

**Report of the
Comptroller and Auditor General of India**

For the year ended 31 March 2017

**Jaintia Hills Autonomous District Council,
Jowai, Meghalaya**

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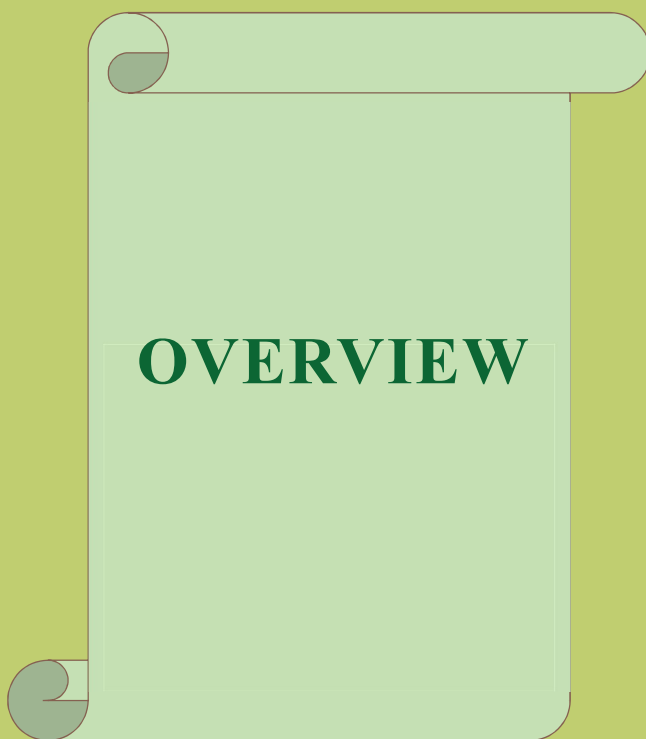
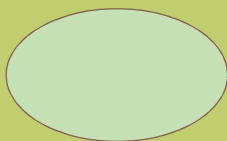
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PREFACE

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 and also of the transactions of the Jaintia Hills Autonomous District Council, Jowai, Meghalaya during the year 2016-17.

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 2016-17.

This Report contains three Chapters, the first of which deals with the Constitution of the Jaintia Hills Autonomous District Council, the rules for the management of the District Fund and maintenance of accounts by the District Council. Chapter-II depicts the Autonomous District Council Funds position. Chapter-III deals with compliance issues noticed during test-audit of the transactions of the Council for the year 2016-17.



OVERVIEW

This Report contains three Chapters. Chapter I provide 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 of the Report deals with the audit findings pertaining to Compliance Audit of the Council.

1. Internal Control

An evaluation of internal control system in the Council revealed that internal control mechanism was weak which is evident from persistent irregularities like discrepancy in cash balances as per annual accounts, retention of heavy cash balances, improper maintenance of Cash Book, (Paragraph 2.4). Due to weak internal controls, the attempt on the part of Audit to examine the Annual Accounts and transactions of the Council was constrained to that extent. Above failure in internal controls under Financial Management is fraught with risks of fraud, misappropriation and financial irregularities, which might remain undetected.

(Paragraph 1.5)

Recommendations:

- (i) *The Council may take appropriate steps to address challenges and enhance the proficiency of the Accounts team, aiming at ensuring smooth and accurate preparation of up-to-date Financial Statements in the future.*
- (ii) *The existing human resources can be further upskilled by using the available State training facilities in co-ordination with the District Council Affairs Department.*
- (iii) *The Council is encouraged to promptly address and rectify the deficiencies identified in audit through the newly established Internal Audit Section.*

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

2. Autonomous District Council Funds

Total receipts of the Council increased by ₹ 4.64 crore (6.32 per cent) from ₹ 73.37 crore in 2015-16 to ₹ 78.01 crore in 2016-17. The reason for increase was mainly due to Grants-in-Aid received (₹ 33.57 crore) from GoI during the year.

(Paragraph 2.2.1)

During 2016-17, JHADC generated ₹ 5.55 crore from its own sources, received ₹ 36.83 crore as share of taxes, ₹ 2.06 crore as Grants-in-aid from the State Government, and ₹ 33.57 crore as Special Assistance from Government of India. As such, JHADC is primarily dependent on external sources of funds (93 per cent) as against its own sources of funds (seven per cent).

(Paragraph 2.2.1.1)

Revenue expenditure of JHADC increased by 7.76 *per cent* from ₹ 63.26 crore in 2015-16 to ₹ 68.17 crore in 2016-17. The increase in revenue expenditure was mainly due to increase in expenditure under Land Revenue (five *per cent*), Secretariat General Services (16 *per cent*), Public Works (11 *per cent*) and Education (five *per cent*) over the previous year.

Despite incurring an expenditure of ₹ 7.08 crore under ‘Public Works – Construction’, *i.e.*, construction of roads, school buildings, *etc.*, that are Capital in nature, there was no capital expenditure reported in the Annual Accounts of the Council during 2016-17.

(Paragraph 2.2.1.2)

During the year 2016-17, JHADC received ₹ 1.81 crore under Article 275(1), which was utilised for construction of District Council Court building. The building was completed during June 2019 and final payment settled in June 2020.

(Paragraph 2.2.1.3)

The total receipts of the Council was ₹ 78.01 crore which was less than the Budget Estimate by six *per cent* during 2016-17. The shortfall between the budget provision and actual collection of revenue under Land revenue, Forest and Trading by Non-Tribals ranged from 23 to 100 *per cent*. This indicated that the Council had not been able to make its revenue collection mechanism effective to the extent it had planned.

Expenditure of the Council was ₹ 68.17 crore, falling short of the Budget Estimate during the year 2016-17 by 20 *per cent*. The shortfall between the budget estimate and actual expenditure under Public Works, Education, Information & Publicity, Land revenue and Forest Departments ranged from 17 to 34 *per cent*. This indicated poor implementation of schemes by the Council.

(Paragraph 2.3)

The Report of the Comptroller and Auditor General of India for the year ended 31 March 2005 highlighted the unauthorised removal of ₹ 5.49 crore from JHADC’s Cash Book in October 2004. This discrepancy remains unrectified in subsequent Cash Books, hence, the Annual Accounts for the year 2016-17 lack accuracy, preventing certification until the time the Cash Book of the JHADC is fully reconciled.

(Paragraph 2.4)

Recommendations:

- (i) *The Council needs to improve the collection efficiency of revenue from own sources in order to be less dependent on taxes and grants-in-aid.*
- (ii) *The Council must strategically plan the allocation of its available funds to ensure prudent utilisation. Additionally, it is advised that capital expenditures be accurately categorised and recorded under appropriate heads in the Annual Accounts.*

- (iii) *The Council may undertake detailed budgetary analysis and reviews to identify untapped eligible revenue resources for estimating revenue receipts more accurately. Expenditure on schemes implemented by the Council should also be incurred as per the budget provisions to achieve its objectives.*
- (iv) *The Council may rectify and update the Cash Books as early as possible and prepare its Annual Accounts in complete and transparent manner to ensure true and fair view.*

3. Compliance Audit Observations

The Council failed to deduct VAT amounting to ₹ 12.16 lakh from payments made to contractors amounting to ₹ 97.93 lakh in 2016-17 in violation of Section 106 and Section 112 of the Meghalaya VAT Act. This has resulted in revenue loss and extension of undue favour to the contractors.

(Paragraph 3.1)



CHAPTER-I

Constitution, Rules and Maintenance of Accounts

CHAPTER - I

Constitution, Rules and Maintenance of Accounts

1.1 Profile of Jaintia Hills Autonomous District Council

The United Khasi and Jaintia Hills Autonomous District Council was set up in June 1952 under the provisions of 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 Councils was renamed as Khasi Hills Autonomous District Council and Jaintia Hills Autonomous District Council respectively.

The Sixth Schedule to the Constitution provides for administration of specified tribal areas. For that purpose, it provides for 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 of land, management of forest other than reserve forests, use of any canal or water courses for irrigation purposes, regulation of the practice of “*Jhum*”¹ 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 water ways 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.

Jaintia Hills Autonomous District Council (JHADC) 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. JHADC is headquartered at Jowai, Meghalaya. During 2016-17, the Council had its full strength of members consisting of all 29 elected and one nominated member.

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 shall be credited all moneys received by the Council in the course of administration of the districts in accordance with the provisions of the Constitution.

In terms of paragraph 7(2) of the Schedule, Rules are to be framed by the Governor for management of the District Fund and the procedure to be followed in respect of

¹ “Jhum” cultivation is a local name for slash and burn agriculture practiced by the tribal groups in the north-eastern states of India. Crops are grown in this cultivation by clearing the trees and other vegetation and then burning the fields. Land burning allows the addition of potash to the soil, which in effect increases soil fertility and nutrient content.

payment of money into the said fund, the withdrawal of money therefrom, the custody of money therein and any other matter connected with or ancillary to these matters. These rules had not been finalised (January 2022). Meanwhile, the affairs of the Jaintia Hills Autonomous District Council were being regulated in accordance with the Jowai Autonomous District Fund Rules, 1967.

1.3 Maintenance of Accounts and Audit Arrangements

In pursuance of paragraph 7(3) of the Sixth Schedule to the Constitution of India, the forms of Accounts of the Council were prescribed by the Comptroller and Auditor General of India with the approval of the President, 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.

Rule 97 of the Jowai Autonomous District Fund Rules, 1967 stipulates that the Annual Accounts of the Council should be prepared as per the prescribed forms and forwarded to the Accountant General by 30 June each year. The annual accounts of the Council for the year 2016-17 was due to be submitted within June 2017, however, it was submitted to the Principal Accountant General (Audit), Meghalaya on March 2020, after a delay of more than three years. Audit was taken up during October 2021.

While accepting the audit observation, the Secretary, Executive Committee, JHADC, in response stated (September 2023), that Annual Accounts were previously delayed due to a lack of skilled staff, but the Council has addressed the issue and there are currently no arrears in accounts submission. The Council assures that there will be no future delays in Annual Accounts submission.

Audit did not notice any significant staff shortages during 2016-17 as persons-in-position were 36 against sanctioned strength of 38. Thus, delay in submission of accounts appears to be on administrative grounds rather than staff shortage. However, Audit acknowledges that Council has taken steps to streamline the submission of Annual Accounts. The Annual Accounts for the year 2022-23 have also been received in October 2023.

Nevertheless, it remains incumbent upon the Council to prioritise staff training so as to improve their skills, ensuring that future accounts are prepared and submitted timely.

Recommendation: *The Council may take appropriate steps to address challenges and enhance the proficiency of the Accounts team, aiming at ensuring smooth and accurate preparation of up-to-date Financial Statements in the future.*

Results of audit are discussed in the succeeding Chapters.

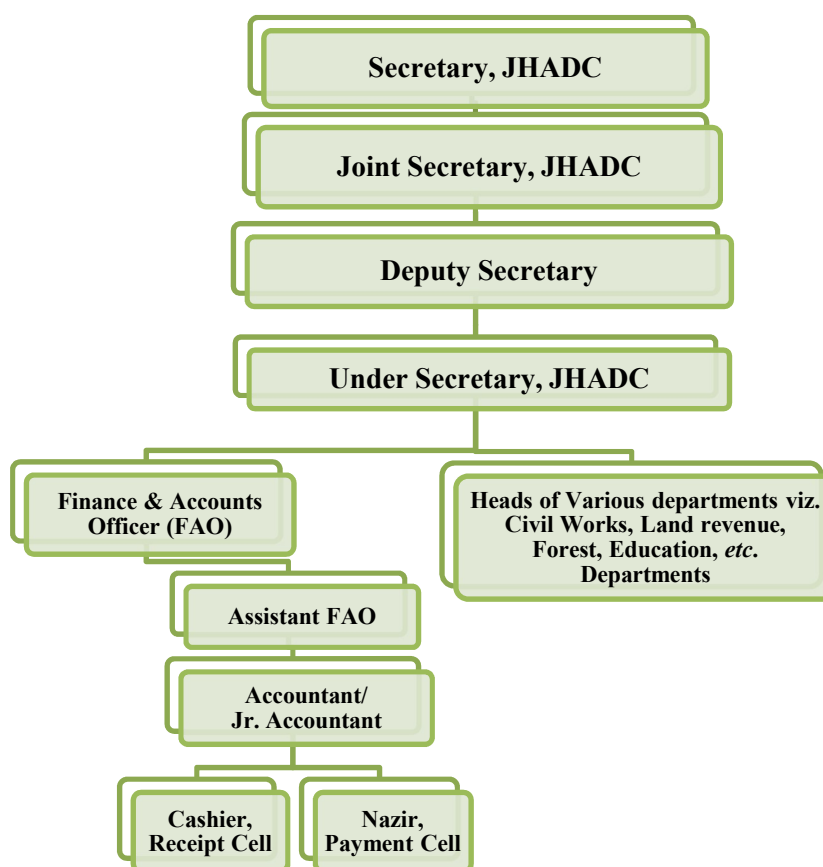
1.4 Administrative Set-up of the Council

The Executive Committee of the District Council comprises of the Chief Executive Member 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. The Executive Committee is headed by the Chief Executive Member who is the administrative head of the Council. There is a Secretary to the Executive Committee appointed by the Chief Executive Member. In addition, there is also a Secretary to the Legislative Council who heads the Legislative Wing and a Judge who heads the District Council Court.

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

Chart 1.1: Administrative set-up of JHADC



Source: JHADC records.

The functions of the Council are administered through 15 Departments by managing its various functions and activities with 949 persons-in-position (91.34 *per cent*) against a total sanctioned strength of 1039 persons, as mentioned in **Table 1.1**.

Table 1.1: Human Resources position of JHADC during 2016-17

Sl. No.	Name of the Department/Branch	Sanctioned Strength	Persons-in-Position
1.	General Administration Department	141	133
2.	Finance and Accounts Department	38	36
3.	Land Revenue and Land Reform Department	181	165
4.	Land Record and Land Settlement Department	98	93

Sl. No.	Name of the Department/Branch	Sanctioned Strength	Persons-in-Position
5.	Taxation Department	57	55
6.	Forest Department	225	221
7.	Political Department	27	24
8.	Civil Works Department	107	87
9.	Education Department	21	19
10.	Market, Agriculture, Soil and Fishery Department	54	38
11.	Statistics and Information Department	15	15
12.	Stationery and Printing Department	12	12
13.	Planning Department	10	8
14.	Judicial Department	29	24
15.	Legislative Department	24	19
Total		1039	949

Audit noticed that the Council had in position 36 accounts staff (**Appendix-I**) against the sanctioned strength of 38 and all the staff deployed for Accounts and Audit were appointed for their respective work. Despite availability of qualified staff, Audit has seen persistent shortcomings in maintenance of accounts such as non-maintenance of Cash Book, deficiencies in cash management and delay in finalisation of Accounts by the Autonomous District Council (ADC).

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 stakeholders in making and evaluating decisions about the allocation of resources. Due to delay in preparation of accounts coupled with deficiencies in Financial Statements, audit could not assess the appropriateness of utilisation of resources in a timely manner.

Recommendation: *The existing human resources can be further upskilled by using the available State training facilities in co-ordination with the District Council Affairs Department.*

1.5 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 JHADC, revealed that internal control mechanism in the Council was weak which is evident from persistent irregularities like discrepancy in cash balances as per annual accounts, retention of heavy cash balances, improper maintenance of Cash Book (Paragraph 2.4). We consider absence of weak internal controls, as serious audit constraints.

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.

In response to audit (September 2023), the Secretary, JHADC stated that in order to enhance the Internal Control system, the Executive Committee established an Internal Audit Section as per Decision No. 6 on 29 November 2022. A Notification issued on 27 June 2023 outlines staff allocation. The Internal Audit Section has been made operational since 01 September 2023 (office orders No. 918 and 919 of 2023).

Recommendation: *The Council is encouraged to promptly address and rectify the deficiencies identified in audit through the newly established Internal Audit Section.*

1.6 Summary of Recommendations

- (i) The Council may take appropriate steps to address challenges and enhance the proficiency of the Accounts team, aiming at ensuring smooth and accurate preparation of up-to-date Financial Statements in the future.*
- (ii) The existing human resources can be further upskilled by using the available State training facilities in co-ordination with the District Council Affairs Department.*
- (iii) The Council is encouraged to promptly address and rectify the deficiencies identified in audit through the newly established Internal Audit Section.*



CHAPTER-II

Autonomous District Council Funds

CHAPTER II

Autonomous District Council Funds

2.1 Introduction

Sixth Schedule to the Constitution of India provides for a District Fund for each Autonomous Region and a Regional Fund to which shall be credited all moneys received by the District Council for that district and the Regional Council for that region in the course of the administration of such district or region respectively. The District Fund of the Autonomous District Council is constituted under the provisions of Sub- Paragraph (I) of Paragraph 7 of the Sixth Schedule.

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

A. District Fund

District Fund is divided into four sections as detailed below:

- (i) **Revenue Section** for Revenue Receipts and Revenue Expenditures. This section shall deal with the proceeds of taxation and other receipts classed as revenue and expenditure met therefrom. It shall also include the grants and contributions received from the Government of India (GoI)/Government of Meghalaya (GoM) and also grants and contributions from the Council.
- (ii) **Capital Section** for Capital Receipts and expenditure of Capital nature².
- (iii) **Debt**, under which Loan received from Government and other sources and their repayments shall be recorded. This section shall also record District Council Provident Fund deducted and payments made, and
- (iv) **Loans and Advances** raised and paid off by the District Council.

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 JHADC for the year 2016-17 is depicted in Table 2.1:

² Expenditure incurred for acquiring fixed assets that can be used for a longer duration.

Table 2.1: Summarised position of Accounts for the year 2016-17

(₹ in crore)

PART –I DISTRICT FUND³					
Receipts			Disbursement		
2015-16	1. Revenue Receipt	2016-17	2015-16	Revenue Expenditure	2016-17
3.05	(i) Taxes on Income and expenditure	3.11	1.20	(i) District Council	1.11
0.51	(ii) Land Revenue	0.53	7.66	(ii) Land Revenue	8.04
0.06	(iii) Other Administrative Services	0.02	1.14	(iii) Administration of Justice	1.13
0.17	(iii) Stamps and Registration	0.30	4.05	(iv) Executive Members	4.11
0.46	(iv) Taxes on Vehicles	7.43	11.31	(v) Secretariat General Services	13.14
0.56	(v) Interest Receipts	0.50	0.61	(vi) Stationery and Printing	0.54
0.47	(vii) Other General Economic Services	0.48	9.98	(vii) Public Works	11.06
0.03	(viii) Fisheries	0.03	3.40	(viii) Pensions and other retirement benefits	4.55
0.90	(ix) Forest	0.45	8.92	(ix) Forest	8.46
66.58	(x) Mines & Minerals	29.40	0.00	(x) Fisheries	0.20
0.01	(xi) Stationery and Printing	0.13	10.05	(xi) Education	10.52
	(xii) Grants-in-aid from:		0.58	(xii) Information and Publicity	0.63
0.57	(a) State Government	2.06	3.00	(xiii) Relief on account of natural calamities	3.01
0.00	(b) GoI	33.57	1.35	(xiv) Agriculture	1.52
			0	(xv) Minor Irrigation	0.15
73.37	Total Revenue Receipt	78.01	63.26	Total Revenue Expenditure	68.17
-	Revenue Deficit	-	10.11	Revenue surplus	9.84
0	2. Capital	0	0	2. Capital	0
0	3. Debt	0	0	3. Debt	0
0	4. Loans and Advances	0	0	4. Loans and Advances	0
73.37	Total Part-I District Fund	78.01	63.26	Total Part –I District Fund	68.17
PART II- DEPOSIT FUND					
0	Deposit receipts	0	0	Deposits Payments	0
0	Total of part II Deposit fund	0	0	Total of Part II Deposit fund	0
73.37	Total receipts (I + II)	78.01	63.26	Total Disbursements (I +II)	68.17
34.42	Opening balance	44.53	44.53	Closing balance ⁴	54.37
107.79	Grand total	122.54	107.79	Grand total	122.54

Source: Annual Accounts of the Council.

2.2.1 Sources and application of funds

A comparative statement of sources and application of fund of the Council during 2016-17 and 2015-16 is given in **Table 2.2**.

³ To which shall be credited all money received by the Council in the course of Administration of the District in accordance with the provisions of the Constitution.

⁴ 2016-17: Cash - ₹ 1.73 crore; Bank - ₹ 43.33 crore; PLA - ₹ 1.77 crore; Investment - ₹ 7.55 crore.

Table 2.2: Sources and application of fund during 2016-17

(₹ in crore)

Particulars		2015-16	2016-17	Increase/Decrease (per cent)
Opening Cash Balance		34.42	44.53	29.37
Sources	<i>Own Revenue Receipts</i>	5.76	5.55	-3.65
	<i>Share of Taxes⁵</i>	67.04	36.83	-45.06
	<i>Grants-in-Aid (GoI)</i>	0.00	33.57	-
	<i>Grants-in-Aid (GoM)</i>	0.57	2.06	261.40
	Total Revenue Receipts	73.37	78.01	6.32
	Capital Receipts	0.00	0.00	-
	<i>Recoveries of Loans and Advances</i>	0.00	0.00	-
	<i>Receipts under Deposit Fund</i>	0.00	0.00	-
	Total	73.37	78.01	6.32
Application	Revenue Expenditure	63.26	68.17	7.76
	Capital Expenditure	0.00	0.00	-
	<i>Disbursement of loans and advances</i>	0.00	0.00	-
	<i>Disbursement under Deposit Fund</i>	0.00	0.00	-
	Total (Disbursement)	63.26	68.17	7.76
Closing Cash Balance		44.53	54.37	22.10

Source: Annual Accounts of JHADC.

It can be seen from **Table 2.2** that:

- Total receipts of the Council increased by ₹ 4.64 crore (6.32 per cent) from ₹ 73.37 crore in 2015-16 to ₹ 78.01 crore in 2016-17. The reason for increase was mainly due to Grant-in-Aid received (₹ 33.57 crore) from GoI during the year.
- Share of taxes decreased by ₹ 30.21 crore (45.06 per cent) from ₹ 67.04 crore in 2015-16 to ₹ 36.83 crore in 2016-17. The reason for decrease was mainly due to decrease in share of royalty on mines and minerals by ₹ 37.18 crore.

During 2016-17, out of the total fund available of ₹ 122.54 crore, including OB, the Council utilised ₹ 68.17 crore (56 per cent).

2.2.1.1 Resources

JHADC collected its revenue through:

- **Revenue from own sources** - Trade licenses, taxes on profession, land revenue, market auction, bank interest, fisheries, forest, stamp & registration *etc.*;
- **Share of taxes** - From the State Government on taxes on vehicles, forest and mines & minerals.
- **Grants-in-Aid** - From the State Government through the State Plan.

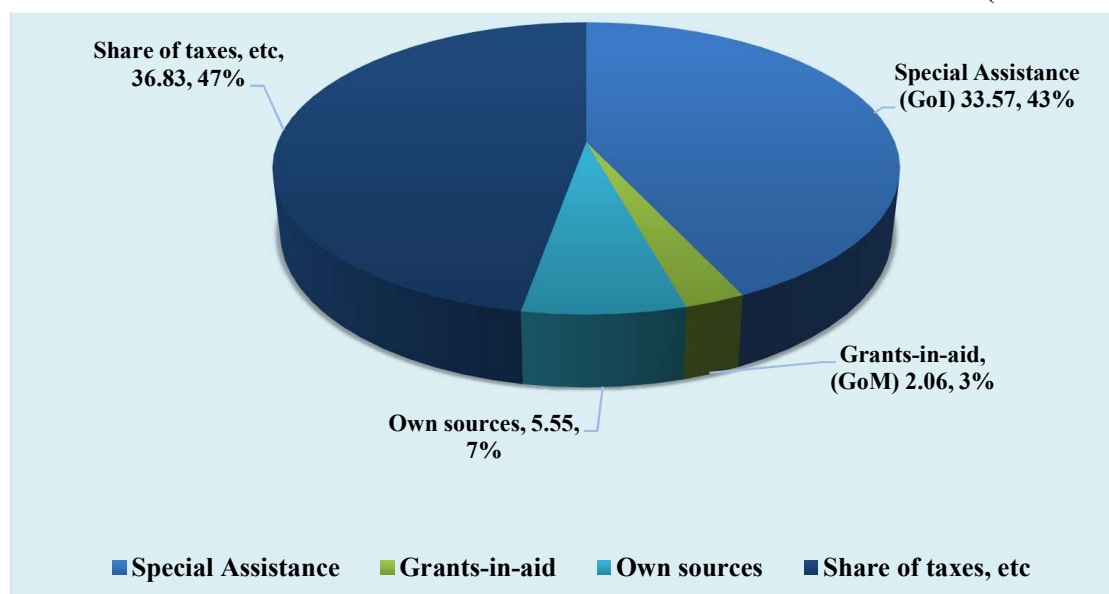
⁵ (i) Taxes on vehicle - ₹ 7.43 crore, and (ii) Share on Mine and Minerals - ₹ 29.40 crore = ₹ 36.83 crore.

During 2016-17, JHADC generated ₹ 5.55 crore⁶ from its own sources, received ₹ 36.83 crore as share of taxes, ₹ 2.06 crore⁷ as Grant-in-aid from the State Government, and ₹ 33.57 crore as Special Assistance from Government of India. As such, JHADC is primarily dependent on external sources of funds (93 *per cent*) as against its own sources of funds (seven *per cent*).

Chart 2.1 below depicts the composition of resources of JHADC amounting to ₹ 78.01 crore during 2016-17.

Chart 2.1: Composition of Aggregate Receipts (2016-17)

(₹ in crore)



Recommendation: The Council needs to improve the collection efficiency of revenue from own sources in order to be less dependent on taxes and grants-in-aid.

2.2.1.2 Availability of funds and expenditure

The revenue receipts and revenue expenditure of JHADC during 2016-17 is analysed in the following paragraphs.

A. Revenue receipts

Table 2.3 and **Chart 2.2** below summarise the revenue receipts of JHADC during 2016-17.

⁶ Revenue receipts of JHADC during 2016-17, from Own Revenue and Share of taxes:

Head	₹ in crore	Head	₹ in crore
Own Revenue		Share of Taxes	
(i) Taxes on income and expenditure	3.11	(i) Mines & Minerals	29.40
(ii) Land Revenue	0.53		
(iii) Interest Receipts	0.50		
(iv) Other General Economic Services	0.48	(ii) Taxes on Vehicles	7.43
(v) Forest	0.45		
(vi) Others	0.48		
Total	5.55	-	36.83

⁷ Grants-in-aid from State Government – ₹ 2.06 crore (Public Works: ₹ 1.81 crore + Forests: ₹ 0.17 crore + Land Survey & Reform: ₹ 0.08 crore).

Table 2.3: Summarised position of revenue receipts for the year 2016-17

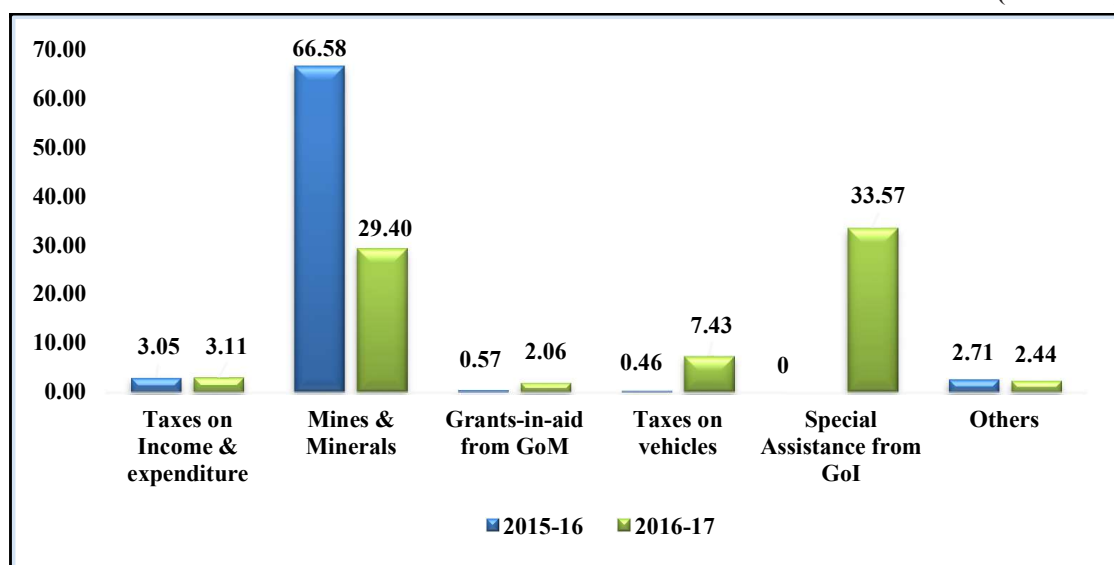
(₹ in crore)

Head	2015-16	2016-17 (Percentage of Revenue Receipts)
Taxes on Income and Expenditure	3.05	3.11 (4)
Mines & Minerals	66.58	29.40 (38)
Grants-in-aid from State Government	0.57	2.06 (3)
Taxes on vehicles	0.46	7.43 (9)
Special Assistance from GoI	0	33.57 (43)
Others ⁸	2.71	2.44 (3)
Total:	73.37	78.01 (100)

Source: Annual Accounts of JHADC.

Chart 2.2: Composition of Revenue Receipts

(₹ in crore)



Source: Annual Accounts of JHADC.

- As evident from **Table 2.3**, the total revenue receipts of JHADC increased by 6.32 *per cent* from ₹ 73.37 crore in 2015-16 to ₹ 78.01 crore during 2016-17. The increase in revenue receipts during 2016-17 was due to increase in receipt of Special Assistance from Government of India (100 *per cent*), Grants-in-aid from State Government (261 *per cent*) and Taxes on vehicles (1515 *per cent*) over the previous year.
- During 2016-17, the share of royalty on Mines & Minerals (₹ 29.40 crore), Grants-in-aid received from State Government (₹ 2.06 crore), Share of Taxes on Vehicles (₹ 7.43 crore) and Special Assistance from Government of India (₹ 33.57 crore) together constituted 93 *per cent* of the total revenue receipts (₹ 73.37 crore) of the JHADC, indicating high dependence of the JHADC on revenue from outside sources involving share of royalty/ taxes and grants-in-aid from the Government.

B. Revenue expenditure

Table 2.4 and **Chart 2.3** below summarise the revenue expenditure of JHADC during 2015-16 and 2016-17.

⁸ Includes Land Revenue, Other Administrative Services, Other General Economic Services, Forests, Public Works, etc.

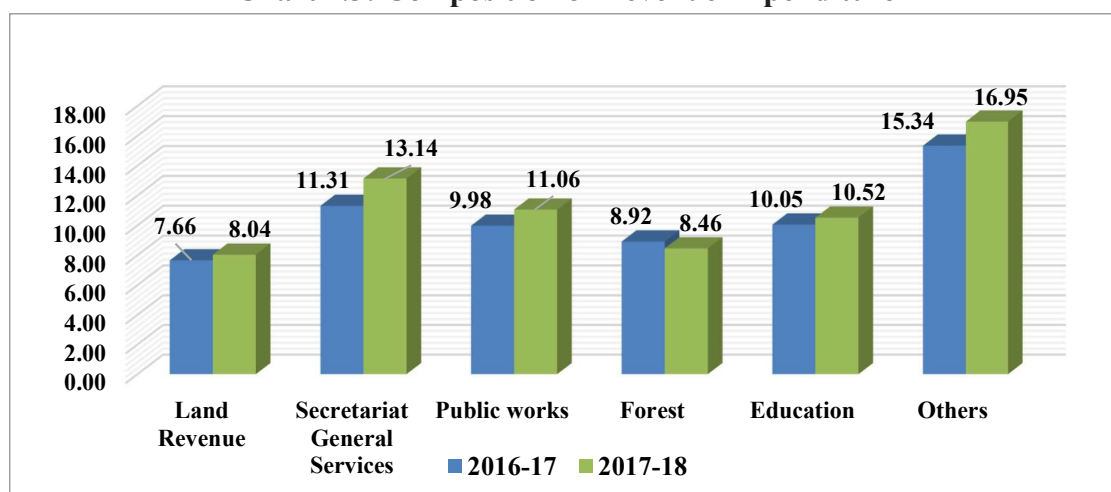
Table 2.4: Summarised position of revenue expenditure for the year 2016-17

(₹ in crore)

Head	2015-16	2016-17 (Percentage of Revenue Expenditure)
Land Revenue	7.66	8.04 (12)
Secretariat General Services	11.31	13.14 (20)
Public Works	9.98	11.06 (16)
Forest	8.92	8.46 (12)
Education	10.05	10.52 (15)
Others	15.34	16.95 (25)
Total	63.26	68.17 (100)

Source: Annual Accounts of JHADC.

Chart 2.3: Composition of Revenue Expenditure



- The total revenue expenditure of JHADC increased by 7.76 per cent from ₹ 63.26 crore in 2015-16 to ₹ 68.17 crore in 2016-17. The increase in revenue expenditure during 2016-17 was mainly due to increase in expenditure under Land Revenue (five per cent), Secretariat General Services (16 per cent), Public Works (11 per cent) and Education (five per cent) over the previous year.
- During 2016-17, Secretariat General Services (20 per cent) Public Works (16 per cent), Education (15 per cent) and Forest (12 per cent), together accounted for 63 per cent of the revenue expenditure leaving small percentage for other heads of expenditure including important heads such as Land Revenue, Urban Development and Agriculture.
- Despite incurring an expenditure of ₹ 7.08 crore under ‘Public Works – Construction’, i.e., construction of roads, school buildings, etc., that are Capital in nature, there was **no capital expenditure reported in the Annual Accounts of the Council.**

Recommendation: The Council must strategically plan the allocation of its available funds to ensure prudent utilisation. Additionally, it is advised that capital expenditures be accurately categorised and recorded under appropriate heads in the Annual Accounts.

2.2.1.3 Grants received under Article 275(1) of the Constitution

During the year 2016-17, JHADC received ₹ 1.81 crore under Article 275(1). The grant-in-aid received was utilised by the Council for construction of District Council Court building at Riatsasim, Jowai. The building was completed during June 2019 and final payment was made by the Council during June 2020.

2.3 Substantial variation between Budget Estimates and Actuals

Scrutiny of budget estimates for the year 2016-17 *vis-à-vis* actual receipt and expenditure revealed that there were variations between budget estimates (BE) as compared to receipts and expenditure as detailed in **Table 2.5**.

Table 2.5: Budget Estimates and actual for the year 2016-17

(₹ in crore)

Particulars	Budget Estimate (BE)	Actual	Excess (+) / Shortfall (-)	Percentage of Excess (+) / Shortfall (-)
Receipt	83.35	78.01	(-) 5.34	(-) 6.41
Expenditure	85.28	68.17	(-) 17.11	(-) 20.06

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

As compared to the BE, the receipts of the Council showed a decreasing trend and fell short of the BE by 6.41 *per cent* while the expenditure fell short of the BE by 20.06 *per cent*.

Scrutiny of some of the Major heads under which the actual receipts and expenditure were significantly lower than the estimated budget provisions during 2016-17 were as detailed in **Table 2.6**.

Table 2.6: Heads under which receipts were significantly less than the BE

(₹ in crore)

Sl. No.	Major Head	2016-17		
		Budget Estimate	Actual	Shortfall
1.	Land revenue	0.69	0.53	0.16 (23)
2.	Forest	1.00	0.45	0.55 (55)
3.	Trading by Non-tribals (TNT)	1.25	0.00	1.25 (100)

Source: Budget Estimates of Receipts and Expenditure and Statement No.5 of Annual Accounts.

The shortfall between the budget provision and actual collection of revenue under Land revenue, Forest and Trading by Non-Tribals ranged from 23 to 100 *per cent*. This indicated that the Council had not been able to make its revenue collection mechanism effective to the extent it had planned.

In respect of expenditure, the shortfall was mainly due to the Major heads where expenditure declined sharply during the year 2016-17 as detailed in **Table 2.7** below.

Table 2.7: Heads under which expenditure were significantly less than the BE

(₹ in crore)

Sl. No.	Major Head	2016-17		
		Budget Estimate	Actual	Shortfall
1.	Public works	14.93	11.06	3.87 (26)
2.	Education	13.75	10.52	3.23 (23)
3.	Information and Publicity	0.96	0.63	0.33 (34)
4.	Land revenue	9.83	8.04	1.79 (18)
5.	Forest	10.24	8.46	1.78 (17)

The gap between the budget provision and actual expenditure under Public Works, Education, Information & Publicity, Land revenue and Forest Departments ranged from 17 to 34 *per cent*. This indicated poor implementation of schemes by the Council.

Audit observed that out of the available fund of ₹ 122.54 crore, the Council had incurred expenditure of ₹ 68.17 crore, which accounts to only 56 *per cent* of total available funds during the year 2016-17.

In response to audit, the Secretary, JHADC, stated (September 2023) that some revenue heads, particularly the council's own revenue collection, cannot be accurately predicted due to varying services, circumstances, and socio-economic conditions. The budget provisions for land revenue and taxes on professions were based on earlier years' collections. The overall shortfall in receipts was primarily due to the non-receipt of the Council's expected share of Major Minerals from the Government, receiving only ₹ 8.71 crore against the anticipated amount of ₹ 31.14 crore.

The reply also stated that expenditure of the Council is contingent on revenue receipts, timely fund releases, and grants. The Council incurs expenses based on actual fund availability in a given year, including own revenue, government shares, and grants. Thus, if actual receipts are less than budget estimates, expenditures align accordingly to available funds, ensuring no spending exceeds budget provision without available funds. With the Council revenue heavily reliant on timely government releases, particularly royalty and grants, persistent delays or non-releases hinder effective planning of actual revenue collection and expenditures.

While JHADC's views has merit, Audit is of the opinion that JHADC should make efforts to enhance its own resources of revenue to improve predictability of the finances.

Recommendation: *The Council may undertake detailed budgetary analysis and reviews to identify untapped eligible revenue resources for estimating revenue receipts more accurately. Expenditure on schemes implemented by the Council should also be incurred as per the budget provisions to achieve its objectives.*

2.4 Constraints in conducting Audit of Accounts

Paragraph 7(4) of the Sixth Schedule to the Constitution of India states that “*The Comptroller and Auditor General shall cause the accounts of the District Councils 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.*”

Audit Reports generally contains comments on accounts. However, for the year 2016-17, the accounts were not audited by Audit and as such, we are unable to certify the accounts and provide any assurance that the accounts are free from material irregularities due to the reasons explained below:

The affairs of the Jaintia Hills Autonomous District Council (JHADC) were being regulated in accordance with the Jowai Autonomous District Fund Rules, 1967. Rule 16 (1) of the Fund Rules states that the Cashier shall keep a Cash Book in the form prescribed in which he shall enter all sums received and payment made by him on account of the Council. Rule 7 further states that the Member-in-charge of the Financial Affairs shall, at the time of audit, cause to be produced all accounts, registers, documents and subsidiary papers which may be called for by the audit authority for investigation.

During the course of audit of the Council's accounts for the year 2016-17, it was observed that the Cash Book from 01 August 2009 to 01 June 2014 was not available with the Finance and Accounts Department of JHADC and the same was not furnished to Audit.

The Council vide Office Memorandum dated 28 May 2014 created two separate cells viz. Receipt Cell and Payment Cell. Accordingly, two Cash Books were brought into use, one for Receipt Cell and another for Payment Cell. The Cash Book of the Receipt Cell was opened on 02.06.2014 showing opening balance as 'Nil' and the Payment Cell brought the Cash Book into use on 21.10.2014, also with 'Nil' opening balance. Showing opening balance as 'Nil' in the Cash Books was wrong and misleading since the Council had not reconciled and re-casted the Cash Book taking into account the fund of ₹ 5.49 crore unauthorisedly removed during 01 October 2004.

- Audit is of the view that opening of Cash Book without taking into account the missing fund is a violation to the provisions of Rule 16 (1) of the Fund Rules. Further, in the absence of re-casted Cash Book/ irregular opening of Cash Book, the basis for preparation of final accounts and closing balance of 'cash in hand' as reflected in the Annual Accounts for the year 2016-17 could not be vouched safe by Audit.
- Mention was made in Paragraph 3.1 of the Report of the Comptroller and Auditor General of India for the year ended 31 March 2005 that the closing balance of cash in hand as on 30 September 2004 was ₹ 5.49 crore. In the following month (01 October 2004) a new Cash Book was opened with Nil opening balance without any attestation or authorisation order and thus fund amounting to ₹ 5.49 crore was unauthorisedly removed from the Cash Book. This fund was not brought back into the subsequent Cash Books for the year 2005-06 to 2016-17. Thus, the opening balance of cash in hand as on 01 April 2005 was understated to the tune of ₹ 5.49 crore and remained unreconciled till 31 March 2017. This fact was also brought out in **Paragraph 2.2.2** of (2005-06 to 2007-08), **Paragraph 3.1** of (2008-09), **Paragraph 2.3** of (2009-10), **Paragraph 2.3** of (2010-11), **Paragraph 2.4** of (2011-12) and **Paragraph 2.4** of (2012-13) of the Report of the Comptroller and Auditor General of India.

It was however observed that in the past Reports discrepancies in the opening and closing cash balances as pointed out by Audit had not been reconciled by the JHADC, even in the Annual Accounts for the year 2016-17. As such, the opening and closing balances do not reflect true and correct picture of the Annual Accounts of JHADC. In such circumstances, audit is unable to certify the annual accounts of JHADC for the year 2016-17, and until the time the Cash Book of the entity is fully reconciled and presented to the Audit.

The Council vide office order no. 898 dated 16 June 2016 had notified the task of 'updating of the Council Cash Book and Compilation of Annual Accounts from 01 April 2005 to 30 May 2014'. However, till the date of Audit (June 2022) though the Annual Accounts were submitted, the status on the updating of the Cash Books has not yet been furnished.

In response to audit, the Secretary, JHADC stated (September 2023) that disciplinary actions have been taken for non-maintenance of the Cash Book and embezzlement against the former Cashier and Finance & Accounts Officer. The Council is now updating Cash Books from October 2004 to May 2014 (Receipt Cell) and from October 2004 to 20 October 2014 (Payment Cell). Proper maintenance began on 02 June 2014, for the Receipt Cell and 21 October 2014, for the Payment Cell, both starting with a 'Nil' balance. Upon completion, any differences in closing balances will be reconciled.

The Council's response is not tenable, as opening Cash Books with 'Nil' balance fails to address the unaccounted fund of ₹ 5.49 crore which has been pointed out by audit multiple times, thus, presenting an inaccurate portrayal of the financial documents.

In light of the above it can be concluded that the Council has failed to exercise due diligence in financial monitoring besides depicting apathy in addressing the serious matter of financial impropriety with the swiftness it deserves.

Recommendation: *The Council may rectify and update the Cash Books as early as possible and prepare its Annual Accounts in complete and transparent manner to ensure true and fair view.*

2.5 Conclusion

- Revenue receipts of JHADC increased by six *per cent* from ₹ 73.37 crore in 2015-16 to ₹ 78.01 crore during 2016-17. The increase in revenue receipts during 2016-17 was primarily due to increase in Grants-in-aid from State Government and Taxes on Vehicles over the previous year and receipt of special assistance from Government of India.
- During 2016-17, the share of royalty on Mines & Minerals (₹ 29.40 crore), Grants-in-aid received from State Government (₹ 2.06 crore), Share of Taxes on Vehicles (₹ 7.43 crore) and Special Assistance from Government of India (₹ 33.57 crore) constituted 93 *per cent* of the total revenue receipts (₹ 78.01 crore) of the JHADC, indicating high dependence of the JHADC on revenue from share of royalty/ taxes and grants-in-aid from the Government.

- Revenue expenditure of JHADC increased by 7.76 *per cent* from ₹ 63.26 crore in 2015-16 to ₹ 68.17 crore in 2016-17. The increase in revenue expenditure during 2016-17 was mainly due to increase in expenditure under Land Revenue (five *per cent*), Secretariat General Services (16 *per cent*), Public Works (11 *per cent*) and Education (five *per cent*) over the previous year.
- Cash Book for the year though made available to Audit but were opened without taking into consideration the missing fund of ₹ 5.49 crore which constrained verification and validation of expenditure for bonafide purposes, resulting in unverified cash balances. Thus, audit has not proceeded with the audit the accounts for the year 2016-17, and is therefore unable to certify the accounts and provide any assurance that the Accounts were free from material irregularities.

2.6 Summary of Recommendations

- (i) *The Council needs to improve the collection efficiency of revenue from own sources in order to be less dependent on taxes and grants-in-aid.*
- (ii) *The Council must strategically plan the allocation of its available funds to ensure prudent utilisation. Additionally, it is advised that capital expenditures be accurately categorised and recorded under appropriate heads in the Annual Accounts.*
- (iii) *The Council may undertake detailed budgetary analysis and reviews to identify untapped eligible revenue resources for estimating revenue receipts more accurately. Expenditure on schemes implemented by the Council should also be incurred as per the budget provisions to achieve its objectives.*
- (iv) *The Council may rectify and update the Cash Books as early as possible and prepare its Annual Accounts in complete and transparent manner to ensure true and fair view.*



CHAPTER-III

Compliance Audit Observations

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Compliance Audit Observations

3.1 Non-deduction of MVAT

In terms of Section 106 of Meghalaya Value Added Tax (VAT) Act, the Drawing and Disbursing Officer is responsible for making payment, should deduct VAT for works contract, *etc.* and deposit the VAT so collected to the State Government. Under Section 112, VAT @ 14.50 per cent on 75 per cent of the value of the work was to be deducted at source from the value of work of contract bills of contractors while making payment to them either by way of cash or cheque or by adjustment or in any other manner whatsoever.

Audit observed that while executing the schemes awarded by the 13th Finance Commission, the Council did not deduct VAT amounting to ₹ 12.16 lakh from the payment of ₹ 97.93 lakh made to the contractors for execution of 20 works during the year 2016-17 (**Appendix-II**).

Thus, failure to deduct VAT amounting to ₹ 12.16 lakh from the bills of contractors was in violation of the codal provision resulting in loss of revenue to the State and extension of undue favour to the contractors.

In response to audit, the Secretary, JHADC stated (September 2023) that MVAT was not deducted from contractors' bills because they have already paid MVAT during material purchase. However, since 2018-19, regular MVAT deductions are applied to all contractor bills.

The reply of the Council is not tenable since MVAT deduction is to be made according to the rule *ibid* and not based on individual contractor purchases.

3.2 Outstanding Inspection Reports

Audit observations on financial irregularities and defects in the maintenance of accounts noticed during previous local audits which are not settled on the spot are communicated to the Secretary of the Council with copy to that District Council Affairs Department and Finance Department through Inspection Reports (IRs). Seven IRs issued between July 2005 and November 2020, comprising 49 paras had not been settled (April 2023).

In response to Audit (August 2023), the Secretary, Executive Committee, JHADC stated that 11 outstanding paras relating to four Inspection Reports have been reviewed and settled by the team conducting audit during May-June 2018. The reply also stated that replies to 39 paras in respect of the Inspection Reports for the years 2005-15 and Supplementary Inspection Reports for the years 2011-12 to 2012-13 have been furnished between July 2017 and August 2022.

It may be stated that replies of the Council are not accompanied by complete documents in support of the replies. The matter is under correspondence with JHADC. Consequently, ten outstanding paras related to Inspection Reports for the years 2000-01 to 2004-05 have not been conclusively resolved.

3.3 Follow-up action on Audit Reports

According to the JADF Rules, 1967, the Member in-charge of Financial Affairs shall place the Audit Report before the Council and shall send a copy of the proceedings of discussion held by the Council thereon to the Governor of the State for information. Though, the Audit Reports for the years up to 2012-13 in respect of the Jaintia Hills Autonomous District Council has been placed before the Council, apart from the Chairman's request for greater diligence from Council officials in the future, and considering past findings as lessons, no further action was taken by the Council regarding the audit paragraphs contained in these reports.

It is recommended that the Council may ensure time bound action on the audit observations pointed out in the Audit Reports to facilitate improved financial discipline and good governance in the conduct of the affairs of the Council.

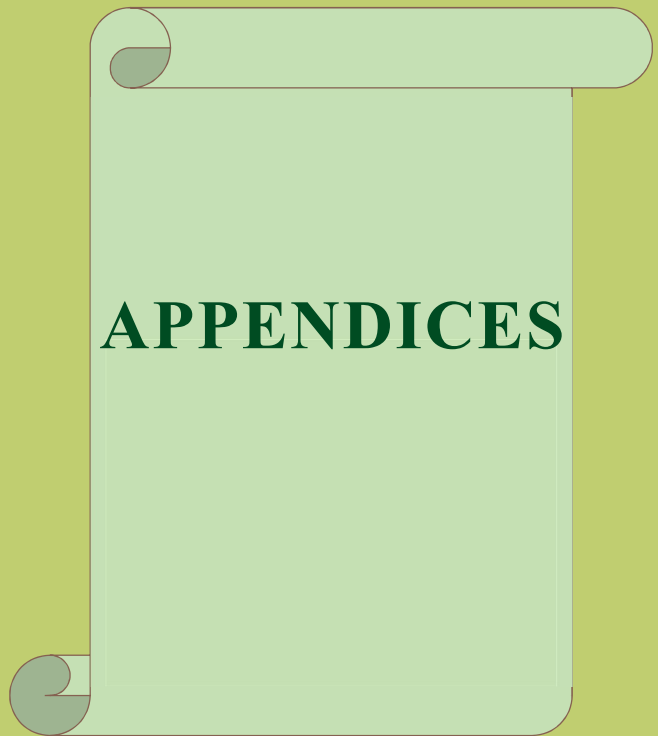
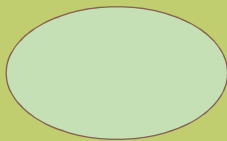
Shillong
The:

(John K. Sellate)
Principal Accountant General (Audit),
Meghalaya

Countersigned

New Delhi
The:

(Girish Chandra Murmu)
Comptroller and Auditor General of India



APPENDIX - I

Statement showing the details of Sanctioned Strength and Person-in-Position of Finance and Accounts Department of JHADC for the year 2016-17

(Reference: Paragraph 1.4)

Sl. No.	Name of post	Sanctioned Posts	Person-in-Position
1.	Finance & Accounts Officer	1	1
2.	Assistant Finance & Accounts Officer	1	1
3.	Accountant	1	1
4.	Junior Accountant	1	1
5.	Nazir	0	0
6.	Cashier Payment Cell	1	1
7.	Cashier Receipt Cell	1	1
8.	Upper Division Assistant	1	1
9.	Lower Divisional Assistant	22	20
10.	D.E.O	0	0
11.	Duftry	1	1
12.	Peons	8	8
Total		38	36

APPENDIX - II

Statement showing the details of MVAT not deducted from the bills of the Contractors.

(Reference: Paragraph 3.1)

Sl. No.	Particulars of works	Contractors	Bill value	MVAT	Amount paid to the Contractor	Date
1.	Const. of footpath at Ratacherra	M. Pohing	349322	37989	315652	18.04.2016
2.	Const of Khyndaw Wasoo LP School	A. Dhar	499473	54318	452601	05.04.2016
3.	Const. of fencing of Madan School at Mookyureiu	L. Surong	349791	38040	307479	07.04.2016
4.	Const. of internal footpath at Umkiang	C. Mukhim	498726	54236	415548	24.06.2016
5.	Const. of fencing of School Campus at Jalaphet	D. Seprti	349473	38005	309640	12.04.2016
6.	Extension of School blg at Myrjoi	K. Susngi	499916	54366	447379	26.09.2016
7.	Const. of community hall at Shangpung	H. Roy	441066	47966	313706	14.10.2016
8.	Const. and extension of Higher School at Shangpung Mission	R. Langbang	599897	65239	539753	15.04.2016
9.	Const. of School at Saipung	Z. Darnei	652265	70934	590667	02.05.2016
10.	Const. of School at Blaisutnga	I. Suchiang	599420	65187	533524	02.05.2016
11.	Const. of School building at Moolang	E. Pale	599959	65246	531775	24.05.2016
12.	Const. of road from PWD road to Tongsko Sutnga	E. Pariat	599964	65246	513665	19.05.2016
13.	Const. of DCLP School at Mupyut village	A. Langshiang	599152	65158	531296	24.05.2016
14.	Const. of village RCC F/path at Dkhiah West from NH 44	A. Dkhar	599680	65215	502990	28.07.2016
15.	Const. of School at Mongbareh	M. Roy Mukhim	593993	64597	531758	16.08.2016
16.	Const. of additional Class Room at Bataw	W. Tariang	899391	97809	795614	19.08.2016
17.	Const. of School Building at Saitsawa	A. Muruh	599915	65241	533838	24.08.2016

Sl. No.	Particulars of works	Contractors	Bill value	MVAT	Amount paid to the Contractor	Date
18.	Const. of LP School Building at Khahnar	M. Dkhar	653009	71015	591126	28.03.2017
19.	Const. of School Building at Iongnoh Village	M. Shylla	599716	65219	531299	05.01.2017
20.	Const. of Internal Road at Saipung Village	L. Darnei	598504	65087	503563	16.03.2017
Total			1,11,82,632	12,16,113	97,92,873	

