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**REPORT OF THE
COMPTROLLER AND AUDITOR
GENERAL OF INDIA**



**FOR THE YEAR ENDED
31 MARCH 2010**

**NORTH CACHAR HILLS AUTONOMOUS COUNCIL
HAFLONG, ASSAM**



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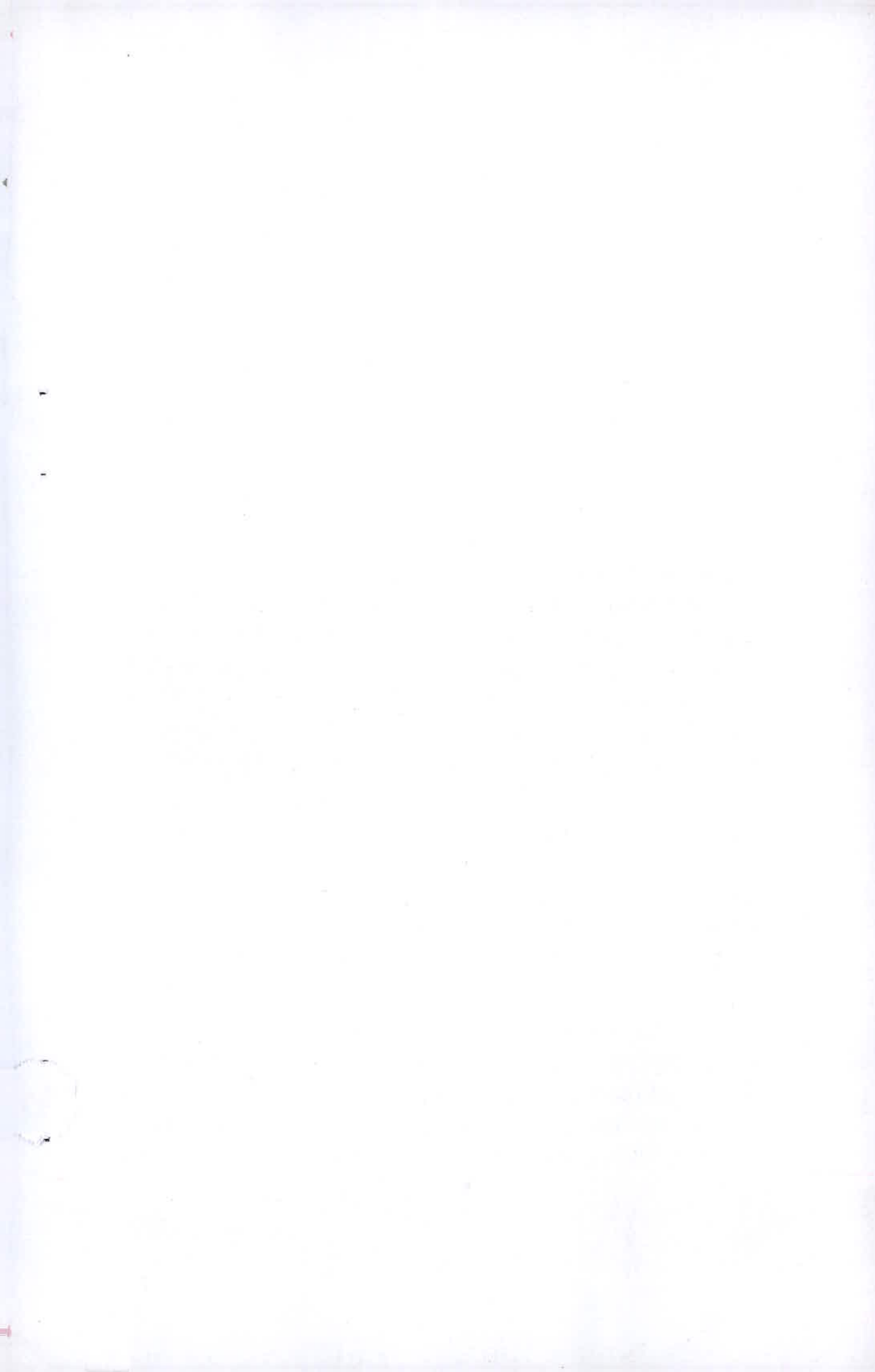
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Preface

This Report has been prepared for submission to the Governor under paragraph 7(4) of the Sixth Schedule to the Constitution of India. It relates mainly to the points arising from the audit of the financial transactions of the North Cachar Hills Autonomous Council, (NCHAC) Haflong, Assam.

The observations included in the Report are those which came to notice in the course of special audit of eight selected departments under administrative control of NCHAC executing entrusted functions conducted during May-July 2010 and test check of annual accounts for 2009-10 conducted during May-June 2011.

The Report contains three sections, of which the first section deals with the constitution of the Council, the rules for the management of the District Fund and maintenance of accounts by the Council. The remaining two sections include audit comments on the Council's financial position and various irregularities noticed in transactions relating to 2009-10 in respect of normal or inherent as well as entrusted functions.



OVERVIEW

This Report contains three sections. Section-I deals with the constitution of the Council, rules for the management of District Fund and relevant constitutional provisions on maintenance of accounts. Section-II deals with comments arising out of audit of annual accounts of the Council for 2009-10 and contains sixteen paragraphs while Section-III of the Report details the audit findings pertaining to transaction audit relating to discharge of normal or inherent and entrusted functions of the Council and contains thirteen paragraphs. A synopsis of significant audit findings contained in the Report is given below:

Comments on Accounts

- The Council met its revenue deficit of ₹19.52 crore under normal or inherent functions by unauthorizedly diverting funds advanced by the State Government for discharging entrusted functions.
(Paragraph 2.1.2)
- Compared to the budget estimates, the revenue collection excluding grants-in-aid showed a shortfall of ₹0.70 crore (7 per cent).
(Paragraph 2.1.4)
- Under entrusted functions of the Council, there was discrepancies in both receipts and expenditure by ₹2.17 crore and ₹21.60 crore respectively.
(Paragraphs 2.3.1&2.3.2)
- The Council did not reconcile the discrepancies of closing balances appearing in three different sets of records. viz., treasury records, cashbook and annual accounts, despite these having been pointed out in successive Audit Reports.
(Paragraph 2.4)

Audit findings on transaction audit of normal or inherent functions

- Due to short extraction of bamboo, NCHAC failed to generate revenue to the tune of ₹2.80 crore.
(Paragraph 3.1.1 and 3.1.2)
- Instances of loss of Forest Revenue of ₹33.79 lakh due to reduction of claim of royalty and non imposition of penalty were noticed.
(Paragraph 3.1.1 and 3.1.3)
- Deployment of Primary School Teachers in excess of prescribed norms resulted in extra expenditure of ₹9.96 crore.
(Paragraph 3.2)
- Utilization of departmental receipts ₹2.14 lakh towards departmental expenditure led to violation of provision of District Fund Rules.
(Paragraph 3.3)

Audit findings on transaction audit of entrusted functions

- NCHAC incurred unproductive expenditure of ₹1.34 crore as the work against which the amount was spent remained incomplete for more than three years.
(Paragraph 4.1.1)
- EE, PWD(R&B) Division Haflong incurred idle expenditure of ₹13.79 lakh as the work against which the amount was spent remained incomplete since May 2009.
(Paragraph 4.1.2)

- Deputy Director, Social Welfare Department, Haflong spent ₹45.57 lakh on procurement of training materials, but whereabouts of the same was not available on records rendering the entire expenditure doubtful.

(Paragraph 4.2.1)

- EE, PHE, Umrangso could not produce vouchers for the expenditure of ₹1.07 crore incurred during April and May 2009.

(Paragraph 4.3.1)



Section-I

1.1 Introduction

The North Cachar Hills District Council in Assam was set up in April 1952 under Article 244 (2) read with the Sixth Schedule to the Constitution of India. It was renamed as North Cachar Hills Autonomous Council (NCHAC) on 13 September 1995. The district was renamed as “Dima Hasao” on 30 March 2010 and the Council is using the nomenclature “Dima Hasao Autonomous Council” in their official records. However, amendment of Sixth Schedule to the Constitution of India has not yet been carried out.

The Sixth Schedule (Schedule) to the Constitution of India 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 of land, management of forests (other than reserve forests), use of any canal or watercourse for agriculture, regulation of the practice of ‘Jhum’ or other forms of shifting cultivation, establishment of village or town committees or councils and their powers, village or town administration including, Public Health and Sanitation and inheritance of property. Paragraph 6(1) of the Schedule empowers the Councils to establish, construct or manage primary schools, dispensaries, markets, cattle pounds, ferries, fisheries, roads, road transport and waterways in the respective autonomous districts. The Councils also have the powers 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 the maintenance of schools, dispensaries or roads as listed in paragraph 8 of

the Schedule. The above functions are called normal or inherent functions of the council in the common parlance.

In addition, under paragraph 6(2) of the Schedule, *ibid*, the State Government entrusted additional functions (called entrusted functions) to NCHAC in relation to agriculture, animal husbandry, cottage industries, soil conservation, social welfare, fisheries, forests *etc.*, since June 1970 (as revised in November 1979, November 1992 and December 1996). According to the terms of latest entrustment, the State Government is to make funds available to NCHAC in advance so that the latter can finance the expenditure relating to entrusted functions. NCHAC is to render monthly detailed accounts against the expenditure to the Principal Accountant General (A&E), Assam for making necessary adjustments. Budget provision for these functions is to be made in the State budget, and the Council is responsible to the State Legislature in respect of all matters relating to such funds provided for discharging the functions entrusted to it in terms of Office Memorandum (31 December 1996) of the Government of Assam.

1.2 Rules for the management of District Fund

The Sixth Schedule to the Constitution of India 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 district in accordance with the provisions of the Constitution. In exercise of the powers conferred under Sub-Para (2) of Para 7 of the Schedule (as it stood originally), the affairs of the District Councils are being regulated under the respective District Council Fund Rules. In respect of this District Council, these are regulated under the North Cachar Hills District Fund Rules, 1953 (called Fund Rules) as approved by the Governor of Assam. In view of the amendment to paragraph 7(2) of the Schedule (made with effect from

2 April 1970 which provides that 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, the withdrawal of money therefrom, the custody of money therein and any other matter connected with or ancillary to these matters), the State Government prepared draft District Fund Rules, in 1972 common to Councils that existed in Assam at that time. These draft rules were subsequently revised as the draft District Fund Rules (DFR), 1978, the Autonomous District Fund Rules, 1989, 1992 and 1995. The revised Draft DFR, 1995 were not finalised due to non-amendment of the Sixth Schedule to the Constitution of India. However, the State Government constituted (October 2010) a committee to finalise the amendments and draft DFR of NCHAC and Karbi Anglong Autonomous Council (KAAC) without taking up the requirement of amendment of the Sixth Schedule to the Constitution of India. The proposed draft amendments are yet to be finalized (August 2012).

1.3 Maintenance of Accounts

In pursuance of paragraph 7(3) of the Sixth Schedule to the Constitution, 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 in April 1977. The State Government forwarded this format of accounts to the NCHAC in March 1978. The annual accounts for the year 2009-10 have been prepared in the prescribed format and submitted to Audit in April 2011. Audit was taken up during May-June 2011 and followed up in November 2011 by field visit for subsequent clarification and updation.

Results of test check of annual accounts of NCHAC for 2009-10 are included in the succeeding paragraphs.

Section-II

2.1 Receipts and Disbursement

2.1.1 Receipts and Expenditure

As per the annual accounts, the receipts and expenditure of the Council for the year 2009-10 and the resultant revenue and capital deficits were as shown in Table-1:

Table-1

(₹ in lakh)

Revenue Receipts	Part I District Fund	
	A Revenue Receipt and Expenditure	Revenue Expenditure
(1)	(2)	(3)
282.35	Taxes on Income and Expenditure	-
45.86	Land Revenue	107.39
0.00	Interest Receipt	-
-	Education	2948.34
189.77	Forests	543.57
304.89	Mines and Minerals	-
-	District Council	28.09
-	Executive Members	4.41
-	Administration of Justice	23.53
-	Secretariat General Services	287.70
-	Pension and other Retirement Benefits	32.73
-	Art and Culture	21.85
-	Urban Development	3.05
-	Social security and Welfare	0.50
-	Relief on account of Natural calamities	26.80
0.52	Roads and Transport Services	32.66
0	Stationery and Printing	-
1.98	Public Works	226.27
138.42	Other General Economic Services	67.19
1438.16	Grants in Aid from State Government	-
2401.95	Total -A: Revenue Receipts and Expenditure	4354.08

(1)	(2)	(3)
1952.13	Revenue Deficit	
B	Capital Receipts and Disbursements	
-	Capital account	-
-	Debt	-
-	Loans and Advances	-
-	Recoveries of Loans and Advances	-
-	Disbursement of Loans and Advances	-
0.00	Total-B: Capital Receipts and Disbursements	0.00
-	Deficit under Capital and Loans and Advances	-
2401.95	Total Receipts and Payments under Part I- District Fund	4354.08
4354.08	Total Part -I District Fund	4354.08
	PART-II Deposit Fund	
C Receipt	Receipts and Disbursement under entrusted functions of the State Government	Disbursements
24961.06	Funds Received from the State Government	-
-	Expenditure incurred out of Deposit Fund	12835.20
-	Surplus/Savings on Deposit Fund	12125.86
24961.06	Total-C : Part II Deposit Fund	24961.06
27363.01	Total Receipts and Disbursement under Part I & II	17189.28
D Opening balance		Closing balance
-225.91*	Cash	9947.82*
27137.10	Grand Total (A+B+C+D)	27137.10

Source: Annual Accounts of NCHAC

*Discrepancy between opening and closing balance in the annual accounts 2009-10 has been mentioned in Para 2.2.7.

2.1.2 Revenue Deficit

Revenue receipts (including Grants-in-Aid from the State Government) of the NCHAC for 2009-10 pertaining to the functions as specified in the Sixth Schedule of the Constitution were ₹24.02 crore. Against this, the NCHAC spent ₹43.54 crore resulting in revenue deficit of ₹19.52 crore. The excess expenditure was met during the

year by irregular diversion of funds provided by the State Government for discharging entrusted functions despite this being pointed out in previous Audit Reports. This irregular diversion was bound to adversely affect the outcome of the allotments made by the Government as earmarked in the state budget for different specific programmes/functions. Occurrence of such irregularity is needed to be avoided.

2.1.3 Receipts and Expenditure compared with the actuals of previous year

There was a decrease in receipts and increase in expenditure under different heads of account between current and the previous year. A few instances of such cases are given in Table-2:

Table-2
A-Receipts

Sl. No.	Heads of Account (Receipts)	Actual Receipts in 2008-09	Actual Receipts in 2009-10	Decrease in receipt	Percentage of variation
		(₹ in lakh)			
1.	Land Revenue	171.53	45.86	125.67	73
2	Forest	196.91	189.77	7.14	4
3	Roads and Transport Service	3.90	0.52	3.38	87
4	Stationary and Printing	0.04	0.00	0.04	100
5	Stamps and Registration	1.27	0.00	1.27	100
6	Public works	3.40	1.98	1.42	42

Source: Annual Accounts

B-Expenditure

Sl. No.	Heads of Account (Expenditure)	Expenditure in 2008-09	Expenditure in 2009-10	Increase in expenditure	Percentage of variation
		(₹ in lakh)			
1.	Administration of Justice	21.20	23.53	2.33	11

Source: Annual Accounts of NCHAC

Reasons for decrease in revenue receipts ranging from 4 to 100 per cent and increase in expenditure by 11 per cent with reference to the previous year as depicted in the above

cases, though called for, had not been intimated by the Council (August 2012).

2.1.4 Receipts and Expenditure compared to budget provisions

Revenue receipts (excluding Grants-in-Aid of ₹14.38 crore) during 2009-10 were ₹9.64 crore against the estimated amount of ₹10.34 crore (overall shortfall by 7 per cent). Shortfall in receipt ranging from 23 to 100 per cent was noticed under 11 heads of account as shown in Table-3:

Table-3

Sl. No.	Heads of Accounts	Revenue Collection		Shortfall	Percentage of shortfall
		Estimated amount as per Budget	Actual Receipts as per Annual Accounts		
(₹ in lakh)					
1.	Land Revenue	209.00	45.86	163.14	78
2.	Stamps and Registration	2.00	0	2.00	100
3.	Taxes on Vehicle	30.00	0	30.00	100
4.	Interest Receipts	0.50	0	0.50	100
5.	Stationery and Printing	0.50	0	0.50	100
6.	Public Works	7.50	1.98	5.52	74
7.	Other Administrative Services	3.00	0	3.00	100
8.	Other General Economic Services	179.10	138.42	40.68	23
9.	Fisheries	1.00	0	1.00	100
10.	Forests	315.00	189.77	125.23	40
11.	Roads and Transport	10.00	0.52	9.48	95

Source: Annual Accounts and Budget document of NCHAC.

The shortfall in collection of revenue against estimated provision as shown above underlined the need for evolving an effective strategy by NCHAC towards mobilization of funds from its own sources. Reasons for shortfall had not been intimated by NCHAC (August 2012), though called for in audit.

Abnormal excess receipts over the estimated budget under two heads of account were also noticed as shown in Table-4:

Table-4

Sl. No.	Heads of Account	Revenue Collection		Excess	Percentage of excess
		Estimated amount as per Budget	Actual Receipts as per Annual Accounts		
		(₹ in lakh)			
1.	Taxes on Income and Expenditure	185.00	282.35	97.35	53
2.	Mines and Minerals	100.00	304.89	204.89	205

Source: Annual accounts and Budget document of NCHAC.

Instances of excess expenditure over budget estimate ranging between 73 and 387 percent under two heads of accounts were also noticed during 2009-10 as shown in Table-5:

Table-5

Sl. No.	Heads of Account	Budget Provision	Actual expenditure as per Annual Accounts	Excess	Percentage of excess
(₹ in lakh)					
1.	Education	1707.37	2948.34	1240.97	73
2.	Relief on account of Natural calamities	5.50	26.80	21.30	387

Source: Annual accounts and Budget document.

Reasons for excess receipts and expenditure over the budget provisions had not been intimated by NCHAC (August 2012) though called for. This underlined the need for realistic preparation of budget estimates by NCHAC.

2.1.5 Annual Accounts

Funds made available as advance from the State budget provision to NCHAC in terms of modalities of entrusted functions were subject to submission of monthly detailed accounts of expenditure for adjustment of advance and final

accounting of expenditure. As the position of such adjustment was not depicted in the annual accounts, actual expenditure made out of disbursements and unspent balances lying with Drawing and Disbursing Officers of line departments, if any, remained undisclosed.

Comments on Accounts

2.2 Part-I District Fund

2.2.1 Discrepancy in revenue receipts

NCHAC accounted for revenue receipts of ₹ 46.38 lakh under two heads of account against actual receipt of ₹49.20 lakh during 2009-10, as per cash book, cheque receipt register and information furnished to audit as shown in Table-6.

Table 6

Sl. No	Heads of account	As per Annual accounts	As per verification of records and information furnished by the Deptt.	Discrepancy
		(₹ in lakh)		
1	Road & Transport Services	0.52	2.60	2.08
2	Land Revenue	45.86	46.60	0.74
Total		46.38	49.20	2.82

Source: Cash book, information furnished by respective departments

Thus, a discrepancy of receipts by ₹2.82 lakh is needed to be reconciled by NCHAC.

2.2.2 Overstatement of revenue receipts

Revenue receipts aggregating ₹4.94 crore were accounted under two heads of account against actual revenue receipts of ₹4.72 crore as detailed in Table-7 leading to overstatement of receipts by ₹0.22 crore in the annual accounts 2009-10 by NCHAC.

Table-7

Sl. No	Heads of account	As per Annual accounts	As per verification of records and information furnished by the Deptt.	Overstatement of Revenue receipts
		(₹ in lakh)		
1	Forest	189.77	168.32	21.45
2	Mines & Minerals	304.89	304.03	0.86
Total		494.66	472.35	22.31

Source: Cash book, information furnished by respective departments

2.2.3 Understatement of revenue receipts

Forest Royalty of ₹72.26 lakh collected during December 2009 and March 2010 under the head of account '13-Forest' was deposited in the Personal Ledger Account (PLA) of NCHAC during 2010-11 by the Divisional Forest Officer (DFO), N.C Hills Division, Haflong. These receipts were not accounted in 2009-10 due to delay in deposit by the DFO, which led to understatement of receipts to the above extent in the Councils account.

2.2.4 Understatement of revenue expenditure

Revenue expenditure of ₹21.85 lakh was accounted under the head of account '12-Art & Culture and Publicity' against actual expenditure of ₹22.34 lakh leading to understatement of revenue expenditure by ₹0.49 lakh in the annual accounts 2009-10 by NCHAC.

2.2.5 Overstatement of revenue expenditure

Revenue expenditure aggregating ₹42.08 crore was accounted under eight heads of account under normal functions against actual expenditure of ₹35.21 crore as detailed in Table-8 leading to overstatement of revenue expenditure by ₹6.87crore:

Table-8

Sl. No	Heads of accounts	As per Annual accounts	As per verification of records and information furnished by the Deptt.	Overstatement
		(₹ in lakh)		
1	Land Revenue	107.38	100.04	7.34
2	Admn. of Justice	23.53	21.03	2.50
3	Forest	543.57	501.57	42.00
4	Secretariat General Services	287.70	243.07	44.63
5	Other General Economic Services	67.19	48.76	18.43
6	Executive Members	4.41	4.33	0.08
7	Education	2948.34	2386.24	562.10
8	PWD	226.26	215.95	10.31
Total		4208.38	3520.99	687.39

Source: Cash book, information furnished by respective departments:

2.2.6 Understatement of capital expenditure

NCHAC did not accounted for any capital expenditure under the head 'Capital outlay on Road Transport Service' against actual capital expenditure of ₹45.48 lakh. This resulted in understatement of capital expenditure by ₹45.48 lakh in the annual accounts 2009-10 by NCHAC.

2.2.7 Understatement of opening and closing balance

Figures of opening and closing balance were exhibited in the annual accounts 2009-10, as (-) ₹201.54 lakh and ₹8589.39 lakh and instead of (-) ₹225.91 lakh and ₹9947.82 lakh respectively (Table I of this report refers). This resulted in understatement of both opening and closing balance by ₹24.37 lakh and ₹1358.43 lakh respectively.

2.3 Part-II Deposit Fund

2.3.1 Non-reconciliation of receipts

Annual accounts for 2009-10, exhibited ₹249.61 crore as receipts from State Government during the year in respect of

entrusted functions, under Part-II Deposit Fund. However, the statement showing the major head-wise details of fund received furnished during audit (June 2011), showed receipts of ₹251.78 crore (Plan: ₹118.93 crore and Non-plan: ₹132.85 crore) as detailed in *Appendix-I*.

Details of fund received as depicted in Part-II Deposit Fund, were not disclosed major head-wise in the form of statement/schedule to annual accounts. Consequently, discrepancy of ₹2.17 crore could not be correlated and reconciled and the correct position of receipts was not ascertainable.

2.3.2 Non-reconciliation of disbursements

Annual accounts for 2009-10 exhibited ₹128.35 crore as amount disbursed towards discharging of entrusted functions by NCHAC under Part-II Deposit Fund. However, statement showing major head-wise details of funds disbursed furnished during audit (June 2011), showed disbursement ₹149.95 crore (Plan: ₹30.13 crore and Non-plan: ₹119.82 crore) as detailed in *Appendix-I*.

Details of fund disbursed to line departments (as depicted in Part-II Deposit Fund) were not disclosed major head-wise in the form of statement/schedule to annual accounts. Consequently, discrepancy of ₹21.60 crore could not be correlated and reconciled.

2.3.3 Diversion of funds

According to the terms of entrustment of functions as envisaged in OM issued on 31 December 1996, NCHAC is empowered to re-appropriate funds within the same major head of account, while approval of State Government is required for re-appropriation of funds between two major heads of account.

Scrutiny revealed that NCHAC incurred expenditure of ₹ 25.69 lakh against the release of fund of ₹24.43 lakh from the State budget under the head of account “2202-Adult Education” by diverting ₹1.26 lakh from other heads of account without obtaining the mandatory approval of the State Government.

Such irregularity persisted over the years despite having been pointed out in previous Audit Reports.

2.4 Personal Ledger Account

NCHAC maintains Personal Ledger Account (PLA) with the Haflong Treasury into which all receipts on account of its own regular functions as well as entrusted functions are credited and from which all expenditure on both the functions is met. The balance held in the PLA as per Cash Book, as of 31 March 2010, was required to be reconciled with the balance shown in the records of the Treasury and difference, if any, between the two sets of records, was required to be reconciled.

Scrutiny of records of the treasury with the PLA Cash Book maintained by NCHAC revealed that, as of 31 March 2010, there was a difference of ₹22.04 crore in the closing cash balance between the two sets of records as shown in Table 9:

Table – 9

Sl. No.		As per Treasury records	As per annual accounts and PLA Cash Book	Discrepancy excess (+) Less(-) in Cash Book
		(₹ in crore)		
1	Opening balance as on 1 April 2009	2.53	(-)2.01	(-)4.54
2	Closing balance as on 31 March 2010	107.93	85.89	(-) 22.04

Such discrepancies have been persisting since 1985-86, and have not been reconciled despite the same having been pointed out in previous Audit Reports.

Scrutiny revealed that six cheques amounting ₹1.22 crore were issued by NCHAC to different Drawing and Disbursement Officers during the period from December 2009 to March 2010 and entered in the PLA cash book. Subsequently, though the cheques were cancelled due to treasury objection/expiry etc., but the same were not written back in the PLA cash book till 31 March 2010. This was one of the factors which caused the above discrepancy.

NCHAC stated (June 2011) that position would be intimated after reconciliation of discrepancies with the treasury records. Outcome of reconciliation, if any, was not intimated (August 2012).

Section-III

3 Irregularities in transactions relating to discharge of inherent functions

3.1 Failure to generate potential revenue and loss of revenue

3.1.1 NCHAC entered into an agreement for a period of 21 years with a firm¹ (01 March 2005) for supply of bamboo to different paper mills, departments and private users. The terms and conditions of the agreement *inter-alia* provided that NCHAC would allot bamboo for extraction (felling series-wise) and the firm would pay royalty to NCHAC @ ₹85 per Metric Tonne Green (MTG) (subject to yearly increase of 5 per cent) on the quantity of bamboo extracted. It was also provided that in the event of failure to extract the allotted quantity, the firm would have to pay compensation @ ₹5 lakh for each un-operated felling series.

During 2009-10, NCHAC allotted 63533 MTG of bamboo to the firm covering three² felling series for which the firm was to pay royalty @ ₹106.25 per MTG. Scrutiny of records (June 2011) revealed that the firm had extracted 9310.199 MTG from only one felling³ series and the firm paid royalty of ₹10.10 lakh to NCHAC during the year.

NCHAC did not impose any penalty on the firm for non operation of the felling series. Thus, NCHAC could not generate revenue to the tune of ₹57.61 lakh⁴, due to non extraction of allotted quantity of bamboo and also did not

¹ Hills Trade Agencies

² Longkua: 56700 MTG; Harangajao: 3628 MTG; Khepre: 3151 MTG

³ Longkua felling series

⁴ $(63533-9310.199) \times ₹106.25 = ₹57.61 \text{ lakh}$

impose penalty of ₹10 lakh⁵ in terms of the agreement to compensate the shortfall to generate its revenue.

Reasons for failure to generate potential revenue and non imposition of penalty were not ascertainable from records produced to audit.

3.1.2 NCHAC originally entered into a contract agreement with Hindustan Paper Corporation (HPC) on 23 December 1980 for extraction of bamboo of various species by HPC for 30 years on payment of royalty to NCHAC. Subsequently NCHAC executed supplementary agreements on 7 November 1985 and 11 October 2006 in terms of clause 29 of Original Agreement. As per provision of Supplementary agreement dated 11 October 2006, NCHAC was to demarcate, fell, extract, transport and make delivery of 290 MTG of bamboo annually at the HPC Mills sites from NC Hills forest areas. Separate rates were agreed upon for supply/delivery of bamboos according to the mode of transportation and destination which was subject to change in the event of change in the cost of transportation on the basis of standard formula.

To meet the obligation of above agreement, NCHAC engaged 3 firms by entering into separate agreements on 19 October 2006 and also engaged another firm by executing agreement on 6 November 2008 for extracting, felling, handling and transporting the bamboos from the operating area and supply to HPC on behalf of NCHAC. The contractors were to pay royalties at the rates fixed in the manner as prescribed in the respective agreements.

Scrutiny revealed that during 2009-10, NCHAC allotted 1.44 lakh MTG of bamboos to only one firm⁶ (Agreement on 6 November 2008) at the rate of royalty of ₹ 200 per MTG of bamboos. Against this the firm extracted only

⁵ 2 felling series X ₹5 lakh = ₹10 lakh

⁶ M/s Tribal Cultivation and Harvesting Agencies

0.33 lakh MTG of bamboos leaving 1.11 lakh MTG of bamboos un-extracted and the firm paid royalty of ₹66 lakh. Reasons for not allotting remaining quantity of bamboo to other 3 firms were not on record.

Moreover, there was no records in support as to why no action was initiated by the Council for extraction of the balance quantity of allotted bamboos during the year which led to further shortfall to generate revenue to the tune of ₹222 lakh⁷. The instances of non-extraction of bamboo leading to shortfalls in generation of revenue though pointed out during earlier audit (June 2010), NCHAC did not put forward reasons for occurrence of such shortfalls till August 2012.

3.1.3 Loss of revenue

During 2006-07, the firm⁸ (mentioned in paragraph 3.1.1 above) was allotted 73778 MTG of bamboo covering three felling series and the firm was to pay royalty @ 93.50 per MTG on extracted bamboo. The firm paid royalty of ₹18.92 lakh for 48042.12 MTG of bamboo extracted against the payable royalty of ₹44.92 lakh during 2006-07. Scrutiny (June 2010) revealed that on the basis of departmental records of additional extractions, the Divisional Forest Officer (DFO), Haflong requested the firm to pay royalty ₹15.48 lakh on 3 November 2007 for extraction of additional 16644.721 MTG bamboo and ₹18.28 lakh on 12 March 2009 for extraction of additional 3019.626 MTG bamboo. On review of bamboo extraction records, DFO finally stated on 8 September 2008 that total extraction during 2006-07 amounted to 73618.570 MTG of bamboo for which royalty payable was ₹68.47 lakh and the firm paid ₹18.92 lakh only and the firm was requested to pay the balance amount. The rate of royalty was calculated @ 93 per

⁷ 1.11 lakh MTG X ₹200 = ₹222 lakh

⁸ Hill Trade Agencies

MTG in place of ₹93.50 per MTG, reason for which was not explained. As the firm did not accept (20 September 2008) the final assessment made on 8 September 2008, DFO verified and ascertained the quantity supplied to HPC and revised the claim of royalty to ₹44.68 lakh on 12 March 2009 treating the quantity of extracted bamboo during 2006-07 as 48042.12.MTG of bamboo. Accordingly the balance amount of ₹25.76 lakh was paid during September 2009. There was nothing on record of any verification of departmental records about the quantity supplied by the firm to different departments and private users as contemplated in the agreement. Thus, reduction of claim for royalty on the basis of quantity supplied to HPC only led to a loss of revenue to the tune of ₹23.79 lakh.

3.2. Extra expenditure due to deployment of excess teachers

According to the prescribed norms for granting permission/recognition of primary schools by NCHAC, the maximum enrolment in a section/class should be 40 and minimum 20 which was relaxed by the Government of Assam to 15 for the areas inhabited by SC/ST population in North Cachar Hills. Thus, in primary schools of NC Hills district, teacher-student ratio was required to be maintained at 1:15. The Government, vide notification of 23 January 2004 also stressed the need for rational deployment of teachers in primary schools.

Scrutiny of records of Education Department revealed that 1072 excess teachers were deployed during 2009-10, against the prescribed norms resulting in extra expenditure of ₹9.96 crore during 2009-10 as detailed in **Appendix-II**.

Reason for deployment of teachers in excess of prescribed norms attributed by NCHAC to law and order situation prevailed due to ethnic clashes in the District.

The reply is not tenable as the irregularity persisted despite having been pointed out in previous Audit Reports and deployment of teachers in excess of norms was in no way related to ethnic clashes and law and order situation.

3.3 Irregular utilization of departmental receipts towards departmental expenditure

According to Rule 18 of the N.C. Hills District Fund Rule 1953, all money received by the council shall be remitted into treasury promptly and no money shall be appropriated towards expenditure.

In the course of test check of records of Transport department of NCHAC, no revenue collection and deposit register could be made available to audit. In the absence of basic records, actual revenue collected during the year by NCHAC could not be ascertained. However, as per cash book and information furnished to audit, Transport department of NCHAC collected revenue to the tune of ₹2.60 lakh during 2009-10. Of this, ₹2.14 lakh was expended by the department in violation of the provision of Fund Rule towards purchase of fuel and lubricants for plying of Council buses. In reply (June 2011) it was stated that utilization of departmental receipt was made due to non receipt of required fund. Reply of NCHAC is not acceptable as this was in contrary to the provision of Fund Rule, which stated all money received by the Council shall be remitted into treasury promptly and no money shall be appropriated towards expenditure of the Council.

3.4 Non production of records

Supporting vouchers and actual payee receipts (APR's) against expenditure of ₹31.08 lakh incurred between 8 April 2009 and 16 October 2009 by Secretary in-charge Legislative Department for payments towards pay, TA, etc could not be produced to audit.

Thus, the above expenditure of ₹31.08 lakh remained unverified and is fraught with the risk of misutilisation of fund.

4 Irregularities in transactions relating to discharge of entrusted functions

4.1 Public Works Department

4.1.1 Unproductive expenditure

Government of Assam (GOA) accorded (March 2005) Administrative approval of ₹11.20 crore for the scheme - 'Conversion of 100 bedded Civil Hospital to 200 bedded hospital with construction of staff quarter and improvement and renovation of existing building' at Haflong in North Cachar Hills. The approved cost of the scheme comprised of new construction (₹8.88 crore), repair and renovation of existing hospital (₹1.91 crore) and contingency (₹0.41 crore). GOA released ₹8.40 crore (March 2005: ₹4.20 crore, March 2010: ₹4.20 crore) to NCHAC. Of ₹8.40 crore (approved cost of construction of ₹8.88 crore), NCHAC released (May 2005 to November 2006) ₹4.20 crore to the Executive Engineer (EE), Public Works Department, Haflong Building Division and balance ₹4.20 crore was not released to the Division as of June 2010.

Scrutiny (May-July 2010) of the records revealed that the Division incurred expenditure of ₹4.20 crore (new construction: ₹2.08 crore; repair and renovation: ₹1.40 crore; contingency: ₹0.05 crore and material ₹0.67 crore) till April 2007 and all the repair and renovation work except the renovation work in TB Hospital Complex were completed. However, under "new construction", the work of main hospital building had not commenced and construction work of 18 units of grade III staff quarters and 18 units of doctors' quarters stopped since April 2007 after incurring an

expenditure of ₹1.34 crore with physical progress ranging from 20 to 80 *per cent*.

Joint physical verification conducted (26 June 2010) by audit and the EE also confirmed the status of the works. The EE stated (June 2010) that the works stopped since April 2007 due to non-release of further funds.

Thus, non-completion of construction of grade III staff quarters and doctors' quarters for more than three years rendered the expenditure of ₹1.34 crore unproductive. Improvement in the status of work, if any, has not been intimated (August 2012).

This irregularity has been pointed out vide Report of the Comptroller and Auditor General of India (Civil) for the year ended 31 March 2011 (Report No. 2) Government of Assam (Paragraph 4.2.3 of the Report refers) laid before the Assam State Legislature on 30 March 2012.

4.1.2 Incomplete works of improvement of road

During scrutiny (June 2010) of records that was made available by Executive Engineer, PWD (R&B) Division Haflong disclosed that works for improvement of four roads under Hill Area Development Programme were stopped in the course of execution with progress of work ranging between 15 to 50 *per cent* with a total expenditure of ₹13.79 lakh incurred between April 2009 and May 2009 (Appendix-III) for which no reasons was put forward by the division. The works sanctioned were to be completed at the estimated cost of ₹81.30 lakh. However, relevant records such as detailed estimate, technical sanction, measurement books, administrative approval, correspondence file etc., could not be produced to audit as it were stated to be seized by Central Bureau of Investigation. As a result, circumstances which led to stoppage of works leading to

deprivation of the benefit of improved road condition of the concerned locality could not be ascertained in audit. Status of further execution of work has not been intimated (August 2012) though called for in audit.

4.2 Social Welfare Department

4.2.1 Doubtful expenditure

As per provision of Para 191 of Assam Financial Rules, the Departmental officers entrusted with the care, use or consumption of stores are responsible for maintaining correct records and preparing correct returns in respect of the stores entrusted to them.

Scrutiny (May-July 2010) of the records of NCHAC revealed that Deputy Director, Social Welfare Department, Haflong procured different training materials (cotton cloth, sewing machines and timber etc.) worth ₹ 21.89 lakh during September 2007 to January 2009 under the scheme "Training-cum-Production Centre (Handicapped) for the year 2008-09". Of these, materials worth ₹4.82 lakh were shown to have been issued during September 2007 to June 2009 while balance materials worth ₹17.07 lakh were kept in stock. However, a physical verification conducted during June 2009 to July 2010 by the Department at the instance of audit revealed that materials worth only ₹0.43 lakh were physically available in stock. Thus, there was a shortage of materials worth ₹ 16.64 lakh (₹17.07 lakh - ₹0.43 lakh). The dealing assistant responsible for maintaining stock stated (June 2010) in a written statement that the stock entries were made as per verbal instructions of the then Deputy Director without actual receipt of materials.

Further, an amount of ₹32.45 lakh was paid (April 2009) to 11 suppliers against procurement of training materials under the scheme “Vocational Training and Rehabilitation cum Trade Centre for Women Welfare”. Scrutiny of the relevant stock register, however, revealed receipt and issue of materials worth ₹3.52 lakh only. Reason for the shortage of materials worth ₹28.93 lakh (₹32.45 lakh - ₹3.52 lakh) was not available on records, though called for. The dealing assistant responsible for maintaining stock stated (June 2010) that the payments were made directly by the then Deputy Director himself. Thus, expenditure of ₹45.57 lakh (₹16.64 lakh + ₹28.93 lakh) remained doubtful as the Department failed to produce whereabouts/details of materials purchased with the said amount.

Neither NCHAC nor the Government has intimated whether any action was taken to address the shortage of materials or to fix responsibility on the concerned Deputy Director.

This irregularity has been pointed out vide Report of the Comptroller and Auditor General of India (Civil) for the year ended 31 March 2011 (Report No. 2) Government of Assam (Paragraph 4.1.11 of the Report refers) laid before the Assam State Legislature on 30 March 2012.

4.3 Public Health Engineering Department

4.3.1 Wanting vouchers for-₹ 1.07 crore

Rule 131 of the Assam Public Works Departmental Manual provides that every payment must be supported by a voucher setting forth full and clear particulars of the claim.

Test check of records of the Executive Engineer, Public Health Engineering Division, Umrangso revealed that

6 vouchers for the months of April 2009 and May 2009 involving a total payment of ₹1.07 crore were not produced to audit details of which are shown as under-

Sl. No.	Departmental bill No.&Date	Voucher No. & Date	Cheque No	Amount
1	1dated.13.4.09	1dated.13.4.09	741451	₹ 1800000.00
2	2dated.18.4.09	2dated.18.4.09	741452	₹ 1800000.00
3	3dated.21.4.09	3 dated.21.4.09	741453	₹ 1800000.00
4	4dated.27.4.09	4dated.27.4.09	741454	₹ 1708991.00
5	21dated.11.5.09	21dated.11.5.09	741456	₹ 1800000.00
6	22dated.12.5.09	22dated.12.5.09	741457	₹ 1800000.00
Total				₹ 10708991.00

Source: Cash book, cheque issue register, bill book:

In absence of the relevant vouchers the entire expenditure is fraught with the risk of misappropriation/misutilisation.

4.4 Education Department

4.4.1 Extra avoidable expenditure

The Inspector of schools (IS) Halflong, as per direction of NCHAC proposed (12 March 2008) for the procurement of 258 Mineral Water Pots (MWP) of 30 litre capacity at the cost of ₹ 16.86 lakh for providing drinking water facility in all high and higher secondary schools of the district. The basis of proposed cost of MWP was not on record. NCHAC sanctioned and released ₹16.86 lakh to IS during March 2008. IS parked the amount in current account of a scheduled bank. Though quotation for supply of MWP was invited during June 2009 but the fund could not be utilized as financial transactions were stated to be stopped by NCHAC. Quotations were again invited (December 2009) and in response eight offers were received. Offer of one supplier at ₹1000 per MWP was the lowest. The comparative statement of offered price was sent (January

2010), but NCHAC approved the rate offered by third highest offer at ₹7715 per MPW without recording any reason on the comparative statement and directed IS to place orders to 3 specific suppliers (including the lowest offerer). The reason for acceptance of third highest rate by NCHAC was neither available in any other record nor stated by NCHAC. Orders for supply of 15 MWP of 30 litre capacity was placed (April 2010) to 3 suppliers and they supplied 142 MWPs during April-May 2010.

Joint physical verification of the above articles was conducted by audit and IS on 21 June 2010 which revealed actual receipt of 112 MWPs of 14 litre capacity, 12 MWPs of 18 litre capacity and 18 MWPs of 22 litre capacity though payments were made at the approved rate of 30 litre capacity. IS replied (November 2010) that supplied articles were in sealed pack without bearing capacity of the pot and payments were made as per actual counts, however, the suppliers were asked to replace the pots as per specification of supply orders. The status of replacement, if any, has not been intimated (August 2012).

Thus, there was, procurement of pots worth ₹10.95 lakh of below specification, besides, extra avoidable expenditure of ₹9.54 lakh due to acceptance of third highest offer instead of the lowest, which resulted in deprivation of intended facility to the students of high / higher secondary schools.

5. Non production of records

During audit (May-July 2010), it was stated that records related to transactions of different Drawing and Disbursing officers (DDOs) as shown in table below, were seized by

different investigating agencies for which transactions could not be examined in audit:

Table-14

Name of the DDO	Period of release of fund from council	Fund involved ₹ in crore	Name of investigating agency	Particulars	Impact
EE, PWD (Roads), Haflong	2009-10	1.09	CBI	Implementation of roads schemes	Expenditure remained unverified
EE, PWD (Roads), Mahur	2009-10	2.63	CBI	Implementation of roads schemes	Expenditure remained unverified
EE, PHE Division, Haflong	1.04.2009 to 30.06.2009	-	NIA	Cash Book	Cash Book remained unverified
Dy. Director, Social Welfare, Haflong	2009-10	-	NIA	Implementation of National Social Assistance Programme	Cash book maintained for different scheme resulting closing balance remained unverified

6 Internal Control Mechanism

Internal control is an integral process which is designed to provide reasonable assurance about achieving the organizational objectives viz., fulfilling accountability obligations, complying with applicable laws and regulations, executing programmes/schemes in an orderly, economical, efficient and effective manner and safeguarding resources against loss. An effective internal audit (IA) wing is necessary to strengthen the internal control system and enforce effective management.

Scrutiny of the records indicated that NCHAC had no IA wing. Consequently, the internal control in the Council was ineffective as would be seen from the following in addition to observation made in this report above

- A series of financial irregularities were observed in Inspection Reports (IR) on Special Audit and other IRs containing 334 outstanding paragraphs pertaining to the period 1994-95 to 2007-08 which were yet to be settled (August 2012).
- Figures in PLA cash book were not reconciled with those of treasury over the years leading to discrepancies between these two sets of records.

Guwahati
The



(K.P. Anand)
Accountant General

Countersigned

New Delhi
The



(Vinod Rai)
Comptroller and Auditor General of India

Appendix-I

Reference: Paragraphs No.2.3.1 & 2.3.2

Financial Statement of North Cachar Hills Autonomous Council for the year 2009-10

Sl. No	Head of Account	Plan		Non Plan	
		Fund Received	Fund Disbursed	Fund Received	Fund Disbursed
		(₹ in lakhs)			
1	2	3	4	5	6
1	2405-Fisherv	130.00	92.15	40.38	40.16
2	2402-Soil Conservation	505.00	4.18	236.27	233.81
3	4702-CO-Irrigation	492.00	0.00	0.00	0.00
4	4701-CO-Irrigation	55.00	0.00	0.00	0.00
5	4705-CO-Irrigation	10.00	0.00	0.00	0.00
6	2702-Minor Irrigation	0.00	0.00	850.32	837.92
7	5054-CO-PWD Roads(R&B)	1600.00	9.85	0.00	0.00
8	3054-PWD Roads(R&B)	0.00	0.00	1548.93	1502.52
9	2215-WSS-PHE	815.00	23.01	1513.47	1360.17
10	2215-WSS-PHE(Art-275)	139.31	0.00	0.00	0.00
11	4059-CO-PWD Building	200.00	146.66	0.00	0.00
12	2059-PWD Building	0.00	0.00	325.40	282.60
13	2216-H-PWD Building	0.00	0.00	15.28	15.28
14	2401-CH-Agriculture	1210.00	300.03	290.53	232.06
15	2415-AR- Agriculture	19.00	0.00	0.00	0.00
16	2435-Marketing	40.00	21.00	22.43	20.06
17	2406-Forest	593.00	161.79	456.06	428.75
18	2403-Veterinary	409.67	189.46	396.49	372.56
19	2403-Veterinary (Art.275)	48.79	0.00	0.00	0.00
20	2415-AR-Veterinary	0.00	0.00	9.78	8.13
21	2404-Dairy Dev.	120.00	90.00	60.08	57.21
22	2210-Medical	440.00	128.72	747.97	744.31
23	2210-Medical(TFC)	40.60	0.00	177.91	16.20
24	2215-WSS-Medical	0.00	0.00	13.65	13.41
25	2211-Family Welfare Medical.	18.00	17.97	0.00	0.00
26	2211-Family Welfare	256.28	228.85	14.69	14.50
27	4711-Water Resources	230.00	0.00	0.00	0.00
28	2711-Water Resources	0.00	0.00	47.03	42.53
29	2851-VSI-Sericulture	90.00	66.92	367.78	364.92
30	2851-VSI-Handloom & Textile	126.00	0.00	85.80	81.30
31	2851-VSI-Industries	10.00	5.07	149.88	115.36
32	4851-VSI-Industries	20.00	0.00	0.00	0.00
33	2515-Panchayat	100.00	0.00	259.53	171.71
34	2515-Panchayat(NSAP)	432.00	157.37	0.00	0.00
35	3475-Weight & Measure	3.00	0.00	5.73	5.56
36	2235-Social Welfare	350.00	320.60	61.74	58.99
37	2235-Social Welfare/ICDS	541.63	135.87	0.00	0.00
38	2220-Information & Publicity	40.00	0.00	51.89	34.58
39	2217-Town & Country Planning	60.00	30.29	25.30	19.71
40	2202-Education /Higher	250.00	90.23	342.00	340.03
41	2202-TFC/Higher Education	0.00	0.00	297.00	0.00
42	2202-Elementary Education	358.00	87.02	1217.99	1159.57

1	2	3	4	5	6
43	2202-TFC/Elementary Education	0.00	0.00	63.00	0.00
44	2202-Secondary Education	400.00	96.34	1149.28	1214.62
45	2202- TFC Secondary Education.	0.00	0.00	140.00	0.00
46	2202-Adult Education.	38.47	0.00	24.43	25.69
47	2202-Education /DIET	37.80	36.97	0.00	0.00
48	2202-Primary Education	120.00	72.00	2006.05	1973.07
49	2204-Sports& Youth Welfare	20.00	0.00	20.27	12.97
50	2205-AC-Cultural Centre	29.00	27.99	50.53	17.73
51	2205-AC-Archeology	10.00	9.79	1.40	1.07
52	2205-AC-Librarian	15.00	14.79	16.24	13.14
53	2205-AC-Museum	20.00	20.00	10.61	7.34
54	5055-Council Transport	110.00	60.00	0.00	0.00
55	2029-Land Reform	50.00	0.00	0.00	0.00
56	2225-HA-PO/IJDP	200.00	100.00	0.00	0.00
57	2225-HA-PO/IJDP(WDPSCA)	350.00	175.00	0.00	0.00
58	2039-Excise	0	0	51.52	47.18
59	2408- F& CS	0.00	0.00	30.25	17.79
60	2225-Hill Areas	0.00	0.00	25.38	20.09
61	3452-Tourism	0.00	0.00	14.93	8.85
62	5452-COTourism	150.00	33.33	0.00	0.00
63	2425-Cooperation	0.00	0.00	49.77	48.81
64	3456-CS/Cooperation	15.00	9.00	0.00	0.00
65	2408--FS/Cooperation	85.00	51.00	0.00	0.00
66	4552-CO-NLCPR,PWD Building.	420.00	0.00	0.00	0.00
67	3451-Admn. Charges /AC	70.00	0.00	0.00	0.00
68	2235-SSW/House Site	0.00	0.00	0.00	0.00
	Total	11892.55	3013.25	13284.97	11982.26

Appendix-II

Reference: Paragraph No:3.2)

Statement showing the minimum extra expenditure for entertainment of teacher in excess of Prescribed norms of Teachers & student ratio 2009-10

SL No	Name of Circle	Number of L.P. School	Total Enrollment of Student	Number of teacher should be on roll as per teacher and student Ratio(1:15)	Number of teacher actually entertained	Entertainment of excess teacher(as per teacher Student Ratio.i.e.1:15)	Minimum Pay & allowance of one teacher as on 01/04/09	Period 1/4/09 to 31/03/10 (Month)	Total minim expenditure involved for entertainment of excess teacher
1	Haflong'B' Circle	30	2411	161	461	300	7745	12	27882000
2	Haflong'A' Circle	26	850	57	292	235	7745	12	21840900
3	Jatinga Circle	31	1223	82	224	142	7745	12	13197480
4	Maibong'E' Circle	20	767	51	128	77	7745	12	7156380
5	Maibong'West' Circle	21	780	52	164	112	7745	12	10409280
6	Harangajao 'E'Circle	29	888	59	111	52	7745	12	4832880
7	Mahur Circle	44	1403	94	153	59	7745	12	5483460
8	Kalachand	25	617	41	91	50	7745	12	4647000
9	Borail	23	729	49	71	22	7745	12	2044680
10	Gunjung	30	795	53	76	23	7745	12	2137620
	Total	279	10463	699	1771	1072			99631680
Minimum Salary of one teacher as on 1/4/09 in his Scale of Pay ₹ 3130-60-3490-90-4030-4480-120-5200-175-6600(allowance:50% Dearness Pay, 47 % DA, 7.5% HRA, 5% HA , 25% IR, ₹ 55/-Ch.Allowance & MA , ₹ 350)= ₹ 7745/- per month.									

Source: Information furnished by the Council

Appendix-III
Reference: Paragraphs No:4.1.2
Statement showing the work wise physical & financial progress under HADP during the year 2009-10
of Haflong Road Division, Haflong.

Sl. No.	Name of work/project/scheme	Amount sanctioned (₹.in lakh)	Estimated amount (₹.in lakh)	Actual expenditure (in ₹)	Date of payments	Physical progress	Present status
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1	Improvement. of approach. Rd. from H.F. Rd. AEE Rly. Office via Housing colony	30.00	30.00	799338.00	24.4.09 & 8.5.09	40%	Work stopped
2	Improvement. of A.I.R Rd. (WBM, BUSG, PC, SC & Drain etc.)	20.00	20.00	300000.00	24.4.09 to 8.5.09	50%	Work stopped
3	Improvement. f Digrik vill. App. Rd. (Constn. Of R/Wall, S.M. drain etc.)	10.00	10.00	130009.00	24.4.09	35%	Work stopped
4	Improvement . Of Old S.E., PWD office & PHE approach. Rd. (WBM, BUSG, PC, SC, Constn. Of B/Wall drain etc.) under	21.30	21.30	150000.00	8.5.09	15%	Work stopped
Total		81.30	81.30	1379347			

Source: Information furnished by the Council

