

SUPREME AUDIT INSTITUTION OF INDIA लोकहितार्थ सत्यनिष्ठा Dedicated to Truth in Public Interest

Report of the Comptroller and Auditor General of India For the year ended 31 March 2020



Khasi Hills Autonomous District Council, Shillong, Meghalaya

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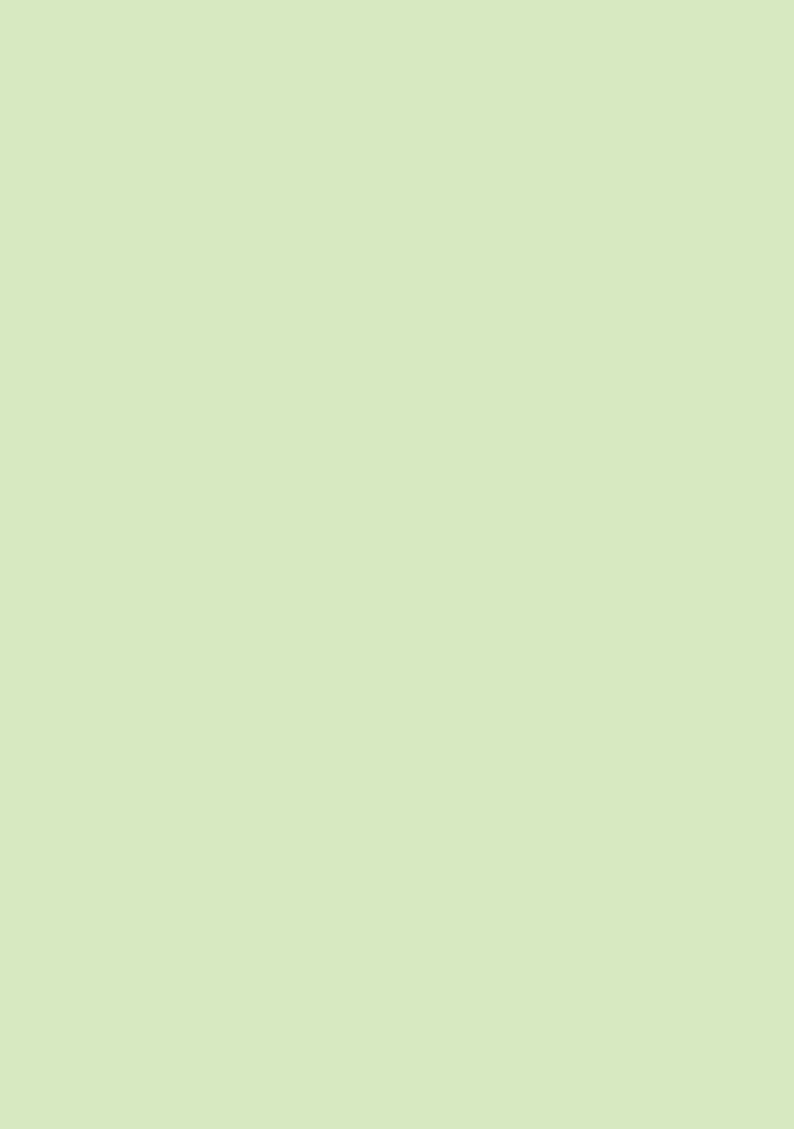
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PREFACE

This Report has been prepared for submission to the Governor of Meghalaya under Paragraph 7(4) of the Sixth Schedule to the Constitution of India. It relates mainly to the issues arising from the audit of the Annual Accounts as also of the transactions of the Khasi Hills Autonomous District Council, Shillong, Meghalaya for the year 2019-20.

- 2. The cases mentioned in this Report are those which came to notice in the course of test check of the accounts of the Council for the year 2019-20.
- 3. This Report contains four Chapters, the first of which deals with the Constitution of the Khasi Hills Autonomous District Council, the rules for the management of the District Fund and maintenance of accounts by the District Council. Chapter-II depicts ADC Funds position. Chapter-III deals with the Comments on Accounts, Chapter-IV deals with compliance issues during test-audit of the transactions of the Council for the year 2019-20.

OVERVIEW



OVERVIEW

This Report contains four Chapters. Chapter I provides a background on the formation of the Autonomous District Council, rules for the management of the District Fund and relevant constitutional provisions on maintenance of Accounts. Chapter II gives an overview on the financial position of the Council and budgetary process during the year. Chapter III deals with the audit comments on annual accounts of the Council for the year 2019-20. Chapter IV of the Report deals with compliance issues during test-audit of the transactions of the Council for the year 2019-20.

A synopsis of the important findings contained in the Report is presented below:

1. Internal Control

An evaluation of internal control system in the Council revealed persistent irregularities like discrepancy in cash balances as per annual accounts, retention of heavy cash balances, delay in depositing the Council's revenue and improper upkeep of accounting records including Cash Book, *etc*.

(Paragraph 1.6)

2. Autonomous District Council Funds

KHADC generated 19 *per cent* of the total revenue receipts of ₹ 96.23 crore from its 'own sources' during 2019-20, while Grants-in-Aid from GoI constituted 81 *per cent* of the total revenue receipts. This indicates absolute dependence of the KHADC on Grants-in-Aid of the GoI during the year.

(Paragraph 2.2)

Out of the total available funds of ₹ 237.12 crore during 2019-20, the KHADC could spend only 22 *per cent* as revenue expenditure (₹ 52.37 crore) and seven *per cent* of it as capital expenditure (₹ 17.67 crore).

Capital Expenditure of KHADC during 2019-20 has decreased by 74 *per cent* from ₹ 69.00 crore in 2018-19 to ₹ 17.67 crore in 2019-20. The decrease in capital expenditure during 2019-20 was seen across all departments.

{(Paragraph 2.2.1.1(B) & (C)}

During 2019-20, the actual receipts and expenditure of the KHADC fell short of the BE by 55 *per cent* and 67 *per cent* respectively.

The shortfall in actual receipt against budget estimate was mainly due to shortfall receipt of GIA from GoI and GoM (₹ 84 crore), share of taxes on mines & minerals (₹ 31.47 crore) and share of taxes on vehicles (₹ 6.00 crore).

(Paragraph 2.3)

Recommendations

- The Council needs to improve the collection efficiency of revenue from own sources by implementing robust monitoring mechanisms like maintaining up-to-date database of all assessees to bring to an end to the leakage of revenue.
- The KHADC and the State Government should keep in place a mechanism which ensure sharing of information to the Council of the royalty on minor minerals being collected during the year vis-à-vis the due amount to be released to the Council.
- The Council need to improve its capital spending and efficiently and timely implement schemes. The Council also needs to strengthen its capacity in commensuration with its proposals and budget provisions.
- The Council may undertake detailed budgetary analysis and reviews to identify untapped eligible revenue resources and for estimating revenue receipts more accurately.

3. Comments on Accounts

Cash Book of the Council was merely restricted to disbursement of salaries to Staff and was not closed and authenticated by the Secretary daily as required under Rule 16 (ii) & (iii) of the United Khasi and Jaintia District Council Fund Rules, 1952.

(Paragraph 3.1)

There were discrepancies in the Closing Balances of PLA at Treasury with that of the Annual Accounts for which the reconciliation was carried out by the Council in excess of the difference amount. The differences have not been reconciled by the Council.

(Paragraph 3.2)

Council deposited revenue receipts into treasury in the next following month. As a result, the revenue receipts for the month of March were accounted for in next financial year in violation of Council Rules. This resulted in understatement of revenue receipts to the tune of ≥ 3.07 lakh.

(Paragraph 3.3)

Recommendations

- The Council may ensure proper maintenance of Cash Book to ensure accountability for public money.
- The Council may reconcile the differences with Treasury before finalising Annual Accounts.
- The Council may ensure prompt credit of revenue receipts to Treasury and account for receipts pertaining to a financial year in the same accounting year.
- The Council may reconcile the differences in next financial year.

4. Compliance Audit Observations

Despite the growth in the Council's revenue from Professional Tax (PT), Audit noticed various system deficiencies and internal controls issues such as (i) Council lacked a systematic method for categorising, identifying, and quantifying the number of taxpayers liable to pay professional tax; (ii) Council did not have the data on the number of traders and business houses liable to pay tax, it accepted returns without supporting documents of declaration of gross annual income; (iii) Council also did not maintain any account of total amount of tax collected from the State Government offices. As such, it had no records to monitor the receipt of PT from the State Government offices, *etc*.

(Paragraph 4.1)

Council made eight direct appointments to various posts without following Recruitment Rules, advertisements and without conducting competitive examinations.

(Paragraph 4.2)

There were delays in remittance of revenue amounting to ₹ 29.84 lakh into Treasury ranging from 32 to 77 days.

(Paragraph 4.3)

There was irregular payment of ₹ 1.50 crore on engagement of a consultancy services.

(Paragraph 4.4)

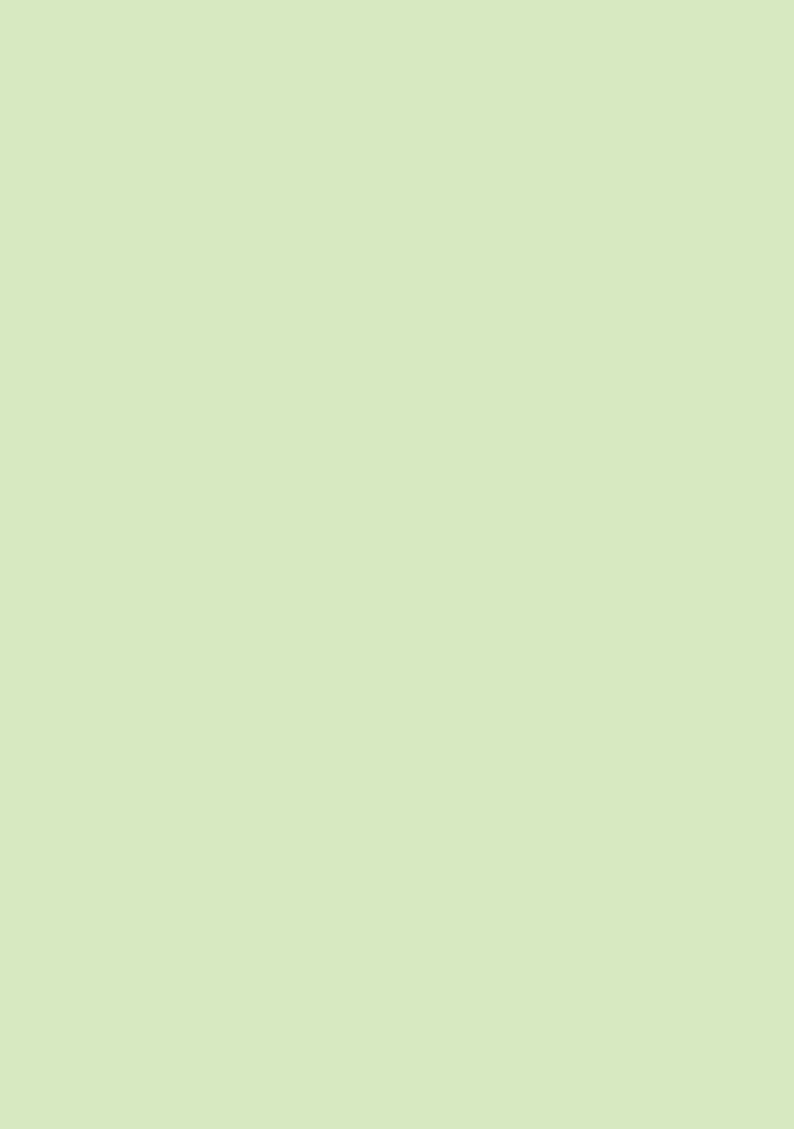
Recommendations

- The KHADC should put in place mechanisms of collecting updated data on eligible taxpayers. In addition, the Council should institute a system of periodical survey by the inspection officers to ensure that all eligible taxpayers have been duly registered.
- The Council needs to insist on filing of returns in the manner and as per provisions of the Act.
- The assessing authority needs to assess the returns and correctly maintain its assessment register.
- > The Council should implement IT system to enhance database of assessees.
- Non-adherence to the recruitment policy creates opportunities for favouritism in the hiring process. In order to maintain fair competition for selection of deserving candidates, the Council may follow recruitment rules.
- The Council may put in place systems to ensure timely remittance of receipts to the treasury to prevent risk of temporary misappropriation of Council funds due to delayed remittances /non-deposit of the collected revenue.
- ➤ KHADC should investigate on the selection process of M/s TA Consultancy Services and also hold the concerned person(s) accountable for making irregular payment

to the firm for works which were actually done by the Technical Branch of the Council.

➤ KHADC must constitute Public Accounts Committee to take time bound action on the audit observations pointed out in the Audit Reports to ensure financial discipline and good governance in the conduct of the affairs of the KHADC.

CHAPTER-I Constitution, Rules and Maintenance of Accounts



CHAPTER - I

Constitution, Rules and Maintenance of Accounts

1.1 Profile of Khasi Hills Autonomous District Council

The United Khasi and Jaintia Hills District Council was set up in June 1952 under Article 244 (2) read with the Sixth Schedule to the Constitution of India. The Council was bifurcated in 1967 and the Jowai District Council was carved out of it. In 1973, the United Khasi and Jaintia Hills District Council and the Jowai District Council were renamed as Khasi Hills District Council and Jaintia Hills District Council, respectively.

The Sixth Schedule to the Constitution of India (Schedule) provides for administration of specified tribal areas. For that purpose, it provides for the constitution of a District Council for each autonomous district with powers to make laws on matters listed in Paragraph 3 (1) of the Schedule mainly in respect of allotment, occupation, use *etc.*, of land, management of forests other than reserve forests, use of any canal or water courses for agriculture, regulation of the practice of '*Jhum*' or other forms of shifting cultivation, establishment of village or town committees or Councils and their powers, village or town administration including police, public health and sanitation and inheritance of property.

Paragraph 6 (1) of the Schedule empowers the Councils to establish, construct or manage primary schools, dispensaries, markets, cattle pounds, ferries, fisheries, roads, road transport and waterways in the respective autonomous districts. Paragraph 8 of the Schedule further empowers the Councils to assess, levy and collect within the autonomous districts, revenue in respect of land and buildings, taxes on professions, trades, callings and employments, animals, vehicles and boats, tolls on passengers and goods carried in ferries and taxes for the maintenance of schools, dispensaries or roads.

Khasi Hills Autonomous District Council (KHADC) consists of 30 Members including 29 elected Members and one Member nominated by the Governor on the recommendation of the Chief Executive Member (CEM). The Council is headed by a Chief Executive Member. KHADC is headquartered at Shillong, Meghalaya. During 2019-20, there were full complement of members in the Council.

1.2 Rules for the management of the District Fund

The Sixth Schedule provides for the constitution of a District Fund for each autonomous district to which all moneys received by the Council in the course of administration of the district is to be credited, in accordance with the provisions of the Constitution.

In terms of Paragraph 7 (2) of the Sixth Schedule, Rules are to be framed by the Governor for the management of the District Fund and for the procedure to be followed in respect of payment of money into the said Fund, withdrawal of moneys therefrom, custody

¹ A form of shifting agriculture practice.

of moneys therein and any other matter connected with or ancillary to these matters. The United Khasi and Jaintia Hills District Council Fund Rules, 1952 (which had been framed by the erstwhile United Khasi and Jaintia Hills District Council for management of the District Fund) are being followed by the Council.

1.3 Maintenance of Accounts and Audit Arrangements

In pursuance of Paragraph 7 (3) of the Sixth Schedule to the Constitution of India, the form in which the accounts of the District Council are to be maintained was prescribed by the Comptroller and Auditor General of India (CAG) with the approval of the President of India in April 1977.

In terms of Paragraph 7 (4) of the Sixth Schedule of the Constitution, the CAG shall cause the accounts of the District Council to be audited in such manner as he may think fit, and the reports of the CAG relating to such accounts shall be submitted to the Governor who shall cause them to be laid before the Council.

The Fund Rules of the Jaintia and Garo Hills Autonomous District Council (JHADC and GHADC respectively) stipulate that the Annual Financial Statement shall be prepared by the member-in-charge of financial affairs and forwarded to the Principal Accountant General (PAG) by 30th June each year. **The Fund Rules of the KHADC, however, did not mention any prescribed date for submission of the Annual Accounts to the PAG.** The accounts of the Council for the year 2019-20 were submitted to the PAG in June 2022, with a delay of almost one year.

In response, the Secretary to the Executive Committee of KHADC, Shillong stated (August 2023) that each council maintains its unique identity, framing their own rules based on specific contextual factors. Proposed amendments necessitate justification and presentation before the House. Hence, mere comparisons are not deemed sufficient. Further, delay in submission of Annual Accounts for the year 2019-20 was due to Covid-19 lockdown.

Audit is of the view that all the three ADCs have been constituted based on the Constitutional Provisions and are mandated to carry out their functions as per these Constitutional Provisions. The Fund Rules followed by KHADC was adopted on 26 November 1952 and has not been updated for more than 70 years. Thus, non-inclusion of clause in the Fund Rules cannot be allowed to submit accounts as per the convenience of KHADC. Audit therefore recommends that the Fund Rules of KHADC should be amended on the lines of GHADC/JHADC Fund Rules prescribing 30 June as the stipulated date of submission of Accounts. Submission of Annual Accounts by 30th June should be uniform across all three ADCs.

Audit further noticed that the Council had in position 19 accounts staff (March 2020) including two staff deployed for internal audit functions (**Appendix-I**). There was no vacancy in Finance and Accounts Department of the Council, and all the staff deployed for Accounts and Audit were trained for their respective works. Despite availability of trained staff as per sanctioned strength, Audit has seen persistent shortcomings in maintenance of accounts such as non-maintenance of

relevant records, misclassification of receipts and expenditure and deficiencies in cash management by the Council.

Financial statements are a structured representation of the financial position and financial performance of an entity. The objective of financial statements is to provide information about the financial position, financial performance and cash flows of an entity that is useful to the stakeholders in making and evaluating decisions about the allocation of resources. Due to delay in preparation of accounts coupled with deficiencies in Financial Statements, the appropriateness of utilisation of resources could not be assessed.

The Council may take suitable action against officials responsible for delay in preparation of Annual Accounts and take appropriate steps to prepare up-to-date Financial Statements in future. In addition, if needed, the available manpower can be further upskilled by using the available State training facilities in co-ordination with the District Council Affairs Department. Further, the Council may also take necessary steps to prescribe the timeline for submission of Annual Accounts to the Principal Accountant General (Audit).

1.4 Administrative set-up of the Council

There is an Executive Committee of the District Council with the Chief Executive Member at the head, and one or more but not exceeding ten other Members to exercise the functions hereinafter specified in ADC Rules. The Chief Executive Member is elected by the District Council and the other Executive Members are appointed by the Governor on the advice of the Chief Executive Member from amongst the members of the District Council. There is a Secretary to the Executive Committee appointed by the Chief Executive Member.

The functions of the Council are administered through nine Departments listed as below:

- (i) General Administration Department
- (ii) Law Department
- (iii) Revenue, Budget & Finance Department
- (iv) Forest Administration Department
- (v) Education Department
- (vi) Civil Works & Development Department
- (vii) Enforcement scheme for protection of Tribal Law & Interest Department
- (viii) Legislative Department and
- (ix) Administration of Justice Department

The flow chart of the administrative hierarchy of the Council is depicted in **Chart 1.1:**

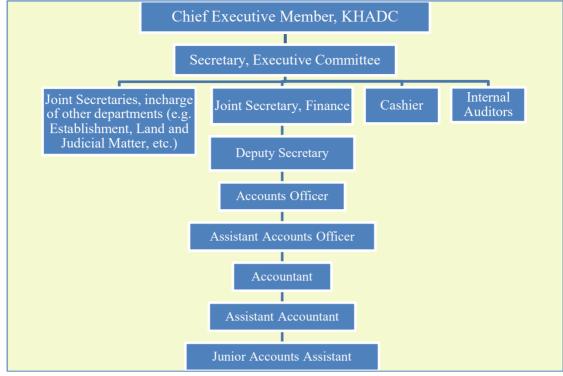


Chart 1.1: Administrative Set-up of KHADC

Source: KHADC records.

In addition, there is a Secretary to the Legislative Council who heads the Legislative Wing and a Judge who heads the District Council Court.

1.5 Human Resources of the Council

Rule 126 of the United Khasi-Jaintia Hills District Fund, Rules, 1952, states that 'early in April each year, a detailed statement of the permanent establishment existing on the 1st April shall be prepared in such form in such manner as prescribed in Appendix IX and kept on record in the Council Office. This was however, not furnished despite being called for (October-December 2022).

The Secretary to the Executive Committee, KHADC in reply (August 2023), has accepted details of existing staff has not been updated by the Establishment Department for a quite long time and assured that detailed statement as required under Rule 126 of the United Khasi & Jaintia District Fund Rules, 1952 will be complied.

As on March 2020, KHADC had a total staff strength of 714 employees as against total sanction strength of 715. The department-wise sanctioned strength and men-in-position as on 31 March 2020 is shown in **Appendix-II**.

Major placement of the staff was in General Administration Department with 163 staff, Revenue, Budget & Finance Department with 104 staff, Forest Administration Department with 143 staff and Enforcement Department with 90 staff.

1.6 Internal Control

Internal control system in an organisation ensures that proper checks and procedures are in place for efficient and effective discharge of its mandate, reliability of its financial reporting and compliance with applicable laws and regulations.

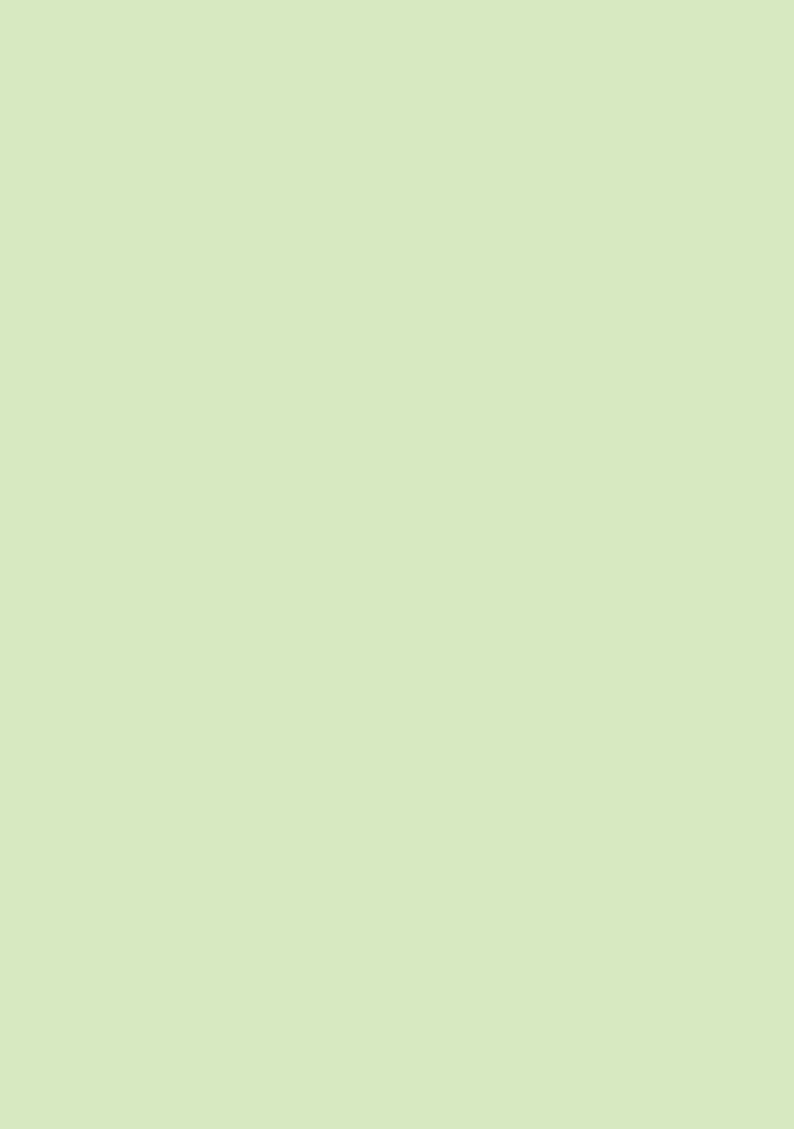
An evaluation of internal control system in the Council revealed that internal control mechanism for financial management was inadequate, which is evidenced from persistent irregularities like discrepancy in cash balances as per annual accounts, retention of heavy cash balances, delay in depositing the Council's revenue, irregular appointment, *etc.* as discussed in the succeeding Chapters.

Besides it was also seen that there were instances of:

- Improper maintenance of Cash Book;
- Non-maintenance of registers and absence of physical verification of assets;
- Discrepancies in closing balance in Personal Ledger Account in treasury;
- No data on the number of assessees, their gross annual income and the actual amount of Professional Tax deposited by assessees.

Effective internal control reduces the risk of asset loss and helps to ensure that information is complete and accurate, financial statements are reliable, and day-to-day operations are conducted in accordance with the provisions of applicable laws and regulations. The Council may establish a strong internal control system for good governance.

CHAPTER-II Autonomous District Council Funds



CHAPTER – II Autonomous District Council Funds

2.1 Introduction

The Sixth Schedule provides for a District Fund for each autonomous district and a Regional Fund for each autonomous region 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 the Autonomous District Council has been constituted under the provisions of sub- paragraph (I) of Paragraph 7 of the Sixth Schedule to the Constitution of India.

The ADC fund comprises receipts from its own resources and shared revenue and grants/loans & advances from the State/Central government. Broad classification is as discussed below:

A. District Fund

District Fund is maintained in two parts namely: (i) Revenue Section for revenue receipts and expenditure and (ii) Capital Section for capital receipts and expenditure, Public Debt, Loans and Advances. Revenue Section comprises of proceeds of taxation and other receipts classed as revenue and expenditure met therefrom. It also includes grants and contributions received from the Government and grants and contributions by the Council. Capital Section comprises of expenditure of capital nature¹ met from borrowed funds. Loans received and their repayments by the Council and loans and advances and their recoveries by the Council are also a part of this division.

B. Deposit Fund

Deposit Fund covers transactions relating to Deposits, General Provident Fund (GPF), other funds and advances such as Cess, Income Tax, 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.

2.2 Receipts and Disbursement

The receipts and expenditure of KHADC for the year 2019-20 were as depicted in **Table 2.1.**

Expenditure incurred for acquiring fixed assets that can be used for a longer duration.

Table 2.1: Summarised position of Accounts for the year 2019-20

(₹ in crore)

		Y	Y		cin crore,
2018-19	Receipts			Disbursement	2019-20
	PAR	T –I DIS	TRICT	FUND ²	
		Revenu	ie Section	n	
11.26	(i) Taxes on Income and	11.07	1.31	(i) District Council	1.27
11.20	Expenditure	11.97	1.29	(ii) Executive members	1.01
0.49	(ii) Land revenue	0.34	0.84	(iii) Land Revenue	0.87
12.74	(iii) Taxes on vehicles	0^{3}	3.26	3.26 (iv) Administration of Justice	
0.33	(iv) Other Administrative Services	0.32	5.80	(v) Pension & Retirement benefit	5.70
2.09	(v) Other General Economic Services	0.36	0.06	(vi) Relief on account of natural Calamities	0.25
2.22	(vi) Forests	2.35	7.35	(vii) Forest	7.04
22.72	(vii) Mines & Minerals	1.534	22.75	(viii) Secretariat General Services	23.50
0.01	(viii) Stationery and Printing	0.01	0.77	(ix) Education	0.19
0.06	(ix) Public works	0.03	4.90	(x) Public works	7.67
	(x) Grants-in-Aid received from		0.06	(xi) Public Health Sanitation & Water Supply	0.01
9.85	GoI ⁵	77.78	1.73	(xii) Arts & Culture	0.15
0.10	State Government	0.01	0.76	(xiii) Information & Publicity	0.03
			7.59	(xiv) Social Security & Welfare ⁶	0.55
			0.10	(xv) Minor Irrigation	0
2.79	(xii) Interest Receipts	1.53	0.01	(xvi) Other General Economic Services	0.22
			-	GST	0.287
64.66	Total Revenue Receipt	96.23	58.59	Total Revenue Expenditure	52.37
0	Revenue Deficit	0	6.08	Revenue Surplus	43.86
	2. Capital			2. Capital Outlay	
			9.80	(i) Public Works ⁶	0.45
			8.72		5.81
			6.22	(iii) Public Health and Sanitation	1.06
				(iv) Social Security and Welfare ⁶	4.59
0		0	3.57	(v) Other General Economic Services	0.61
			0.12	(vi) Fisheries	0
				(vii) Minor Irrigation	0
				(viii) Roads and Bridges ⁶	5.15
0	Total Capital	0	69.00	Total Capital Outlay	17.67
0	3. Debt	0		3. Debt	0
0.11	4. Recoveries of loans and advances	0.02	0	4. Disbursement of loans and advances	0
64.77	Total of Part – I	96.25	127.59	Total of Part - I	70.04

² To which shall be credited all money received by KHADC in the course of Administration of the District in accordance with the provisions of the Constitution.

³ During the year, the Council did not receive any amount under share of taxes on vehicles from the State Government.

⁴ During 2018-19, against the share of royalty of ₹ 22.72 crore on mines and minerals, KHADC received only ₹ 1.53 crore during the year 2019-20 as Share Taxes from the State Government.

⁵ Grants-in-Aid received from GoI (Areas not included in Part IX and IXA of the Constitution).

⁶ Lesser expenditure in 2019-20 compared to 2018-19 was due to less execution of construction work/improvement/repair works.

Expenditure reported under GST is the amount of two *per cent* deducted from contractor bills.

2018-19	Receipts	2019-20	2018-19	Disbursement	2019-20
	PAR	T – II DI	EPOSIT	FUND ⁸	
0.09 A. Deposits not bearing interest – (a) Security Deposit		0.15	0.14	A. Deposits not bearing interest- (a) Security Deposit	0.11
0	B. Civil Advances/ Departmental Advances	0	0	B. Civil Advances/Departmental Advances	0
2.61	C. Deposit bearing interest – (a) Term Deposit	5.58	0	C. Deposit bearing interest – (a) Term Deposit	0
2.70	Total of Part-II Deposit Fund	5.73	0.14	Total of Part-II Deposit Fund	0.11
67.47	Total Receipts (Part I+II)	101.98	127.73	Total Disbursements (Part I+II)	70.15
195.40 Opening Balance		135.14	135.14	Closing Balance	166.97
262.87	Grand Total	237.12	262.87	Grand Total	237.12

Source: Annual Accounts of KHADC.

It is seen from **Table 2.1** that the total revenue receipts of KHADC during 2019-20 has increased to ₹ 96.23 crore, a sharp rise of 49 *per cent* as compared to ₹ 64.66 crore during 2018-19. This was primarily due to the following reasons:

- (i) GoI's Grants-in-Aid which increased by 690 *per cent* from to ₹ 9.85 crore during 2018-19 to ₹ 77.78 crore during 2019-20.
- (ii) Taxes on Income and Expenditure increased by six *per cent* from to ₹ 11.26 crore during 2018-19 to ₹ 11.97 crore during 2019-20.
- (iii) Forest receipts increased by six *per cent* from to ₹ 2.22 crore during 2018-19 to ₹ 2.35 crore during 2019-20.

During 2019-20, the share of Grants-in-Aid (₹ 77.79 crore) constituted 81 *per cent* of the total revenue receipts (₹ 96.23 crore) of the KHADC against its own collection of ₹ 18.44 crore (19 *per cent*), which indicates absolute dependence of the KHADC on Grants-in-Aid during the year. Out of ₹ 77.79 crore received as GIA (areas not included in Part IX and IXA of the Constitution), ₹ 50.18 crore pertains to the year 2018-19 and remaining ₹ 27.61 crore for the year 2019-20.

It is also seen that the total revenue expenditure of KHADC was 54 *per cent* (₹ 52.37 crore) against the total revenue receipts of ₹ 96.23 crore during 2019- 20 as compared to 919 *per cent* during 2018-19, which indicates the incapability's of the KHADC to utilised the available fund. The reason for the decrease in revenue expenditure was mainly due to less execution/ implementation of schemes¹⁰ under 'Social Security and Welfare' which decreased by 93 *per cent* from ₹ 7.59 crore in 2018-19 to ₹ 0.55 crore during 2019-20.

⁸ Security deposits, departmental advances and terms deposits are usually kept under Deposit Fund.

⁹ ₹ 58.59 crore out of ₹ 64.66 crore.

¹⁰ Improvement of school buildings, durbar hall, playgrounds, *etc.* and purchase of materials (public announcement system).

2.2.1 Sources and application of funds

KHADC collected its revenue through:

- Taxes on Profession, Trades & Employments, Other Administrative Services, Other Economic General Services, *etc.*;
- Share of taxes placed by the State Government on Taxes on Vehicles, Forest and Mines & Minerals; and,
- Resources made available by the State Government through the State Plan.

A comparative statement of sources and application of funds of the Council during 2019-20 with 2018-19 is given in **Table 2.2.**

Table 2.2: Sources and application of fund during 2018-20

(₹ in crore)

Particulars		2018-19	2019-20	Increase (+) /Decrease (-) (in %)
(Opening Cash Balances			(-) 30.84
	Own Revenue Receipts	54.71	18.44	(-) 66.30
	Grants-in-Aid (GoI)	9.85	77.78	(+) 689.64
	Grants-in-Aid (GoM)	0.10	0.01	(-) 90.00
Sources	Total Revenue Receipts	64.66	96.23	(-) 48.82
Sources	Capital Receipts			
	Recoveries of Loans and Advances	0.11	0.02	(-) 81.82
	Receipts under Deposit Fund	2.70	5.73	(+) 112.22
	Total	67.47	101.98	(+) 51.15
	Revenue Expenditure	58.59	52.37	(-) 10.62
	Capital Expenditure	69.00	17.67	(-) 74.39
Application	Disbursement of loans and advances	-	-	-
	Disbursement under Deposit Fund	0.14	0.11	(-) 21.43
	Total (Disbursement)	127.72	70.15	(-) 45.08
	Closing Cash Balance	135.14	166.97	(+) 23.55

Source: Annual Accounts of KHADC.

It is seen from the table above that during 2019-20, KHADC generated ₹ 18.44 crore (19 per cent) from its own sources, which comprises of ₹ 16.91 crore¹¹ collected directly by it and only ₹ 1.53 crore¹² received as its share of 'royalty' from the State Government. Revenue from KHADC own sources collected directly by it (₹ 16.91 crore) however declined during the year from 30 per cent of total revenues in 2018-19 (₹ 19.25 crore) to 17 per cent of total revenues in 2019-20 which is mainly due to less receipt of bank interest as compared to previous year.

Revenue from own source: – ₹ 16.91 crore: (Taxes on income & expenditure: ₹ 11.97 crore, Land Revenue: ₹ 0.34 crore, Interest Receipt: ₹ 1.53 crore, Other Administrative Services: ₹ 0.32 crore, Other General Economic Services: ₹ 0.36 crore, Forest: ₹ 2.35 crore, Public Works: ₹ 0.03 crore and Stationery and Printing: ₹ 0.01 crore).

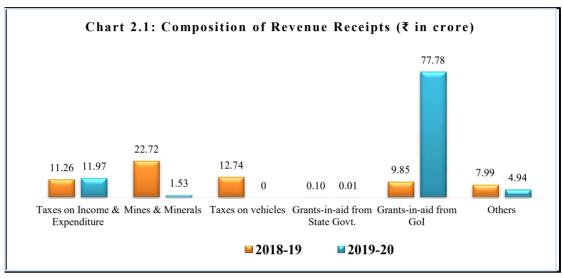
¹² Share of Taxes: – ₹ 1.53 crore: (Mines and Minerals only).

2.2.1.1 Availability of funds and expenditure

The revenue receipts and revenue expenditure of KHADC during 2019-20 is analysed below:

(A) Revenue receipts

Chart 2.1 below summarise the revenue receipts of KHADC during 2019-20 with 2018-19.



Source: Annual Accounts of KHADC.

As evident from **Chart 2.1**, the total revenue receipts of KHADC increased by 49 per cent from ₹ 64.66 crore (2018-19) to ₹ 96.23 crore during 2019-20. The improvement in revenue receipts during 2019-20 was primarily due to increase in Grants-in-aid from GoI by 690 per cent as compared to 2018-19. However, revenue receipts under Mines & Minerals (share of royalty) and Taxes on vehicles received from the State Government have sharply declined by 93.27 per cent and 100 per cent respectively as compared to the previous year due to non-receipt of shares from the State Government. The receipt of revenue in the form of share of royalty on mines & minerals and share of taxes on vehicles are one of the major sources of revenue of the KHADC, however the same has been showing a declining trend from 61 per cent of the total revenue receipts during 2017-18 to two per cent during 2019-20 as detailed in **Table 2.3**.

Table 2.3: Summarised position of share of taxes/royalty

(₹ in crore)

	Total Revenue	Share of taxes/royalty					
Year	Receipt	Share of Royalty on Minerals	Taxes on Vehicles	Total (3+4)	Percentage (5x100÷2)		
(1)	(2)	(3)	(4)	(5)	(6)		
2017-18	127.85	71.84	6.71	78.55	61		
2018-19	64.66	22.72	12.74	35.46	55		
2019-20	96.23	1.53	0	1.53	2		

Source: Annual Accounts of KHADC.

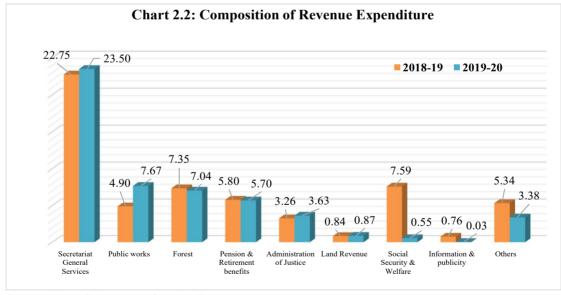
Despite the importance of revenue from share of royalty/taxes to the revenue health of the Council, the KHADC has no information on the amount of royalty collected by the State Government and its due share. In fact, no mechanism was found to have been in place to ensure that the amount of royalty on minor minerals and taxes on vehicles being released by the State Government was the actual amount due and that it was released on time.

(B) Revenue expenditure

During 2019-20, KHADC had incurred ₹ 52.37 crore out of total revenue receipts of ₹ 96.23 crore which represent expenditure of 54 *per cent* as compared to 91 *per cent* during 2018-19. The decrease in revenue expenditure during 2019-20 is due to less implementation of works and less purchases than the previous year. **Table 2.4** and **Chart 2.2** summarise the revenue expenditure of KHADC during 2018-19 and 2019-20.

Table 2.4: Summarised position of revenue expenditure for the year 2019-20 (₹ in crore)

Head	2018-19	2019-20 (%)		
Secretariat General Services	22.75	23.50 (45)		
Public Works	4.90	7.67 (15)		
Forest	7.35	7.04 (13)		
Pension and Retirement benefits	5.80	5.70 (11)		
Administration of Justice	3.26	3.63 (07)		
Land Revenue	0.84	0.87 (02)		
Social Security & Welfare	7.59	0.55 (01)		
Information & publicity	0.76	0.03 (0)		
Others ¹³	5.34	3.38 (06)		
Total	58.59	52.37 (100)		



Source: Annual Accounts of KHADC.

It is seen from **Table 2.4** and **Chart 2.2** that the total revenue expenditure of KHADC decreased by 12 *per cent* from ₹ 58.59 crore in 2018-19 to ₹ 52.37 crore in 2019-20.

Includes District Council, Executive Members, Relief on account of Natural Calamities, Arts & Culture, Public Health Sanitation & Water Supply, Education, Minor irrigation and Other General Economic Services.

The decrease in revenue expenditure during 2019-20 was primarily due to decrease in expenditure under Information & Publicity from ≥ 0.76 crore in 2018-19 to ≥ 0.03 crore in 2019-20 (96 *per cent*) and Social Security & Welfare from ≥ 7.59 crore in 2018-19 to ≥ 0.55 crore in 2019-20 (93 *per cent*).

Further, during 2019-20, Secretariat General Services (45 per cent), Public Works (15 per cent) and Forest (13 per cent) together accounted for 73 per cent of the revenue expenditure leaving small percentage for other heads of expenditure including important heads such as Land Revenue, Social Security & Welfare and Public Health Sanitation & Water Supply.

(C) Capital expenditure

Table 2.5 summarise the capital expenditure of KHADC during 2018-19 and 2019-20.

Table 2.5: Summarised position of Capital expenditure

(₹ in crore)

Sl. No.	Capital Expenditure	2018-19	2019-20
1	Public Works	51.51	12.52
	(i) Public Works	9.80	0.45
	(ii) Arts & Culture	8.72	5.81
	(iii) Public Health and Sanitation	6.22	1.06
	(iv) Social Security and Welfare	22.97	4.59
	(v) Other General Economic Services	3.57	0.61
	(vi) Fisheries		0.00
	(vii) Minor Irrigation	0.11	0.00
2	Roads and Bridges	17.49	5.15
	Total	69.00	17.67

It is seen from **Table 2.5** that the capital expenditure of KHADC during 2019-20 has decreased by 74 *per cent* from $\stackrel{?}{\sim}$ 69.00 crore in 2018-19 to $\stackrel{?}{\sim}$ 17.67 crore in 2019-20. The decrease in capital expenditure during 2019-20 was seen across all departments. Out of the total available funds of $\stackrel{?}{\sim}$ 237.12 crore during the year 2019-20, only seven *per cent* (*i.e.* $\stackrel{?}{\sim}$ 17.67 crore) was spent as Capital expenditure, which is quite low as compared to previous year. Reason for the same was not found on record.

(D) Grants-in-aid (GIA)

The Council received GIA from GoI and State Government for implementation of various schemes. The position of GIA received, and expenditure incurred by the Council during 2019-20 are as under:

Table 2.6: Summarised position of GIA expenditure

(₹ in lakh)

S1.	GIA reco	Expenditure		
No.	Under the Head	From	Amount	_
1	Forest ¹⁴	State Government	1.10	1.10
2	Areas not included in Part IX and IXA	Government of India	7,778.34	618.20
	of the Constitution			

GIA was released by the State Government under 2406-01-101 (10) Provision for the deputed staff of KHADC and the expenditure was incurred towards travelling allowance of the Divisional Forest Officer of the State Forest Department deputed to KHADC.

As shown in the preceding paragraphs under capital expenditure, the spending of GIA was also low during 2019-20.

2.3 Substantial variation between Budget Estimates and Actuals

Scrutiny of budget estimates for the year 2019-20 *vis-à-vis* actual receipt and expenditure revealed significant variations between budget estimates and actual figures of receipts and expenditure as detailed in **Table 2.7**.

Table 2.7: Budget Estimates and Actual for the year 2019-20

(₹ in crore)

Particulars	Budget Estimate	Actual		Percentage of Excess (+) / Shortfall (-) w.r.t. BE
Receipt	215.36	96.25	(-) 119.11	(-) 55
Expenditure	215.36	70.04	(-) 145.32	(-) 67

Source: Budget estimates of Receipts and Expenditure and Statement 5 & 6 of Annual Accounts.

During 2019-20, the actual receipts and expenditure of the KHADC fell short of the BE by 55 per cent and 67 per cent respectively.

The shortfall in actual receipt against budget estimate was mainly due to shortfall receipt of GIA from GoI and GoM (₹ 84 crore), share of taxes on mines & minerals (₹ 31.47 crore) and share of taxes on vehicles (₹ 6.00 crore).

The details of some of the Heads under which significant shortfalls were noticed between the actual and budget estimate figures of receipts and expenditure during 2019- 20 are as detailed in **Table 2.8.**

Table 2.8: Heads of receipt/expenditure under which significant variations occurred between Actuals and Budget Estimates during 2019-20

(₹ in crore)

Sl. No	Major Heads	Budget Esti- mates (BEs)	Actuals	Shortfall (-) /Excess (+) as compared to BEs (per cent to BEs)			
	Receipts						
1.	Taxes on vehicles	6.00	0	(-) 6.00 (100%)			
2.	Mines & Minerals	33.00	1.53	(-) 31.47 (95%)			
3.	Grants-in-aid from GoI	155.26	77.78	(-) 77.48 (50%)			
Expenditure							
1.	Administration of	4.24	3.63	(-) 0.61 (14%)			
	Justice						
2.	Forest	7.80	7.04	(-) 0.76 (10%)			
3.	Public Works	159.03	7.67	(-) 151.36 (95%)			

Source: Budget and Annual Accounts of KHADC.

The shortfall between BEs and actual collection of revenue for the year 2019-20 as shown in **Table 2.8**, indicated that KHADC had not been able to make its revenue collection mechanism effective to the extent of the projections made under BEs.

However, Audit observed that the Council had utilised only ₹ 70.04 crore (29 per cent) of total available funds (₹ 237.12 crore) during the year 2019-20, out of which 22 per cent was spent on revenue expenditure (₹ 52.37 crore) while seven per cent was spent on Capital projects (₹ 17.67 crore) of the Council.

The Secretary, Executive Committee, KHADC in reply (August 2023) stated that the Government of Meghalaya is defaulting in disbursing the committed and agreed share of revenue on (i) Taxes on vehicles and (ii) Major and Minor minerals. Further, there are pending obligations pertaining to the period preceding the Fifteenth Finance Commission Award, thereby contributing to the deficit in overall revenue receipts.

Reply is not acceptable, as it was seen that Council has not prepared the budget documents based on actual receipt of previous year which resulted in huge shortfall from actual.

2.4 Conclusion

Against total revenue receipts of ₹ 96.23 crore, KHADC share of royalty on Mines & Minerals and GIA together accounted for 82 *per cent* which indicates total dependence of KHADC on external sources as against its own sources of funds. Further, the Council's generation of revenue from own sources has also shown a decline of 12.16 *per cent* (₹ 2.34 crore) from the previous year which is a worrying trend.

Against total revenue expenditure of ₹ 52.37 crore, Secretariat General Services, Public Works and Forest together accounted for 73 *per cent* leaving marginal expenses for other important heads such as Land Revenue, Social Security & Welfare and Public Health Sanitation & Water Supply.

Variations between the BEs and actual receipts and expenditure during 2019-20 indicated that the KHADC had prepared BEs without taking into account the actual position. Budgetary estimates were off the mark by a considerable margin, and control over the execution and monitoring of budget was inadequate.

The Council had utilised only 29 *per cent* of total available funds during the year 2019-20, out of which 22 *per cent* was spent on revenue expenditure while seven *per cent* spent on Capital projects of the Council. This indicates that the Council has not yet been able to develop capacity to expend the planned expenditure, particularly capital expenditure.

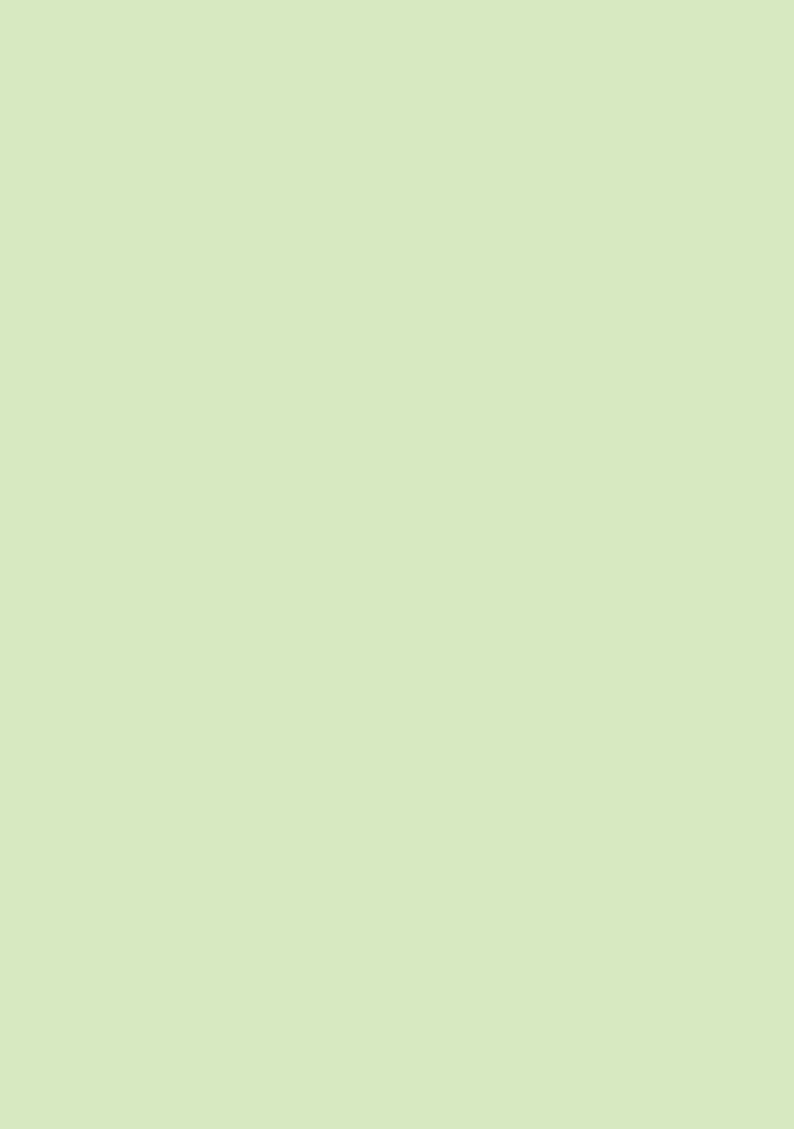
2.5 Summary of Recommendations

In view of ongoing, it is recommended that:

- i. The Council needs to improve the collection efficiency of revenue from own sources by implementing robust monitoring mechanisms like maintaining up-to-date database of all assessees to bring to an end to the leakage of revenue.
- ii. KHADC and the State Government should keep in place a mechanism which ensures sharing of information with the Council about the royalty on minor minerals being collected during the year vis-à-vis the due amount to be released to the Council.

- iii. The Council needs to improve its capital spending and implement schemes in a timely and efficient manner. The Council also needs to strengthen its capacity commensurate with its proposals and budget provisions.
- iv. The Council may undertake detailed budgetary analysis and reviews to identify untapped eligible revenue resources and for estimating revenue receipts more accurately.

CHAPTER-III Comments on Accounts



CHAPTER – III

Comments on Accounts

3. Introduction to Accounts and Comments on Council Accounts

The annual accounts of the District Council shall record all transactions, which take place during a financial year commencing from 01 April to 31 March. The annual accounts of the District Council shall be maintained in such forms as prescribed by the Comptroller and Auditor General of India (CAG).

KHADC prepares its annual accounts in the prescribed format containing the following seven statements, which detail the receipts and disbursements of the KHADC for the year with bifurcation of the expenditure under revenue and capital.

Sl. No.	Statement No.	Particulars of statements	
1.	Statement No. 1	Summary of Transactions	
2.	Statement No. 2	Capital Outlay- Progressive Capital Outlay to the end of March 2020	
3.	Statement No. 3	Debt Position	
4.	Statement No. 4	Loans and Advances by the Council	
5.	Statement No. 5	Detailed Account of Revenue by Minor Heads	
6.	Statement No. 6	Detailed Account of Expenditure by Minor Heads	
7.	Statement No. 7	Statement of receipts, disbursements and balances under Heads relating to District Fund and Deposit Fund	

Table 3.1: Statements of annual accounts

3.1 Irregularities in maintenance of Cash Book

The United Khasi and Jaintia Hills District Council Fund Rules, 1952 (hereafter referred to as 'Fund Rules'), prescribe the rules and forms for maintenance of Cash Book. Maintenance of Cash Book has the following advantages in cash management:

- a) Daily cash receipts and cash payments are easily ascertained.
- b) Cash in hand at any time can easily be ascertained through Cash Book.
- c) Any mistake in the book can be easily detected at the time of verification of cash balance.
- d) Any defalcation of money can be detected while verifying cash.

Examination (December 2022) of records relating to compliance to the rules for maintenance of Cash Book by KHADC during 2019-20 revealed the following irregularities:

As per Rule 16 (ii) of the Fund Rules, all monetary transactions shall be entered in the Cash Book as soon as they occur. Examinations of records of KHADC, however, revealed that the entries recorded in the Cash Book of KHADC during 2019-20 were merely restricted to disbursement of salaries to staff. Improper

recording of monetary transactions as stated above raises doubts on the authenticity and correctness of the Cash Book of KHADC for the periods concerned.

Rules 16 (iii) of the Fund Rules states that the Cash Book should be closed daily, duly authenticated by the Secretary in token of acceptance of its correctness. Rule 16 (iv) further provides that the Secretary should verify the cash balance at the end of each month and record a certificate to that effect in the Cash Book. It was observed that both these requirements were not adhered to during 2019-20.

Absence of verification of cash balance and not recording cash transactions in the Cash Book was not only irregular but also fraught with the risk of misappropriation and fraud. In view of the above glaring irregularities, audit is unable to provide any assurance that the accounts and transactions of the Council are free from material irregularities.

KHADC, in its reply (August 2023) stated that as per decision of the Executive Committee, KHADC (April 1, 2004), all fees collected by the office pertaining to licenses, labour fees, professional taxes, toll leases, royalties from minor forest products, mortgages, land records, MDC fees, and fees from timber sales shall be deposited into a designated bank account (currently held at Meghalaya Rural Bank) by way of pay-in slips. Consequently, the relevant departments responsible for cash collections adhere to this directive, maintaining daily transactions through subsidiary Cash Books.

Reply of Council is not acceptable as the daily transaction entries stated to be in "Subsidiary Cash Books" were not found entered in the Council's Cash Book which is the key accounting record. Neither were the "Subsidiary Cash Books" produced to Audit for verification.

The Council may ensure proper maintenance of Cash Book to ensure accountability for public money.

3.2 Discrepancy in Personal Ledger Account

According to rule 18, 19 and 30 of the United Khasi – Jaintia Autonomous District Fund Rules, 1952 all moneys received on behalf of the Council and all the expenditure incurred in relation to the affairs of the Council are required to be exhibited in the Personal Ledger Account (PLA) maintained with the Shillong Treasury.

Cross check of the closing balance of the PLA maintained by Shillong District Treasury with that of Annual Accounts of the Council for the year revealed that out of total difference of ₹ 135.38 lakh understated in the books of the Council, reconciliation was done for ₹ 134.26 lakh, leaving ₹ 1.12 lakh still unaccounted for as detailed in **Table 3.2.**

Table 3.2: Difference in reconciliation amount

(₹ in lakh)

Year	Closing	Closing Balance	Difference	Reconciliation	Lesser
	Balance of	of PLA as	Understatement	Done	Amount
	PLA at the	per Annual	(-)		
	Treasury	Accounts			
2019-20	744.17	608.79	(-) 135.38	(-) 134.26	1.12

Source: PLA Pass Book and Annual Accounts of KHADC.

As such, the difference in the closing balance of the PLA as per Shillong District Treasury and Annual Accounts of the Council has not been reconciled till date (November 2022).

KHADC, while agreeing with the Audit observation (August 2023) stated that, the Shillong District Treasury was not in a position to maintain and update the PLA Pass Book of Khasi Hills Autonomous District Council, Shillong for the last few years till October 2009 and monthly Pass Book from November 2009 onwards. Hence, reconciliation could be carried out w.e.f 2010-11. After carrying out regular reconciliation henceforth, there remains a possibility of negligible difference between the PLA of the treasury *visa-vis* Council Accounts.

The Council may reconcile the difference of amount existing between the Council Accounts with Treasury before finalising Annual Accounts.

3.3 Discrepancy of Revenue Receipts in the Annual Accounts

3.3.1 Overstatement of Revenue Receipts

Rule 18 of the United Khasi-Jaintia Hills Autonomous District Council Fund Rules, 1952 states that 'all moneys received by the Cashier on account of the KHADC shall be remitted intact to the Treasury promptly'.

Cross check of the Receipt Registers of 'Other Administrative Services' and the Annual Accounts for the year 2019-20 revealed that instead of promptly depositing the revenue collected through sale of Court stamps, fees, *etc.*, the Department deposited the same in the following months. As a result, the revenue receipts under the head 'Other Administrative Services' as depicted in the Annual Accounts of KHADC for 2019-20 (Statement No. 5) actually pertained to the period from 1 March 2019 to 28 February 2020 instead of 1 April 2019 to 31 March 2020. This has resulted in overstatement of revenue receipts by ₹ 3.07 lakh during 2019-20 as summarised in **Table 3.3**:

Table 3.3: Discrepancy in Revenue Receipts in the Annual Accounts

(₹ in lakh)

Year	Amounts shown as receipts under 'Other Administrative Services' in the Annual Accounts	Amount actually collected during the year	Difference Excess (+) Shortfall (-)
2019-20	31.7515	28.68	3.07

Source: Annual Accounts and record of KHADC.

It may be pertinent to mention that similar audit observation was made in the Audit Report of KHADC for the year 2018-19 and in response, the Secretary to the Executive Council, KHADC had stated (August 2022) that with effect from May 2022, monthly collections are being credited into the saving bank accounts of the Council within the last working day of the same month in which it occurs.

¹⁵ Includes ₹ 1.62 lakh retained by the Council as 'Cash in Hand'.

The Council further stated (August 2023) that, ₹ 1.62 lakh amount pertaining to March 2020 could not be deposited within 31 March 2020 due to lockdown imposed by the Government of India and accounted as Cash in Hand.

The reply of council is not tenable since ₹ 1.62 lakh had already been accounted in Annual Accounts as Cash in Hand but the Council is silent on the difference of ₹ 3.07 lakh between the figure shown in Annual Accounts and amount actually collected.

The Council may ensure prompt credit of revenue receipts to the Treasury and account for receipts pertaining to a financial year in the same accounting year.

3.3.2 Overstatement of Revenue Expenditure

The Council had booked an expenditure of $\stackrel{?}{\underset{?}{?}}$ 3.18 crore on Public Works under 'construction' and $\stackrel{?}{\underset{?}{?}}$ 0.08 crore towards 'Other General Economic Services' as revenue expenditure.

As per records, the above expenditure was incurred towards construction of projects as detailed in **Table 3.4**:

Table 3.4: Expenditure incurred on construction of projects

(Amount in ₹)

Sl. No.	Head	Particulars	Expenditure	
1.		Construction of MDC building	2,73,662	
2.		Construction of Quarter at Nongpoh Branch Office	13,70,020	
3.		Construction of lift wall at KHADC Guest House	1,94,764	
4.		Construction of District Council Court, Nongstoin	87,98,337	
5.	Public Works	Construction of fencing at KHADC campus	6,33,126	
6.	rublic works	Expenditure on plan & estimate	60,00,000	
7.		Construction of branch office, Mawkyrwat	21,42,393	
8.		Construction of office building at Garikhana	61,06,823	
9.		Construction of MDC hostel	15,68,000	
10.		Construction of District Council Court, Nongstoin	47,22,089	
11.	Other General Construction of wholesale market, Iewduh		7,83,990	
	Economic Services			
	Total 3,25,93,204			

Source: Records of KHADC.

From the above, it is seen that the Council have incurred an expenditure of \mathbb{Z} 3.26 crore on construction projects, *i.e.* creation of assets which should have been booked as 'Capital expenditure'. This resulted in overstatement of revenue expenditure by \mathbb{Z} 3.26 crore.

On being pointed out by Audit, the Council stated that (August 2023) on review of Accounts an amount of ₹42.63 lakh has been qualify to be treated as Revenue Expenditure and ₹ 3.00 crore out of ₹ 3.21 crore qualifies to be treated as Capital Expenditure and Statement Nos. 1 & 6 has been revised.

On scrutiny of revised Statement 6, Audit noticed that, this revised Statement indicated only ₹ 21.00 lakh as Revenue Expenditure instead of stated ₹ 42.63 lakh. This needs reconciliation. Further, the Council had agreed that amount of ₹ 3.00 crore out of ₹ 3.26 crore pointed out by Audit has to be treated as Capital Expenditure and duly incorporated in the revised Council's Account leaving the difference of ₹ 5.00¹6 lakh. Resulting in overstatement of Revenue Expenditure to that extent.

The Council may reconcile the differences in next financial year.

3.4 Conclusion

In this Chapter, audit emphasis was on the classification and accounting treatment of transactions in Annual Accounts, internal control and record keeping, *etc*. As such, following deficiencies were noticed during the course of audit:

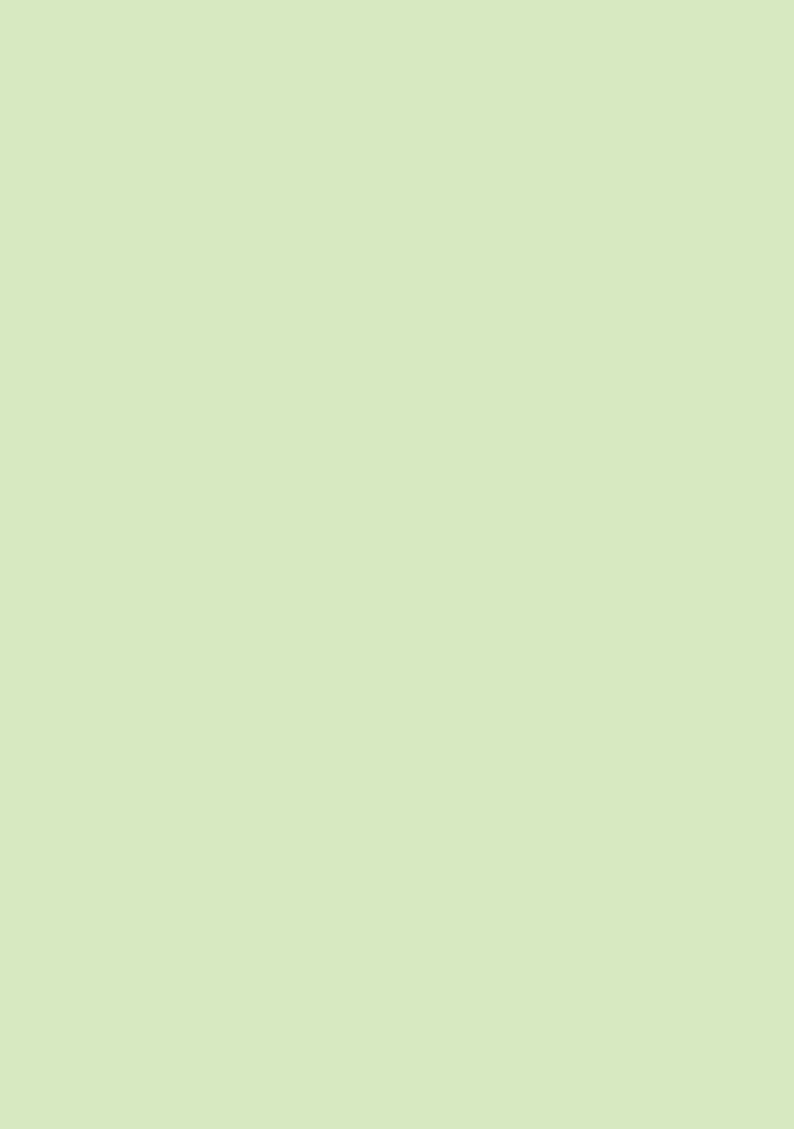
- Incomplete recording of transactions in Cash Book resulting in under reporting of expenditure in Annual Accounts.
- There were inconsistencies in closing balance at Treasury and in Annual Accounts.
- Incorrect accounting period and non-deposit of receipts promptly to Treasury resulted in understatement of Revenue Receipts by ₹ 3.26 crore for the year.

3.5 Summary of Recommendations

- *i.* The Council may ensure proper maintenance of Cash Book to ensure accountability for public money.
- ii. The Council may reconcile the differences with Treasury before finalising Annual Accounts.
- iii. The Council may ensure prompt credit of revenue receipts to Treasury and account for receipts pertaining to a financial year in the same accounting year;
- iv. The Council may reconcile the differences in next financial year.

¹⁶ After taking into account ₹ 21.00 lakh treated as revenue expenditure.

CHAPTER-IV Compliance Audit Observations



CHAPTER – IV Compliance Audit Observations

4.1 Systemic Deficiencies and lack of internal controls in collection of Professional Tax

The collection of professional tax of KHADC is regulated as per the Meghalaya Professions, Trades, Callings and Employments Taxation Act, 1947 (Assam Act VI of 1947 as adapted and amended by Meghalaya from time to time). As per the Act, every person who carries on a trade either by himself or by an agent or representative, or who follows a profession or calling, or who is in employment, either wholly or in part within the State shall be liable to pay for each financial year a tax in respect of such profession, trade, calling or employment and in addition to any tax, rate, duty or fee which he is liable to pay under any other enactment from the time being in force.

In exercise of powers conferred under paragraph 6 (2) of the Sixth Schedule to the Constitution of India, Government of Meghalaya, *vide* notification dated 01 July 1996 in consultation with the KHADC, entrusted to the KHADC its functions to collect the PT under the Meghalaya Professions, Trades, Callings and Employments Taxation Act (Assam Act VI of 1947 as adapted and amended by Meghalaya from time to time) with effect from the assessment year 1996-97 under the following conditions:

- ➤ PT shall be collected by the KHADC through its officers in the areas falling within the jurisdiction of the Autonomous District of Khasi Hills and not in those areas falling within the cantonment and non-schedule areas¹⁷ of Shillong.
- The collection of PT shall be on the basis of the place of work or business address of the assessee concerned.
- > PT so collected shall form part of the revenue of the Council and shall not be shared with the State Government.

On scrutiny of records of Council, it was noticed following deficiencies in the internal control mechanism in collection of Professional Tax are indicated in **Table 4.1**.

Table 4.1: Deficiencies in Internal Control Mechanism

Nature of control weakness	Audit observations	Impact of control weakness
Failure to follow provisions of Act	irregularly assessed the PT payable by traders/ shopkeepers.	In the absence of updated and complete database of assessees, PT could not be realised in full. This could lead to loss of revenue, risk of fraud and shortfalls in budget.

European Ward, Police Bazar and Jail Road falling in Ward Nos. 8 to 11 of Shillong Municipality (Jhalupara, Mawprem, Laban, Malki and Jail Road).

Nature of control weakness	Audit observations	Impact of control weakness
Non- submission of returns	State Government offices, traders, etc., did not submit returns for the year 2017-18 to 2019-20. Assessing authority did not issued any notice for non-submission of returns.	The Council had no data on the number of assessees, their gross annual income and the actual amount of PT deposited by the State Government offices. The Council's lack of complete/ updated database has a negative impact on several areas, including revenue collection, accurate reporting, planning and budgeting, compliance enforcement and increased risk of tax evasion.
Returns were not in prescribed form	The returns submitted by the POs of Central Government offices and banks were not according to the prescribed form.	Incomplete returns were being accepted. Matter was not being pursued for correction. This could further lead to incorrect tax assessment, difficulty in reconciliation and risk of tax evasion by exploiting loophole.
Non- assessment of PT in writing by the assessing authority	The assessing authority did not issue any order (in writing), assessing the person and determine the tax payable by him that the returns submitted by the assessee as per Section 7 is correct and complete. No order (in writing) was issued by the assessing authority, assessing to the best of his judgment the defaulter and determine the tax payable by him.	Acceptance of returns without assessment was in violation of Section 8 of the Act. This could lead to lack of audit trail, poor oversight over taxation process, risk of fraud and no documented evidence of assessment, non-compliance with Rules and operational inefficiency in finalising assessment.
Irregular maintenance of assessment register	The assessment registers were not maintained as per prescribed format.	The Council had no mechanism to monitor realisation of professional tax, number of assessees, <i>etc</i> . This could lead to error in tax assessment, difficulties in tracking tax assessment & realising tax, lack of audit trail for reviewing assessments and loss of revenue as some person may not be assessed.

The KHADC should put in place mechanisms of collecting updated data on eligible taxpayers. In addition, the Council should institute a system of periodical survey by the inspection officers to ensure that all eligible taxpayers have been duly registered.

The Council needs to insist on filing of returns in the manner and as per provisions of the Act.

The assessing authority needs to assess the returns and correctly maintain its assessment register.

The Council should implement IT system to enhance database of assessees.

4.2 Irregular appointment of staff

The Khasi Hills Autonomous District Council Service Rules, 1961 regulates the appointment and promotions of KHADC staff. Rules 3 clearly stipulates that 'the recruitment to all classes of services and staff shall be made after due advertisement and by competitive examination or on the basis of an oral examination and interview.'

Scrutiny of records revealed that the KHADC recruited eight staff members to various posts during the year 2019-20 as detailed in **Table 4.2**.

Name Designation Date of No. appointment 1. Smt. Barijied Khyllep Lower Division Assistant (LDA) 18-04-2019 2. Shri Collin Bankhraw L. Peon 01-05-2019 Mawphlang Shri Andrew Khongwir Plantation Chowkidar (PC) 09-05-2019 3. 4. Shri Trairistar D. War Assistant Forester (AF) 13-05-2019 5. Shri Donborlang Dkhar Assistant Forester (AF) 13-05-2019 Shri Jayden Kharnonglong Sectional Assistant (SA) 06-08-2019 6. 7. Shri Ardonald R. K. Nongrang Sectional Assistant (SA) 04-11-2019 8. Shri Bankerlang Suting Sectional Assistant (SA) 03-02-2020

Table 4.2: Details of staff appointed during 2019-20

It was, however, noticed that these eight vacancies were never advertised. The appointments were made only on the basis of Executive Committee's approval without holding any competitive examination/interview, *etc*. This has resulted in denial of opportunity to the right and genuine candidates.

The Council stated (August 2023) that the appointment was based on vacancy and approved by the Chief Executive Member of the Council. The reply of the Council is not acceptable as Rule 3 of Chapter III of General Rules regulating appointment and promotion stipulates that the recruitment to all classes of services and staff (except compassionate ground/invalid pension cases) shall be made after due advertisement and by competitive examination or on the basis of oral examination and interview.

Non-adherence to the recruitment policy creates opportunities for favouritism in the hiring process. In order to maintain fair competition for selection of deserving candidates, the Council may follow recruitment rules.

4.3 Delay in depositing Council funds

Rule 18 of District Fund Rules, 1952 of the Khasi Hills Autonomous District Council stipulates that 'all moneys received by the Cashier on account of the Council shall be remitted intact to the treasury promptly and shall on no account be appropriated towards expenditure.'

Contrary to the Rule *ibid*, cross verification of the receipt books/registers with the Treasury remittance challans/ bank deposit receipts revealed that there were persistent delays in remittance of revenues collected by various Departments of the Council during the year 2019-20 in respect of petition fee, court fee, sale of stamp paper, *vakalatnama*, *etc.*, as detailed in **Table 4.3.**

Table 4.3: Details of delay in deposit of Council's revenue

Sl. No.	Period of collection		Amount (₹)	Date of	Delay (days)
	From	То		Deposit	
1.	01.03.2019	29.03.2019	2,72,390	12.04.2019	42
2.	01.04.2019	30.04.2019	2,53,375	08.05.2019	37
3.	01.05.2019	31.05.2019	2,89,275	13.06.2019	42
4.	03.06.2019	28.06.2019	2,08,035	11.07.2019	38
5.	01.07.2019	30.07.2019	2,36,875	06.08.2019	36
6.	01.08.2019	30.08.2019	2,64,880	06.09.2019	36
7.	02.09.2019	30.09.2019	3,03,285	04.10.2019	32
8.	01.10.2019	31.10.2019	2,00,005	06.11.2019	36
9.	04.11.2019	29.11.2019	2,00,615	11.12.2019	37
10.	02.12.2019	20.12.2019	2,44,190	13.01.2020	42
11.	06.01.2020	31.01.2020	66,590	12.02.2020	41
12.	03.02.2020	28.02.2020	2,90,645	11.03.2020	36
13.	03 03.2020	20.03.2020	1,54,010	19.05.2020	77
	Total		29,84,170		

Source: KHADC records.

From the above, it is seen that the Council's revenue of ₹ 29.84 lakh collected during 2019-20 were deposited in the Treasury (PLA) after a maximum delay of 32 to 77 days. The delay in deposit of Council's revenue was not only in contravention of the Fund Rules but retention of Council's money may also leads to temporary misappropriation of Council's revenue.

Details of Officials responsible for delay in remittances of revenues collected, though called for, were not made available to Audit. The Council may take appropriate action to fix responsibility for the delays in depositing ₹ 29.84 lakh Council's revenues into the treasury.

The Council may put in place systems to ensure timely remittance of receipts to the treasury to prevent risk of temporary misappropriation of Council funds due to delayed remittances /non-deposit of the collected revenue.

4.4 Irregular payment of ₹ 1.50 crore on engagement of consultancy services

On 10 October 2018, the Council received an application from M/s TA Consultancy Services, Shillong with a request to engage them for consultancy services for undertaking projects (preparation of DPRs, monitoring of civil works, preparation of concept paper,

execution of work, etc.). No rate or other terms of engagement was laid down in the offer.

The Secretary, Executive Committee on 18 January 2019 engaged M/s TA Consultancy Services, Shillong for preparation of DPR, the plans & estimates along with the architectural drawings and structural designs of the new projects countersigned by the competent authority. The firm was offered payment of five *per cent* from the total amount to be received from the Central/State Government and engagement was without any mentioned of timeline. Accordingly, M/s TA Consultancy Services, Shillong accepted the offer of engagement on 8 February 2019.

During May 2019, the firm (M/s TA Consultancy Services) sent a request to the Dy. Chief Executive Member, KHADC to release the consultancy fee towards preparation of DPRs, proposals, plans & estimation, *etc*. The letter neither mentioned the number of DPRs, list of projects or the amount of consultancy fee. The Council paid ₹ 30.61 lakh (18 July 2019) to the TA Consultancy firm as mobilisation fees for preparation of DPRs, proposals, plans & estimation, *etc.*, out of the five *per cent* administrative charges of Government grant of ₹ 123.45 crore of the year 2016-17 with a condition that the same would be recouped when the grants under 'Areas not included in Part IX and IXA of the Constitution' for the year 2018-19 is received. Even though the grants under 'Areas not included in Part IX and IXA of the Constitution' was yet to be received, the Council paid the firm in advance by utilising the scheme funds of a different year.

During August 2019, the Council received ₹ 50.18 crore (₹ 34.88 crore and ₹ 15.30 crore) as grants-in-aid for 'Areas not included in Part IX and IXA of the Constitution' from the Central Government (through the State Government) for the year 2018-19. The Council further paid ₹ 61.22 lakh¹8 (13 September 2019) to the M/s TA Consultancy Services as advance payment for preparation of DPRs, proposals, plans & estimation, *etc.* out of the grants-in-aid for 'Areas not included in Part IX and IXA of the Constitution' of ₹ 15.30 crore received.

The Council made a third and final payment ₹ 58.16 lakh¹⁹ on 24 April 2020 to M/s TA Consultancy as full amount of consultancy fees for preparation of DPRs, proposed plan and estimates, *etc.* out the grants-in-aid for 'Areas not included in Part IX and IXA of the Constitution' of ₹ 15.30 crore received. Thus, M/s TA Consultancy Services was paid a total amount of ₹ 1.50 crore (includes ₹ 2.99 lakh deducted being two *per cent* TDS on GST) which amounted to three *per cent* of the total release (₹ 50.18 crore) of the above-mentioned grants-in-aid.

Audit scrutiny of records relating to the above showed the following irregularities:

1. The application from M/s TA Consultancy Services offering consultancy services was received (10 October 2018) by the Council even though the Council had not called for any bids. The firm was engaged by the Council for preparation of DPR,

¹⁸ Paid ₹ 60.00 lakh after deducting ₹ 1.22 lakh (two *per cent* TDS on GST).

¹⁹ Paid ₹ 57.00 lakh after deducting ₹ 1.16 lakh (two *per cent* TDS on GST).

the plans & estimates without inviting any tender and no agreement was executed by the Council with M/s TA Consultancy Services for the year 2019-20²⁰. Reason for engaging the firm without inviting tender though called for (October 2022) was not stated.

- 2. Though the work was allotted to the firm, but the Council had not deducted the security deposit and performance guarantee. The Council paid ₹ 91.83 lakh²¹ (includes ₹ 1.83 lakh deducted being two *per cent* TDS on GST) to the TA Consultancy firm as mobilisation advance and advance payment, however, the application of the firm and the Council letter engaging the firm did not contain any clause for payment of mobilisation advance and advance payment.
- 3. Final payment of ₹ 58.16 lakh (includes ₹ 1.16 lakh deducted being two per cent TDS on GST) was made to M/s TA Consultancy on 24 April 2020 thus totalling ₹ 1.50 crore (includes ₹ 2.99 lakh deducted being two per cent TDS on GST) paid as consultancy charges/fee which amounted to three per cent of the total release (₹ 50.18 crore) of the above-mentioned grants-in-aid. Reasons for paying consultancy charge @ of three per cent of the total release even though the offer for engagement was at five per cent of the total release was not on records.
- 4. Audit had requested (October 2022) the Council to submit the copies of the DPRs, proposals, plans & estimates prepared by M/s TA Consultancy Services for audit scrutiny. The Council was however, unable to furnish the same. No reasons were also furnished for not being able to do so despite being asked for.
- 5. Records available with the Council, indicated that the Technical Branch of the Council comprising of Project Engineer, Architect, Assistant Executive Engineer and Assistant Engineers and Junior Engineers had in fact prepared the abovementioned DPRs and estimates and implemented the projects accordingly as it had been doing in respect of the schemes as detailed below:
- ➤ Projects sanctioned under Special Central Assistance for the year 2015-16 amounting to ₹ 133.12 crore (duly countersigned by the Chief Engineer (Building)), Public Works Department, Government of Meghalaya.
- ➤ Projects sanctioned under Areas not included in Part IX and IXA of the Constitution for the year 2017-18 amounting to ₹ 32.25 crore:

There was no record available to indicate the reasons for the Council to select M/s TA Consultancy Services for works which could have been done by the Technical Branch of the Council. No records were also produced to audit to validate the works done by M/s TA Consultancy Services.

Thus, the above-mentioned irregularities indicate that the Council has irregularly engaged the consultant without any due tendering process and has made irregular

Memorandum of Understanding was entered between KHADC and M/s TA Consultancy Services on 9th April 2020.

²¹ ₹ 30.61 lakh on 18 July 2019 and ₹ 61.22 lakh on 13 September 2019.

payment of ₹ 1.50 crore to M/s TA Consultancy Services for works which were actually done by the Technical Branch of the Council.

The KHADC stated (August 2023) that to streamline the process of engagement of consultancy services henceforth necessary formalities should be followed as per rules as decided by the incumbent Executive Committee in its meeting held on 25 July 2023 and the appointment of M/s TA consultancy services without observing the formalities by the then Executive Committee in its meeting held on 17 January 2019 has since been regularised by the present Executive Committee on 25 July 2023.

The Council's reply is silent on the manners in which regularisation of M/s TA Consultancy Services has been done. Further, the Council has failed to take action to recover of ₹ 1.50 crore which was irregularly paid to the Consultant.

Audit recommends that the KHADC should investigate on the selection process of M/s TA Consultancy Services and hold the person(s) concerned accountable for making irregular payment to the firm for works, which were actually done by the Technical Branch of the Council.

4.5 Outstanding Inspection Reports

As per Comptroller & Auditor General's Regulations on Audit and Accounts No. 197, the officer in-charge of the auditable entity shall send the reply to an Inspection Report (IR) within four weeks of its receipts. Audit observations on financial irregularities and defects in the maintenance of accounts noticed during local audit and not settled on the spot are communicated to the higher authorities through the IRs.

Till date of audit (December 2022), 79 paragraphs in respect of six IRs issued between June 2012 and March 2022 were still outstanding.

4.6 Follow up action on Audit Reports

The Reports of the Comptroller and Auditor General of India in respect of the District Council are prepared under Paragraph 7 (4) of the Sixth Schedule to the Constitution of India for submission to the Governor, who shall cause them to be laid before the KHADC. Though the Audit Reports in respect of KHADC for the years 1970-71 to 2016-17 had been placed before the KHADC (March 2023), action taken on the observations made in these Audit Reports had not been intimated.

The Secretary to the Executive Council, KHADC stated (August 2022) that the Council constituted (January 2017) a Committee to examine the CAG Report for the year ended 31 March 2010 to make recommendations thereon to facilitate the disposal of the Audit observations. A report of the said Committee was forwarded to the Principal Accountant General (Audit), Meghalaya, Shillong under this office letter no. DC.XXI/Acctts/310/2017/53 dated 31 July 2017. No further committee was constituted to examine the CAG's Reports for the years ended 31 March 2011 to 31 March 2013.

It is recommended that KHADC must constitute Public Accounts Committee to take time bound action on the audit observations pointed out in the Audit Reports to ensure financial discipline and good governance in the conduct of the affairs of the KHADC.

4.7 Conclusion

The Compliance Audit of revenue and expenditure of the Council revealed that:

- Despite the growth in the Council's revenue from PT, Audit noticed various system deficiencies and internal controls issues such as (i) Council lacked a systematic method for categorising, identifying, and quantifying the number of taxpayers liable to pay professional tax; (ii) Council did not have the data on the number of traders and business houses liable to pay tax, it accepted returns without supporting documents of declaration of gross annual income; (iii) Council also did not maintain any account of total amount of tax collected from the State Government offices. As such, it had no records to monitor the receipt of PT from the State Government offices, etc.
- Eight staff were appointed without conducting any competitive examination/interview.
- Revenue collected were unauthorisedly retained instead of promptly depositing it in bank/treasury in violation of Council's Fund Rules.
- ➤ Council paid ₹ 1.50 crore to a firm for preparation of DPRs and estimates which was, however, not submitted by the firm.

4.8 Summary of Recommendations

The Council may consider the following recommendations:

- i. The KHADC should put in place mechanisms of collecting updated data on eligible taxpayers. In addition, the Council should institute a system of periodical survey by the inspection officers to ensure that all eligible taxpayers have been duly registered.
- ii. The Council needs to insist on filing of returns in the manner and as per provisions of the Act.
- iii. The assessing authority needs to assess the returns and correctly maintain its assessment register.
- iv. The Council should implement IT system to enhance database of assessees.
- v. Non-adherence to recruitment rules creates opportunities for favouritism in the hiring process. In order to maintain fair competition for selection of deserving candidates, Council may follow recruitment rules.
- vi. The Council may put in place systems to ensure timely remittances of receipts to the treasury to prevent risk of temporary misappropriation of Council funds due to delayed remittances /non-deposit of the collected revenue.

- vii. KHADC should investigate on the selection process of M/s TA Consultancy Services and also hold the concerned person(s) accountable for making irregular payment to the firm for works which were done by the Technical Branch of the Council.
- viii. KHADC must constitute Public Accounts Committee to take time bound action on the audit observations pointed out in the Audit Reports to ensure financial discipline and good governance in the conduct of the affairs of the KHADC.

(JOHN K. SELLATE)

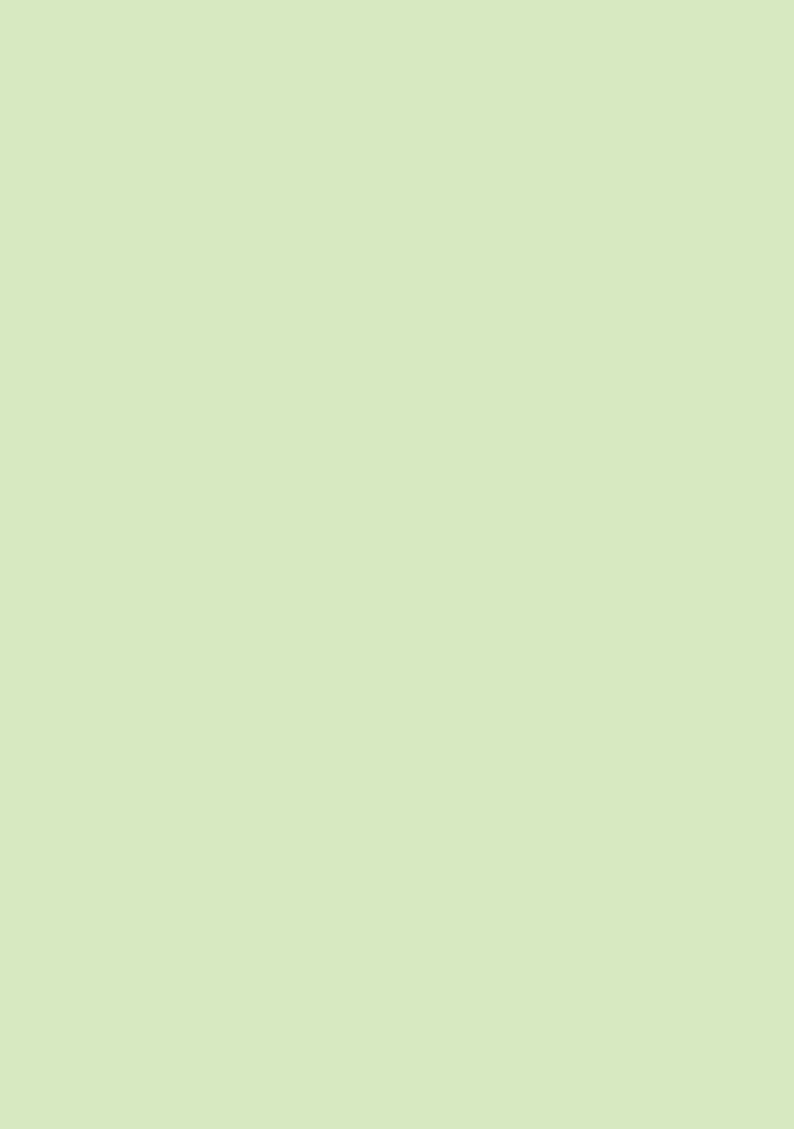
Shillong
The 29 October 2024

Principal Accountant General (Audit), Meghalaya

Countersigned

New Delhi The 05 November 2024 (GIRISH CHANDRA MURMU)
Comptroller & Auditor General of India

APPENDICES



${\bf Appendix}-{\bf I}$

Statement showing the details of sanctioned strength and men-in-position of Finance and Accounts Department of KHADC during 2019-20

[Reference Paragraph: 1.3]

Sl.	Post/ Designation	Sanctioned strength	Men-in-position
No.			
1.	Accounts Officer	1	1
2.	Assistant Accounts Officer	2	2
3.	Accountant	4	4
4.	Assistant Accountant	4	4
5.	Junior Accounts Assistant	6	6
6.	Internal Auditor	2	2
	Total	19	19

Appendix – II

Statement showing the department-wise sanctioned strength and men-in-position of Khasi Hills Autonomous District Council, Shillong as on 31 March 2020

[Reference Paragraph: 1.5]

Sl. No.	Departments	Sanctioned	Men-in-posi-
		strength	tion
1	General Administration	163	163
2	Law	7	7
3	Revenue, Budget & Finance	104	104
4	Forest Administration	143	143
5	Education	2	2
6	Civil Works & Development	56	56
7	Enforcement Scheme for Protection of Tribal Law & Interest	90	90
8	Legislative	70	70
9	Administration of Justice	80	79
	Total	715	714

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