सत्यमेव जयते

Report of the Comptroller and Auditor General of India

For the year ended 31 March 2015

लोकहितार्थ सत्यनिष्ठा

Dedicated to Truth in Public Interest

Khasi Hills Autonomous District Council, Shillong, Meghalaya

Report of the
Comptroller and Auditor General of India

for the year ended 31 March 2015

Khasi Hills Autonomous District Council,
Shillong, Meghalaya

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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 2014-15.

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 2014-15.

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 and Chapter IV deals with compliance issues during test-audit of the transactions of the Council for the year 2014-15.

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 audit comments on annual accounts of the Council for the year 2014-15. Chapter–IV of the Report deals with the audit findings pertaining to compliance audit of the Council.

Internal Control

An evaluation of internal control system in the Council shows that internal control mechanism was weak which is evident from persistent irregularities like discrepancy in cash balances as per annual accounts, non-maintenance of records, retention of heavy cash balances, delay in depositing the Council's revenue, incurring of unfruitful expenditure, *etc*. Weak internal controls and improper upkeep of records were the constraints in examination of Council's Annual Accounts and transactions.

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

2. Autonomous District Council Fund

KHADC generated ₹ 11.44 crore (25 *per cent*) from its own sources and taxes, ₹ 11.06 crore was received as share of taxes from the State Government (24 *per cent*), received ₹ 23.56 crore (51 *per cent*) as Grants-in-aid and ₹ 0.11 crore as recovery of loans and advances.

(Paragraph 2.2.1)

Total revenue expenditure of KHADC decreased by seven *per cent* from ₹ 30.93 crore in 2013-14 to ₹ 28.79 crore in 2014-15.

(Paragraph 2.2.1)

As against Budget Estimates (BEs) of ₹ 104.38 crore in 2014-15, KHADC incurred actual expenditure of ₹ 28.79 crore. There was substantial variation of 56 *per cent* between the BEs and actuals in receipts and 72 *per cent* in expenditure with respect to BEs of the Council, during 2014-15.

(Paragraph 2.3)

At the end of March 2015, UCs involving ₹ 15.98 lakh were not submitted by the Council to the State against the Grant-in-aid pertaining to previous years.

(Paragraph 2.4)

Recommendations

Council may take steps to increase its own revenue receipt so that they are able to improve spending on programmes and schemes of the Council.

The Council may undertake detailed budgetary analysis and review to identify untapped eligible revenue resources and for estimating revenue receipts more accurately. Council may also plan for utilisation of balances accumulated over the years.

Council should map its administrative expenditure with respect to its income from own sources and spend wisely on revenue generation activities for financial sustainability.

Council may ensure timely submission of utilisation certificate to the State Government with respect to Grants-in-Aid received in conformity with actual utilisation for the purpose it was disbursed.

3. Comments on Accounts

Council did not prepare its annual accounts in conformity with the prescribed format.

(Paragraph 3.1)

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 overstatement of revenue receipts to the tune of ₹ 1.47 lakh and need systemic correction.

(Paragraph 3.3)

Inconsistencies in closing balance at Treasury and in Annual Accounts were noticed.

(Paragraph 3.4)

Recommendations

Council may adhere to the prescribed format of accounts for transparency and completeness in annual accounts.

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

Council is advised to device a system of periodical review and reconciliation of accounting records to identify mistakes within the accounting period so that corrective action is taken.

4. Compliance Audit Observations

Incomplete recording of transactions in Cash Book resulted in under reporting of receipts and expenditure in Annual Accounts.

(Paragraph 4.1)

KHADC received ₹ 22.05 crore as grants-in-aid for implementation of schemes under 13th Finance Commission Grants. However, non-adherence to prescribed procedures

were noticed in implementation of the project and Utilisation Certificates (UCs) worth ₹ 84 lakh were not submitted.

(Paragraph 4.2)

KHADC released Discretionary Grants aggregating ₹ 13.75 lakh to its Members without defining objectives and activities. The Council did not ensure submission of any vouchers or utilisation certificates (UCs) by the Members in support of their claims.

(Paragraph 4.3)

Recommendations

Council may ensure correct maintenance of Cash Book and other subsidiary accounting records and reconcile figures with treasury records to enable correct preparation of Annual Accounts;

Council may clearly define objectives and activities to be taken up under Members, Discretionary Grants. They may also ensure proper documentation and accounts of the grants given to members; and

Council may constitute Audit Committee to discuss Audit Reports and ensure action on audit observations.

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 Council 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 Council to establish, construct or manage primary schools, dispensaries, markets, cattle pounds, ferries, fisheries, roads, road transport and water ways in the respective autonomous districts." Paragraph 8 of the Schedule further empowers the Council 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.

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 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 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 Comptroller and Auditor General of India shall cause the accounts of the District Council to be audited in such manner as he may think fit, and the reports of the Comptroller and Auditor General relating to such accounts shall be submitted to the Governor who shall cause them to be laid before the Council.

The Annual Financial Statement shall be prepared by the member in charge of financial affairs and forwarded to the Accountant General by 30th June each year.

However, the accounts of the Council for the year 2014-15 were submitted to the Accountant General in May 2018, with a delay of more than two years.

Audit noticed that the Council had in position 18 accounts staff and two staff deployed for internal audit functions. There was no vacancy in Finance and Accounts Department of Council and all the staff deployed for Accounts and Audit were trained for their respective work. Despite availability of staff as per sanctioned strength, Audit has seen reporting 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 ADC.

Financial statements are a structured representation of the financial position and financial performance of an entity. The objective of financial statements are to provide information about the financial position, financial performance and cash flows of an entity that is useful to stakeholders in making and evaluating decisions about the allocation of resources. As such the Council had not prepared Statement-2 on Progressive Expenditure on Capital Outlay as prescribed. Further, due to delay in preparation of accounts coupled with deficiencies in Financial Statements prescribed by CAG, the appropriateness of utilisation of resources could not be assessed.

Council may fix responsibility for delay in preparation of Annual Accounts and take appropriate steps to prepare up-to date Financial Statements in future. In addition, if needed available manpower can be further upskilled by using the available state training facilities in co-ordination with the District Council Affairs department.

Results of audit are discussed in the succeeding Chapters.

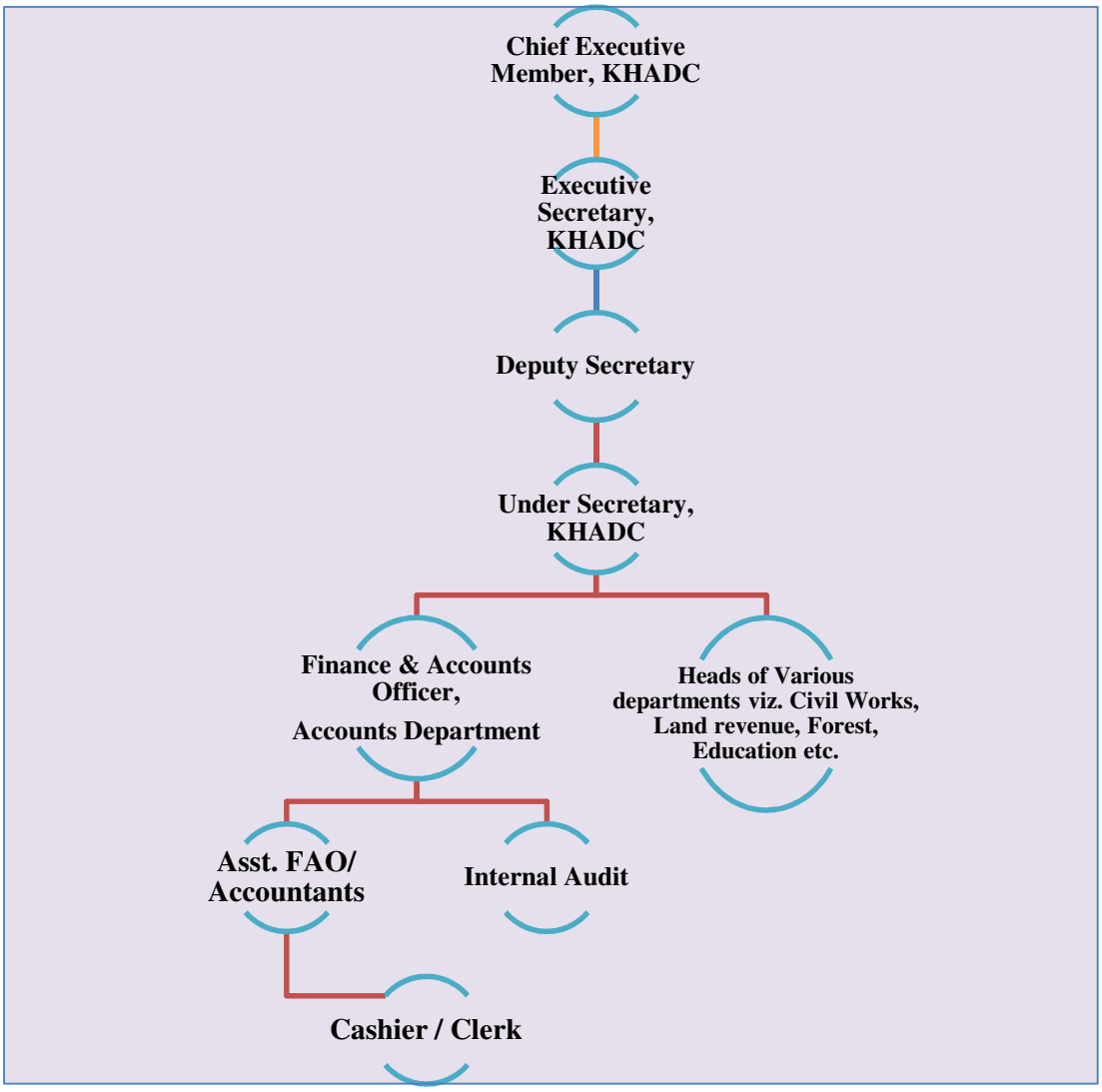
1.4 Administrative set-up of the Council

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 Council is administered by the Secretary to the Executive Committee and has departments such as the General Administration Department, Finance & Accounts, Land Revenue, Forest, *etc*. Finance & Accounts Department is manned with Finance & Accounts Officer, Assistant Finance & Accounts Officer, Accountant, Assistant Accountant, U.D.A, L.D.A, *etc.* and conducts day-to-day business of the Council. Administrative hierarchy of the Council is depicted in **Chart 1.1**:

Chart 1.1: Functional set-up of KHADC



Source: KHADC records.

1.5 Internal Control

Internal control system in an organisation ensures, 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 the internal control mechanism was weak 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, incurring of unfruitful expenditure, *etc.* as discussed in the succeeding Chapters.

Besides it was also seen that there were instances of:

- Improper maintenance of Cash Book.
- Delay in deposit of revenue in Treasury
- Non- reconciliation of balances in Cash Book;
- Discrepancies in closing balance in Personal Ledger Account in treasury;

Though the reconciliation of balances in treasury were done as discussed in Para 3.3 in Chapter- III. However, there were errors in reconciliation. Further, it was observed that inadequate internal control mechanism resulted in irregular expenditure in the form of discretionary Grants, delay in deposit of cash remittances into treasury non-compliance to the fund rules, *etc*. as discussed in succeeding chapters.

Thus, weak internal controls and improper upkeep of records were a constraint in examination of Council's the annual accounts and transactions.

Council may establish a strong internal control system for good governance.

On being pointed out, the Secretary, Executive Committee, KHADC stated that Single entry system does not invite for maintenance of any ledger or ledger accounts. Fund Rules are also silent about maintenance of any Assets Register, *etc*. The reply is not tenable as records with respect to receipts and expenditure, assets and other activities should have been maintained for transparency and accountability towards public money.

1.6 Recommendations

i. *Council may ensure timely submission of Annual Accounts to the Accountant General to adhere with prescribed timeline;*

ii. *The KHADC needs to strengthen its internal control mechanism, take action on deficiencies in Cash management;*

iii. *KHADC may seek the help from State Government and utilise its training facility for training and capacity building at all levels in the administrative hierarchy of the Council to ensure proper book keeping, record maintenance, supervision, control and monitoring*

CHAPTER-II

Autonomous District Council Funds

CHAPTER - II

Autonomous District Council Funds

2.1 Introduction to District Fund

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 the administration of such district or region respectively in accordance with the provisions of the Constitution.

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

A. District Fund

District Fund further has two divisions namely: (i) Revenue Section for Revenue Receipts and Expenditures and (ii) Capital Section for Capital Receipts and Expenditures, Public Debt, Loans and Advances. The first division deals with the proceeds of taxation and other receipts classed as revenue and expenditure met there from. It also includes the grants and contributions received from the Government and also grants and contributions by the Council. The second division deals with expenditure of Capital nature met from borrowed funds. 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 2014-15 were as depicted in **Table 2.1:**

Table 2.1: Summarised position of Accounts for the year 2014-15

(₹ in crore)

Receipts			Disbursement		
PART –I DISTRICT FUND					
Revenue Section					
2013-14	**1. Revenue Receipts**	**2014-15**	**2013-14**	**1. Revenue Expenditure**	**2014-15**
7.08	(i) Taxes on Income and Expenditure	8.22	1.29	(i) District Council	1.02
			1.25	(ii) Executive members	1.18
0.29	(ii) Land revenue	0.34	0.52	(iii) Land Revenue	0.54

Receipts			Disbursement		
PART –I DISTRICT FUND					
Revenue Section					
0.33	(iii) Taxes on vehicles	0.45			
0.28	(iv) Other Administrative Services	0.30	1.95	(iv) Administration of Justice	2.13
0.20	(v) Other General Economic Services	0.69	13.67	(v) Secretariat General Services	13.89
1.52	(vi) Forests[2]	1.46	4.19	(vi) Forest	4.33
14.47	(vii) Mines & Minerals[2]	10.61	3.13	(vii) Pension & Retirement benefit	3.18
0.00	(viii) Stationery and Printing	0.00	0.17	(viii) Education	0.36
0.01	(ix) Public works	0.00	2.40	(ix) Public works	2.09
2.37	(x) Grants-in-aid received from State Government	23.55	2.34	(x) Arts & Culture	0.07
0.34	(xi) Interest Receipts	0.43	0.02	(xi) Fisheries	0.00
			0.00	(xii) Relief on account of natural Calamities	0.00
			0.00	(xiii) Minor Irrigation	0.00
26.89	**Total Revenue Receipt**	**46.05**	**30.93**	**Total Revenue Expenditure**	**28.79**
4.04	***Revenue Deficit***			***Revenue Surplus***	***17.26***
	2. Capital			**2. Capital Outlay**	
			7.44	(i) Public Works	3.84
			0.00	(ii) Public Health and Sanitation	0.00
			0.00	(iii) Social Security and Welfare	0.00
			0.00	(iv) Other General Economic Services	0.00
			2.72	(v) Roads and Bridges	1.39
0.00	**Total Capital**	**0.00**	**10.16**	**Total Capital Outlay**	**5.23**
	3. Debt			**3. Debt**	
0.02	**Recoveries of loans and advances**	**0.11**	**1.04**	**Disbursement of loans and advances**	**0.34**
26.91	**Total of Part - I**	**46.16**	**42.13**	**Total of Part - I**	**34.36**
PART – II DEPOSIT FUND					
0.11	A. Deposits not bearing interest – (a) Security Deposit		0.03	A. Deposits not bearing interest- (a) Security Deposit	0.02
0.23	B. Civil Advances/ Departmental Advances	0.06	0.23	B. Civil Advances/Departmental Advances	0.28
0.32	C. Deposit bearing interest – (a) Term Deposit	0.28 0.70	0.00	C. Deposit bearing interest – Term Deposit	0.00
0.66	**Total of Part-II Deposit Fund**	**1.04**	**0.26**	**Total of Part-II Deposit Fund**	**0.30**
27.57	**Total Receipts (Part I+II)**	**47.20**	**42.39**	**Total Disbursements (Part I+II)**	**34.66**
35.72	Opening Balance	20.90	20.90	Closing Balance	33.44
63.29	**Grand Total**	**68.10**	**63.29**	**Grand Total**	**68.10**

Source: Annual Accounts of KHADC.

As pointed in the Audit Report for the year 2013-14, the Opening Balance (as on 01 April 2013) was revised from ₹ 35.72 crore to ₹ 10.23 crore based on the reconciliation of Cash Book with bank account. However, it was noticed that the modification was done on the basis of reconciliation of only one (Rural Bank, Iewduh Branch) bank account, out of the three bank accounts (Rural Bank, Iewduh Branch, Rural bank, Nongpoh and Rural Bank, Nongstoin) being operated by the Council. As

such, the revised Opening Balance was not correct. In view of the above, the opening balance for the year 2014-15 could not be vouched safe by Audit in absence of reconciliation of other bank accounts.

2.2.1 Resources, availability of funds and expenditure

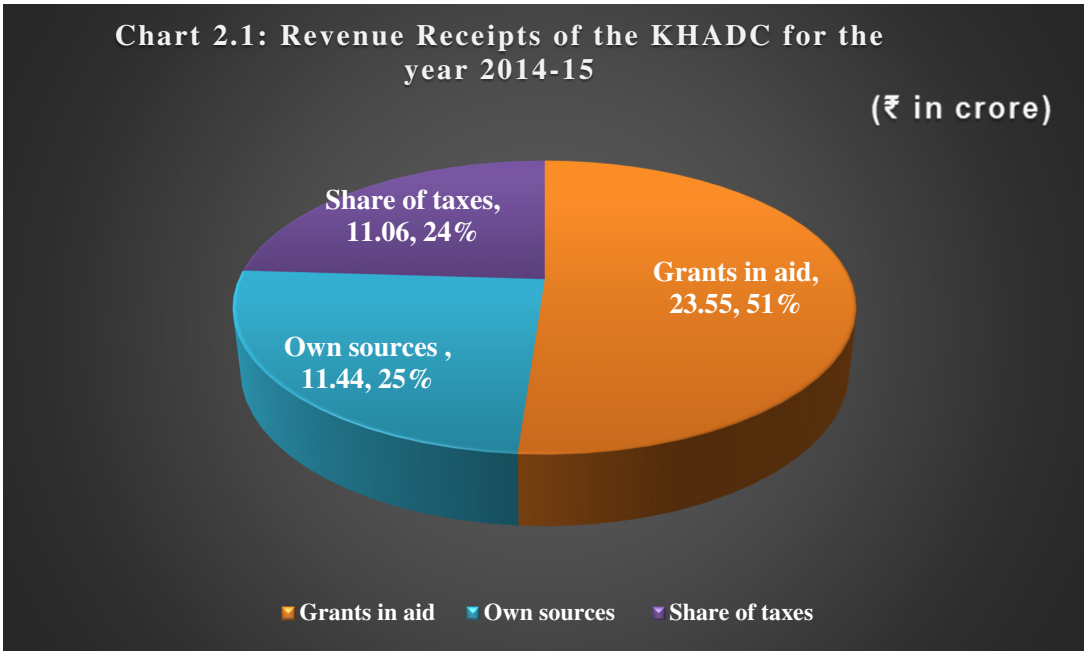
Resources

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. During 2014-15, KHADC generated ₹ 11.44 crore from its own sources and taxes[1], ₹ 11.06 crore was received as share of taxes from the State Government[2], received ₹ 23.55 crore as Grants-in-aid from GoI/GoM, and ₹ 0.11 crore as recovery of loans and advances.

As such, KHADC is primarily dependent on external sources of funds (75 *per cent*) as against its own sources of funds (25 *per cent*).

The details of aggregate revenue receipts are depicted in **Chart 2.1**.



Source: Annual Accounts.

1 Revenue from own sources (₹ 11.44 crore): Taxes on income and expenditure-₹ 8.22 crore; Forest ₹ 1.46 crore; Interest Receipts-₹ 0.43 crore; Land Revenue-₹ 0.34 crore; Other Administrative Services-₹ 0.30 crore; and Other General Economic Services-₹ 0.69 crore.

2 Share of taxes (₹ 11.06 crore): Mines & Minerals-₹ 10.61 crore and Taxes on vehicles-₹ 0.45 crore

Availability of funds and expenditure

The revenue receipts and revenue expenditure of KHADC during 2014-15 is analysed in **Table 2.2**.

Revenue receipts

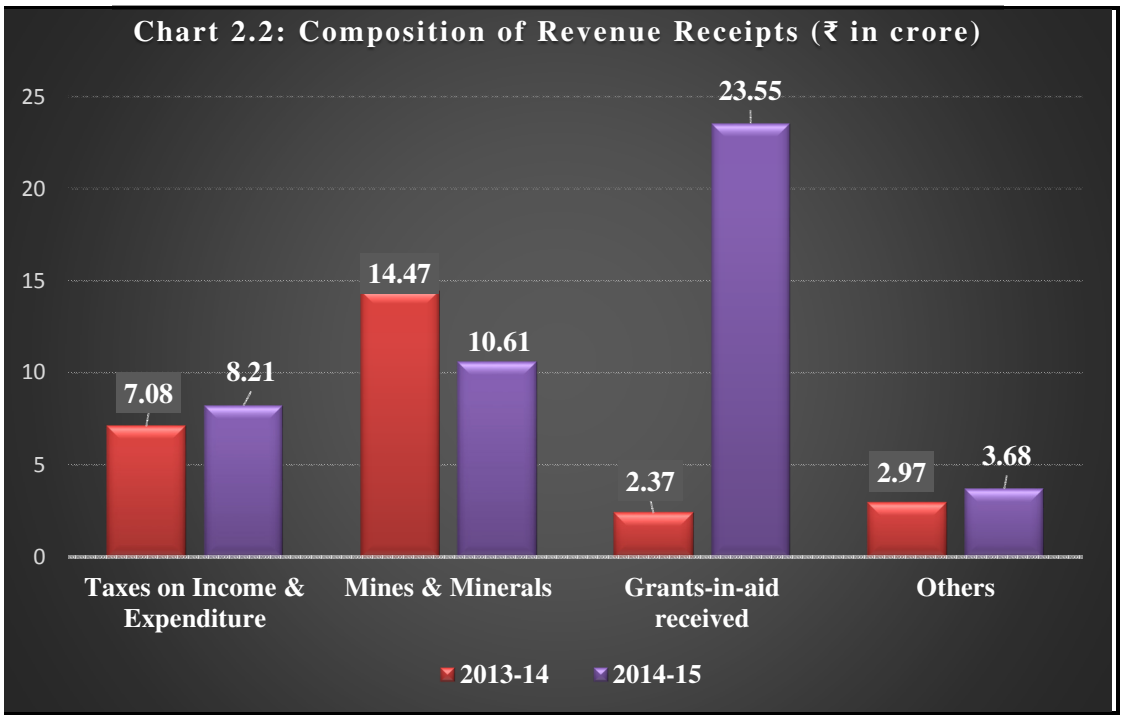
Table 2.2 and **Chart 2.2** below summarise the revenue receipts of KHADC during 2014-15.

Table 2.2: Summarised position of revenue receipts for the year 2014-15

(₹ in crore)

Head	2013-14	2014-15 (percentage of revenue)
Taxes on Income and Expenditure	7.08	8.21(18)
Mines & Minerals	14.47	10.61(23)
Grants-in-aid received[3]	2.37	23.55(51)
Others[4]	2.97	3.68(8)
Total	**26.89**	**46.05 (100)**

Source: Annual Accounts of KHADC.



Source: Annual Accounts of KHADC.

- As evident from **Table 2.2**, the total revenue receipts of KHADC increased by 71 *per cent* from ₹ 26.89 crore in 2013-14 to ₹ 46.05 crore during 2014-15. The increase in revenue receipts during 2014-15 was primarily due to Thirteenth Finance Commission Grant which enhanced Grants-in-aid from ₹ 2.37 crore in

[3] GoM + GoI.

[4] Includes Land Revenue, Taxes on Vehicle, Other Administrative Services, Other General Economic Services, Forests, Public Works, *etc*.

2013-14 to ₹ 23.55 crore in 2014-15, There was a fall by 27 *per cent* in share of royalty on Mines & Minerals.

- During 2014-15, the share of Grants-in-aid (₹ 23.55 crore) and royalty on Mines & Minerals (₹ 10.61 crore) constituted 74 *per cent* of the total revenue receipts (₹ 46.05 crore) of the KHADC.

Revenue expenditure

Table 2.3 and **Chart 2.3** below summarise the revenue expenditure of KHADC during 2013-14 and 2014-15.

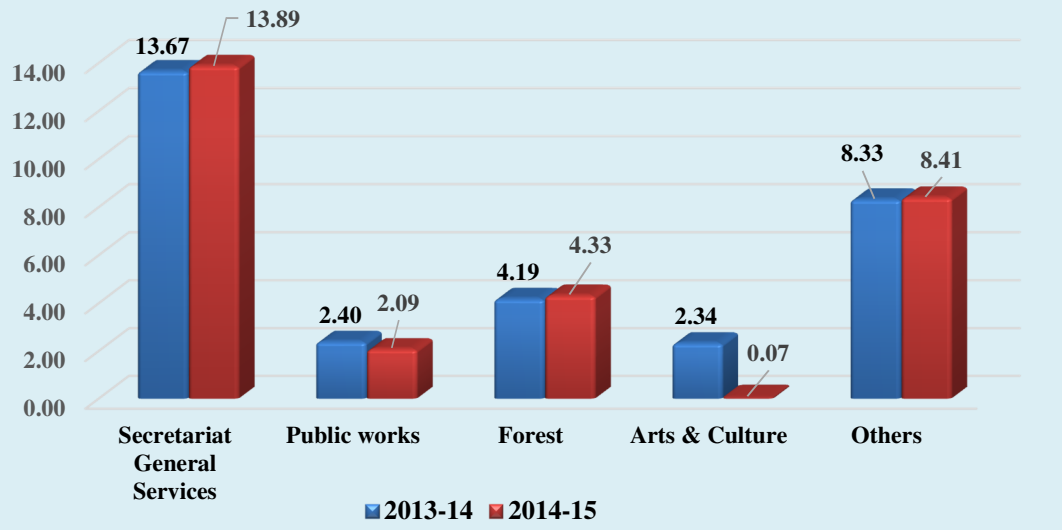
Table 2.3: Summarised position of revenue expenditure for the year 2014-15

(₹ in crore)

Head	2013-14	2014-15 (percentage)
Arts and Culture	2.34	0.07 (0)
Secretariat General Services	13.67	13.89 (48)
Public works	2.40	2.09 (08)
Forest	4.19	4.33 (15)
Others	8.33	8.41 (29)
Total	**30.93**	**28.79(100)**

Source: Annual Accounts of KHADC.

Chart 2.3: Composition of Aggregate Expenditure (₹ in crore)



Source: Annual Accounts of KHADC.

- The total revenue expenditure of KHADC decreased by seven *per cent* from ₹ 30.93 crore in 2013-14 to ₹ 28.79 crore in 2014-15. The decrease in revenue expenditure during 2014-15 was primarily due to decrease in expenditure under Arts and Culture (97 *per cent*) and Public Works (13 *per cent*).
- During 2014-15, Secretariat General Services (48 *per cent*), Forest (15 *per cent*) and Public Works (8 *per cent*) together accounted for 71 *per cent* of the revenue expenditure.

The Council needs to identify and implement internal cost-saving measures, while not compromising on its core functions and the State Government also needs to increase predictable and adequate lines of funding to the institution in a timely manner.

2.3 Substantial variation between Budget Estimates (BEs) and actuals

Scrutiny of budget estimates for the year 2014-15 *vis-à-vis* actual receipt and expenditure revealed significant variations between budget estimates and actual figures of receipts and expenditure as detailed in **Table 2.4**:

Table 2.4: Budget estimates and actual for the year 2014-15

(₹ in crore)

Particulars	Budget Estimates	Actual	Excess (+) / Shortfall (-)	Percentage of Excess (+) / Shortfall (-)
Receipt	104.38	46.05	(-) 58.33	(-) 56
Expenditure	104.38	28.79	(-) 75.59	(-) 72

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

During 2014-15, the actual receipts and expenditure of the KHADC fell short of the BEs by 56 and 72 *per cent* respectively.

The details of some of the Heads under which significant variations were noticed between the actual and budget estimate figures of receipts and expenditure during 2014-15 are detailed in **Table 2.5**:

Table 2.5: Heads of receipt/expenditure under which significant variations occurred between the Actuals and the Budget Estimates

(₹ in crore)

Sl. No	Major Heads	2014-15		
		Budget Estimates	Actual	Shortfall (-) /Excess (+) as compared to Estimate (*per cent to BEs*)
Receipts				
1.	Taxes on vehicles	1.10	0.45	(-)0.65 (59)
2.	Mines and minerals	20.25	10.61	(-)9.64 (48)
3.	Forest	1.81	1.46	(-)0.35 (19)
Expenditure				
1.	Forest	5.04	4.33	(-)0.71 (14)
2.	Education	0.22	0.36	(+)0.14 (64)

Source: Annual Accounts of KHADC.

The shortfall between the BEs and actual collection of revenue for the year 2014-15 as discussed above indicated that KHADC had not been able to make its revenue collection mechanism effective to the extent of the projections made under the BEs.

However, Audit observed that Council had utilised only 51 *per cent* of total available funds during the year 2014-15, out of which 84 *per cent* was spent on revenue expenditure while 15 *per cent* spent on Capital projects of the Council and one *per cent* on Loans and advances.

Council may put efforts to comprehensively map untapped, but eligible, revenue sources and put in place a plan for strict enforcement of tax and fee collections. The Council may need to undertake detailed budgetary analyses and reviews to identify and resolve challenges regarding financial sustainability.

2.4 Delay in submission of Utilisation Certificates (UCs)

As per Rule 212 of GFR, 2005, a certificate of actual utilization of the grants received for the purpose for which it was sanctioned, should be insisted upon in the order sanctioning the Grants-in-aid. Accordingly, order sanctioning grants made it mandatory to furnish UCs within the stipulated time frame. The purpose for which the Grant-in-aid were utilized can be confirmed only on receipt of UCs which would safeguard against diversion of funds for other purposes.

At the end of March 2015, UCs involving ₹ 15.98 lakh were not submitted by the Council to the State against the Grant-in-aid pertaining to previous years.

Council may ensure timely submission of utilisation certificate to the State Government with respect to Grants-in-aid received in conformity with actual utilisation for the purpose it was disbursed.

2.5 Conclusion

Variations between the BEs and actual receipts and expenditure during 2014-15 indicated that the KHADC had prepared the BEs without taking into account the actual position.

Budgetary assumptions of the Council were not realistic during 2014-15 to bring about efficiency and transparency in budget formulation and execution. Budgetary estimates were off the mark by a considerable margin, and control over the execution and monitoring of budget was inadequate.

Council had utilised only 51 *per cent* of total available funds during the year 2014-15, out of which 84 *per cent* was spent on revenue expenditure while 15 *per cent* spent on Capital projects of the Council and one *per cent* on Loans and advances.

2.6 Recommendations

In view of ongoing it is recommended that:

i. *Council may take steps to increase its own revenue receipts so that they are able to improve spending on programmes and schemes of the Council.*

ii. *The Council may undertake detailed budgetary analysis and reviews to identify untapped eligible revenue resources and for estimating revenue receipts more accurately. Council may also plan for utilisation of balances accumulated over the years.*

iii. *Council should map its administrative expenditure with respect to its income from own sources and spend wisely on revenue generation activities for financial sustainability.*

iv. *Council may ensure timely submission of utilisation certificate to the State Government with respect to Grants-in-aid received in conformity with actual utilisation for the purpose it was disbursed.*

CHAPTER-III

Comments on Accounts

CHAPTER - III

Comments of Accounts

3.1 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.

The 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, capital, plan and non-plan:

Table 3.1

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 2015
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

3.2 Deviations from the prescribed format of Annual Accounts

The Annual Accounts of the KHADC were to be prepared in conformity with the Forms of Accounts for the Autonomous District Councils prescribed by the Comptroller & Auditor General with the approval of the President under clause 7(3) of the Sixth Schedule to the Constitution.

The Council did not prepare the annual accounts in full conformity with the prescribed format as discussed below:

1. **Statement No. 2:** It shall contain Progressive expenditure on Capital Outlay. However, the Council depicted expenditure during the year only. Progressive expenditure on Capital outlay was not reflected in the Annual Accounts for the year 2014-15.
2. **Statement No. 7**: It should contain a statement of receipts, disbursements, and balance under heads relating to District Fund and Deposit Fund. It was seen that Statement No. 7 contains only details of Security Deposit, Civil Advances and Term Deposit and receipts such as Grants-in-aid for specific purpose and other Grants received from State Government, the expenditure/ disbursements against them and balances are not reflected.

Council may adhere to prescribed format of accounts for transparency and completeness in Annual Accounts.

3.3 Overstatement of Revenue Receipts

Discrepancy in revenue receipts due to delay in depositing the revenue

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 Receipts Register of 'Other Administrative Services' and the Annual Accounts for the year 2014-15 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 2014-15 (Statement No. 5) actually pertained to the period from 01 March 2014 to 28 Feb 2015 instead of 01 April 2014 to 31 March 2015. This has resulted in overstatement of the revenue receipts by ₹ 1.47 lakh during 2014-15 as summarised in **Table 3.2:**

Table 3.2: 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 (-)
2014-15	29.85	28.38	(+) 1.47

Source: Annual Accounts and other documents of KHADC.

In reply, KHADC stated (March 2018) that the practice followed was to deposit the collection for the current month in the following month. The reply was however, contrary to the provisions of Rule 18 of the United Khasi-Jaintia Hills Autonomous District Council Fund Rules, 1952.

Thus, the discrepancy between the figures of the revenue actually collected during the year and that recorded in the Annual Accounts of KHADC would continue to persist unless the provisions of the Rule *ibid* are complied with by KHADC.

Council should have reconciled these differences while compiling Annual Accounts.

3.4 Discrepancy in Personal Ledger Account

According to Fund Rules, 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 examination of the closing balance of the PLA as per the Plus and Minus Memorandum of Shillong District Treasury with that of Annual Accounts of the Council for the year revealed the differences as detailed in **Table 3.3**:

Table 3.3: Difference in Closing Balance of PLA

(₹ in lakh)

Year	Closing Balance of PLA as per Plus and Minus Memorandum of Treasury	Closing Balance of PLA as per Annual Accounts	Difference Overstatement (+)/ Understatement (-)
2014-15	961.77	921.18	(-) 40.59

Audit further observed that though the KHADC had prepared reconciliation statement for the financial year for reconciling the above difference, reconciliation was done in excess of the difference amount as detailed in **Table 3.4**:

Table 3.4: Difference in reconciliation amount

(₹ in lakh)

Year	Closing Balance of PLA as per Plus and Minus Memorandum of Treasury	Closing Balance of PLA as per Annual Accounts	Difference Overstatement (+)/ Understatement (-)	Reconciliation Done	Excess Amount
2014-15	961.77	921.18	(-) 40.59	(-) 48.13	7.54

As such, the difference in the closing balance of the PLA as per the Plus and Minus Memorandum of Shillong District Treasury and Annual Accounts of the Council has not been reconciled till date of audit (June 2019).

In reply (September 2020), Council accepted and stated that as for the last few years till October 2009,the Shillong District Treasury was not in a position to maintain and update the PLA Pass Book of Khasi Hills Autonomous District Council, Shillong, there are chances of discrepancies in between PLA vis-à-vis Khasi Hills Autonomous District Council Accounts.

Council may reconcile the differences before finalising Annual Accounts.

3.5 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 the deficiencies noticed during the course of audit were of the nature:

- Deviations from the prescribed format was noticed with respect to Statement No. 2 and Statement No.7.
- Incorrect accounting period and non-deposit of receipts promptly to Treasury resulted in overstatement of Revenue Receipts by ₹ 1.47 lakh for the year.
- Inconsistencies in closing balance at Treasury and in Annual Accounts were noticed.

3.6 Recommendations

i. *Council may adhere to the prescribed format of accounts for transparency and completeness in Annual Accounts.*

ii. *Council may ensure prompt credit of revenue receipts to Treasury and receipts pertaining to a financial year are accounted for in the same accounting year.*

iii. *Council is advised to device a system of periodical review of accounting records to identify mistakes within the accounting period so that corrective action is taken.*

CHAPTER-IV

Compliance Audit Observations

CHAPTER - IV

Compliance Audit Observations

4.1 Irregularities in maintenance of Cash Book

Rule 16 (ii) of the United Khasi and Jaintia Hills District Council Fund Rules, 1952 (hereafter referred as 'Fund Rules'), provides that all monetary transactions shall be entered in the Cash Book as soon as they occur. However, Audit observed that entries in the Cash Book during 2014-15 were made only for disbursement of salaries.

Further, Rule 16 (v) of the Fund Rules specifies that when Council moneys are paid into the Treasury, the Secretary shall compare the Treasury Officer's receipt on his Pass Book with the entry in Cash Book before attesting it and satisfy himself that the amount had been actually credited into the Treasury. It was, however, observed that though money were credited into Treasury, the same were not reflected in the Cash Book of the Council which was in contravention of the Rules in place.

In reply (September 2020), Council stated that concerned branches through whom the collections are made maintains day to day transactions by way of Subsidiary Cash Book. The reply is not tenable as transactions by Council were not reflected in the Cash Book and this defeats the purpose of maintaining the Cash Book.

Council may ensure all the receipts and expenditure to be recorded in the Cash Book for correct reporting of financials of the Council during the year.

4.2 Implementation of 13th Finance Commission Award

The KHADC received ₹ 22.05 crore as Grants-in-aid for implementation of schemes under up-gradation of Standard of Administration of the Autonomous District Councils as awarded by 13th Finance Commission and approved by the High Level Committee during 2014-15.

Irregularities noticed in the execution of these schemes are discussed in the subsequent paragraphs:

i. ***Non submission of Utilisation Certificates (UCs):*** As per the terms and conditions of the 13th Finance Commission Award, KHADC was responsible for submission of utilisation certificates to the Accountant General (A&E), Meghalaya with a copy to Government for utilisation of grants received under the Finance Commission award. Further, the grants were to be utilised within one year after the date of sanction.

Audit however, observed that UCs to the tune ₹ 0.84 crore have not been submitted by KHADC till date of audit (June 2019) resulting in delays ranging between three and four years as detailed in **Table 4.1**:

Table 4.1: Details of outstanding UCs

(₹in crore)

Sanction Order No. & date	Amount	Date of submission of Utilisation Certificate & letter No. & date	Outstanding UC	Delay in submission of UC (in years)
DCA.35/2014/13 dt. 01.05.2014	₹ 2.67	i. DC.Dev.XX/167/15/23/554 dated 03/10/2016: ₹72.23 lakh + ₹186 lakh ii.DC.Dev.XX/167/15/29/2776 dated 11/5/2017: ₹45.75 lakh	₹ 0.35	4
DCA.32/2014/14 dt. 01.05.2014	₹ 0.72			
DCA.65/2012/168 dt. 20.03.2015	₹ 9.33	i. DC.Dev.XX/65/14/27/526 dt. 09/09/2016: ₹ 679.00 lakh ii. DC.Dev.XX/65/14/34/2775 dated: 11/5/2017: ₹ 0.50 lakh iii. DC.Dev.XX/65/14/38/1408 dated: 03/05/2018: ₹155.00 lakh	₹ 0.49	3
Total			**₹ 0.84**	

ii. Deficiencies in tendering procedures: The deficiencies observed in the tendering procedures adopted by the Civil Works Department, KHADC in respect of the following works are detailed below:

Table 4.2: Work orders issued by Civil Works Department, KHADC during 2014-15

(₹ in lakh)

Sl. No.	Name of the work	Work Order No. and Date	Value of work
1.	Maintenance /Repairing of the Council Market at Byrnihat, Ri-Bhoi District	DC.DEV.XX/1167/13/12/426 dated 14th January 2014	36.08
2.	Construction of Forest Staff's Quarter at Nongshillong, West Khasi Hills	DC. Dev.XX/43/14/1802 dated 24th November 2014	7.07
3.	Construction and Renovation of the Conference Room at KHADC, Shillong	DC.DEV.XX/120/15 dated 08/09/15	45.00

Audit observed the following deficiencies in execution of works:

a. Absence of wide publicity: Notice Inviting Tenders (NITs)/Notice Inviting Quotations (NIQs) with respect to the above works were called for/invited only by means of **'Notice'** to be displayed on the Notice Board of the KHADC. As such, wide publicity was not given by means of advertisements in the Local/Regional/National newspapers.

b. Acceptance of incomplete tender documents: 'Sealed Covers' submitted by the tenderers/bidders were not available in the files. Further, contrary to tender

notices/clause, **"Technical Bids and Financial Bids"** were not submitted separately even for high valued works. Most of the tenders submitted by the tenderers were incomplete in nature, rates quoted by them were hand-written and were submitted in similar handwriting thereby raising doubt over the entire tendering procedure.

The Council in its reply (September 2020) stated that the Utilisation Certificate for ₹ 0.49 crore has since been submitted to the District Council Affairs Department, Government of Meghalaya in August 2020. Regarding following due procedure, Council stated that KHADC follows its own Rules.

The Council may adhere to prescribed procedure while awarding work to safeguard stakeholders' interest.

4.3 Irregular expenditure on Discretionary Grants

According to Rule 59 of the United Khasi-Jaintia District Fund Rules, 1952 "*a Council employee entrusted with payment of money shall obtain for every payment he makes, including repayment of sums previously lodged with the Council, a voucher setting forth full and clear particulars of the claim and all information necessary for its proper classification and identification in the accounts*."

During 2014-15, KHADC, on the approval of the Executive Committee, sanctioned ₹ 13.75 lakh as discretionary grants to its Members with the stipulation that necessary Utilisation Certificate (UC) be submitted against the claim. The sanction, however, had no stipulation regarding furnishing of necessary vouchers in support of the expenditure claimed.

Scrutiny of records revealed that during 2014-15, against the sanction, 28 members submitted claims with KHADC for release of ₹ 13.75 lakh as discretionary grants. The claims were, however, submitted together with the UCs for the amount claimed on the same date without any supporting vouchers against the expenditure incurred.

Thus, the Secretary, Executive Committee, KHADC, made payment of ₹ 13.75 lakh as discretionary grants without any supporting vouchers. In the absence of necessary vouchers evidencing proper utilisation of grants, the veracity of expenditure of ₹ 13.75 lakh incurred out of KHADC's fund could not be ascertained.

No comments were offered by the Council on the above audit observation.

Council should have clearly defined objectives and activities that need to be taken up by the members for utilisation of Discretionary Grants. Council may also maintain proper accounts along with relevant supporting documents to ensure utilisation of DG for bonafide purposes.

4.4 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 (June 2019), 41 paragraphs in respect of four IRs issued between June 2012 and February 2018 were outstanding.

4.5 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 2012-13 had been placed before the KHADC, action taken on the observations made in these Audit Reports had not been intimated (June 2019).

It is recommended that KHADC may 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.

4.6 Conclusion

Compliance audit of revenue and expenditure of the Council revealed that:

- Incomplete recording of transactions in Cash Book resulted in under reporting of expenditure in Annual Accounts.
- Council may adhere to prescribed procedures while awarding works to safeguard stakeholders' interest.
- Council paid ₹ 13.75 lakh as discretionary grants to Members without defining objectives and the purpose for utilisation of the grants. The council did not ensure submission of supporting vouchers/ UCs in support of the expenditure against the grants.

4.7 Recommendations

The Council may consider the following recommendations:

i. *They may ensure maintenance of Cash Book and other subsidiary accounting records to enable correct preparation of Annual Accounts; and*

ii. *Council may adhere to 13th Finance Commission guidelines for implementation of schemes.*

iii. Council should have clearly defined objectives and activities to be taken up by the members for utilisation of Discretionary Grants.

iv. Council may constitute Audit Committee to discuss Audit Reports and ensure action on audit observations.

Shillong **(SHEFALI S. ANDALEEB)**
The 11 July 2022 **Accountant General (Audit), Meghalaya**

Countersigned

New Delhi **(GIRISH CHANDRA MURMU)**
The 28 July 2022 **Comptroller and Auditor General of India**

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