Fund Rules *ibid*.

### **3.2.2.2 Diversion of Entrusted funds**

The State Government releases State Owned Priority Development (SOPD) and Establishment Expenditure (EE) funds, appropriated under the Grant No. 77 as advance in two instalments in accordance with the terms of Office Memorandum dated 31 December 1996 entrusting the executive power in respect of 30 subjects/departments to the Council. During 2018-19, the GoA released ₹ 676.84 crore to NCHAC for entrusted functions. In addition, GoA released ₹ 60.00 lakh being Administrative Charge from Grant No. 70.

Test-check of Annual Accounts of NCHAC for the year 2018-19, and other relevant records revealed that the Council released ₹ 14.63 crore to different DDOs of entrusted departments as 7.5 *per cent* Administrative Charge (₹ 10.76 crore) and five *per cent* Contingency Charge, (₹ 3.87 crore) with a direction to withdraw and to deposit back to the Personal Deposit Account. This amount was treated as revenue receipts under the head of account “*Other General Economic Services*” in the Annual Accounts of the Council and was utilised for discharge of inherent functions in violation of the Fund Rules. However, no Government approval or authorisation for deduction of the funds allocated for entrusted departments was available for Audit verification.

On being pointed out, the Principal Secretary, NCHAC stated that the deduction was made in terms of Executive Committee resolution mainly for payment of salary of the Council employees under inherent functions.

Thus, deduction of ₹ 14.63 crore in spite of release of ₹ 60 lakh by GoA for expenditure towards Administrative/Contingency charge under inherent functions from funds

<sup>5</sup> Account No. xxxx7982, Punjab National Bank, Haflong.

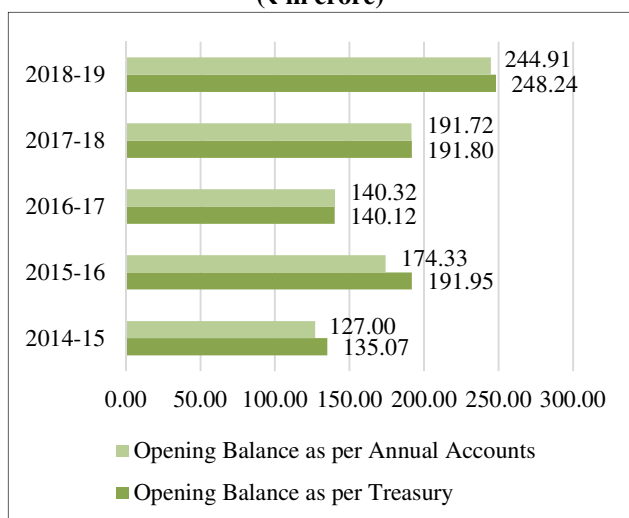
released for the entrusted functions, without approval of the Government, was unauthorised.

### 3.3 Personal Deposit Account

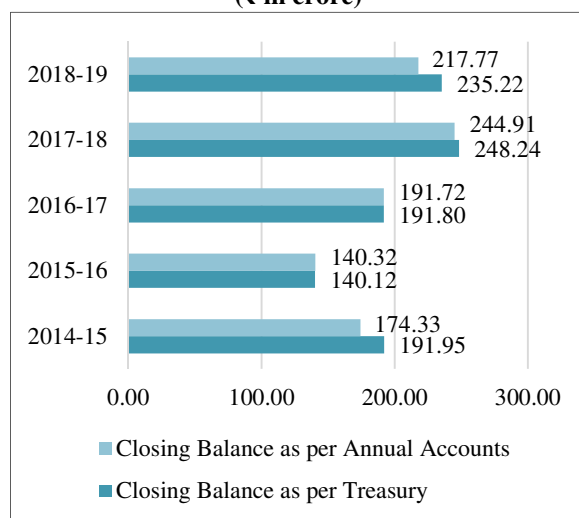
NCHAC maintains a Personal Deposit Account (PDA) with the Haflong Treasury, into which all receipts of NCHAC are credited and from which withdrawals for all expenditure are made. The balance held in PDA as per Cash Book as on 31 March of each financial year was required to be reconciled with the balance 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 persisted despite being pointed out in previous Audit Reports and NCHAC needs to take appropriate steps to carry out the required reconciliation.

The Principal Secretary, NCHAC stated (March 2022) during exit meeting that necessary reconciliation would be done and intimated to Audit at the earliest. However, no such intimation was received from the Council (May 2023).

#### 3.3.1 Overstatement of overall receipts

Annual Accounts for the year 2018-19 showed total receipts of ₹ 878.33 crore as overall receipts during the year. Cross-check of the overall figures with the treasury receipts schedules for the period from April 2018 to March 2019, however, showed that the total receipts during the year was ₹ 873.17 crore as detailed in **Table-3.5:**

**Table-3.5: Month-wise receipts as per treasury****(In ₹)**

<b>Month</b>	<b>Treasury Receipts</b>
April 2018	2,00,82,97,522.00
May 2018	2,02,31,508.00
June 2018	3,46,68,543.00
July 2018	2,03,58,351.00
August 2018	88,87,51,284.00
September 2018	8,65,82,671.00
October 2018	2,15,42,52,730.00
November 2018	83,12,32,171.00
December 2018	7,38,76,895.00
January 2019	16,35,47,390.00
February 2019	77,41,09,969.00
March 2019	1,67,57,74,056.00
<b>Total of 2018-19</b>	<b>8,73,16,83,090.00</b>

This indicates that the overall receipts were overstated in the Annual Accounts by ₹ 5.16 crore (₹ 878.33 crore - ₹ 873.17 crore) during 2018-19.

The Principal Secretary, NCHAC stated (March 2022) during exit meeting that steps would be taken to avoid such types of errors in future.

### **3.4 Conclusion**

The audit of accounts of NCHAC for 2018-19 disclosed that:

- i. Form of Accounts followed by NCHAC 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. Bookkeeping (accounting) was weak and required further strengthening. Many cases of discrepancies and lack of reconciliation with collateral records and under/overstatement of receipts/expenditure were noticed in the Annual Accounts.
- vi. Non-reconciliation of figures booked in the cash book with those of the Treasury reflects poor control system affecting the accuracy of accounts.

### **3.5 Recommendations**

- *The 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.*
- *The Council needs to maintain ledger account, which should be the basis of compiling the Annual Accounts.*
- *The 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.*
- *The 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.*