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

**FOR THE YEAR 2005-06**

**NORTH CACHAR HILLS  
AUTONOMOUS COUNCIL**

**HAFLONG, ASSAM**

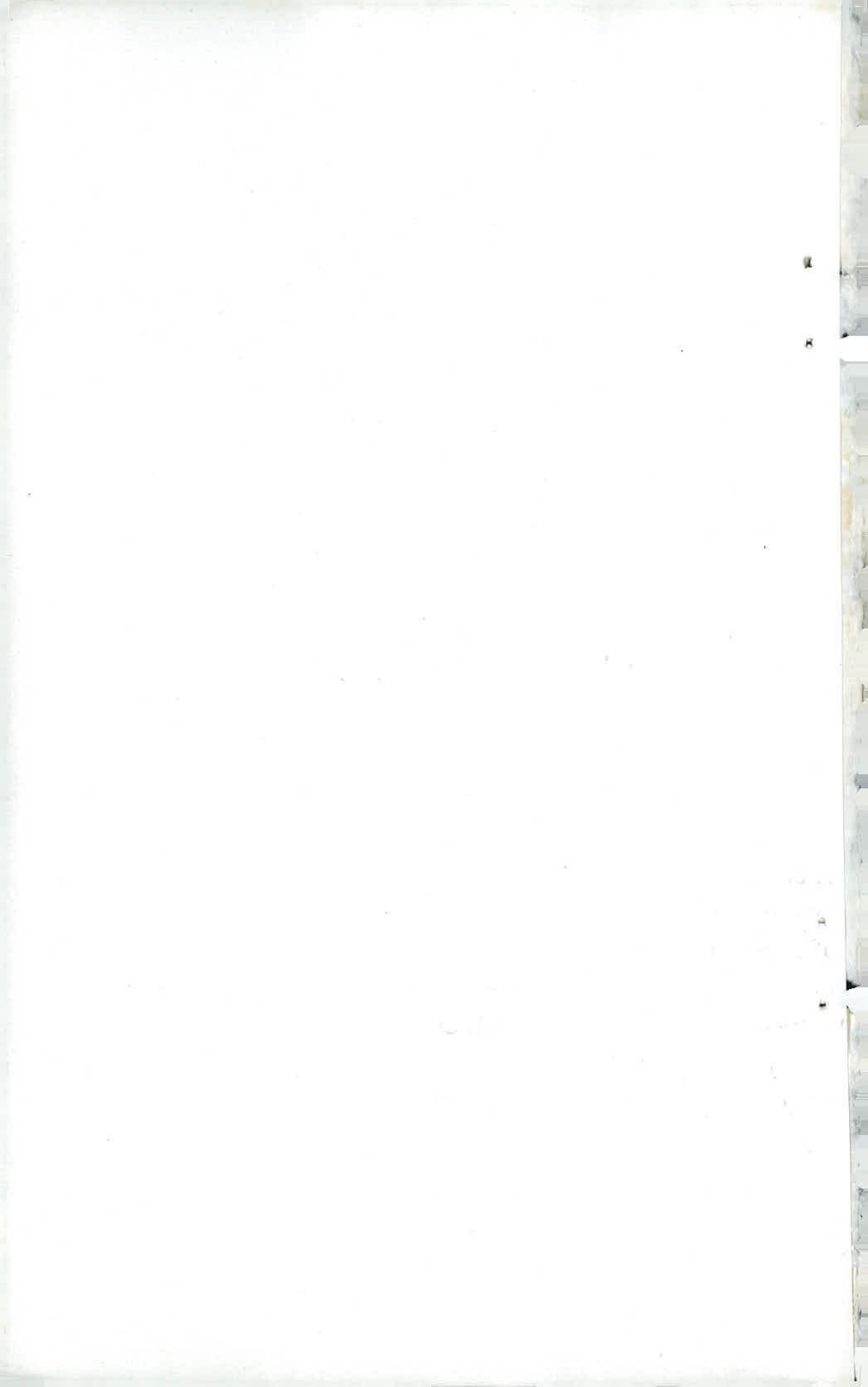


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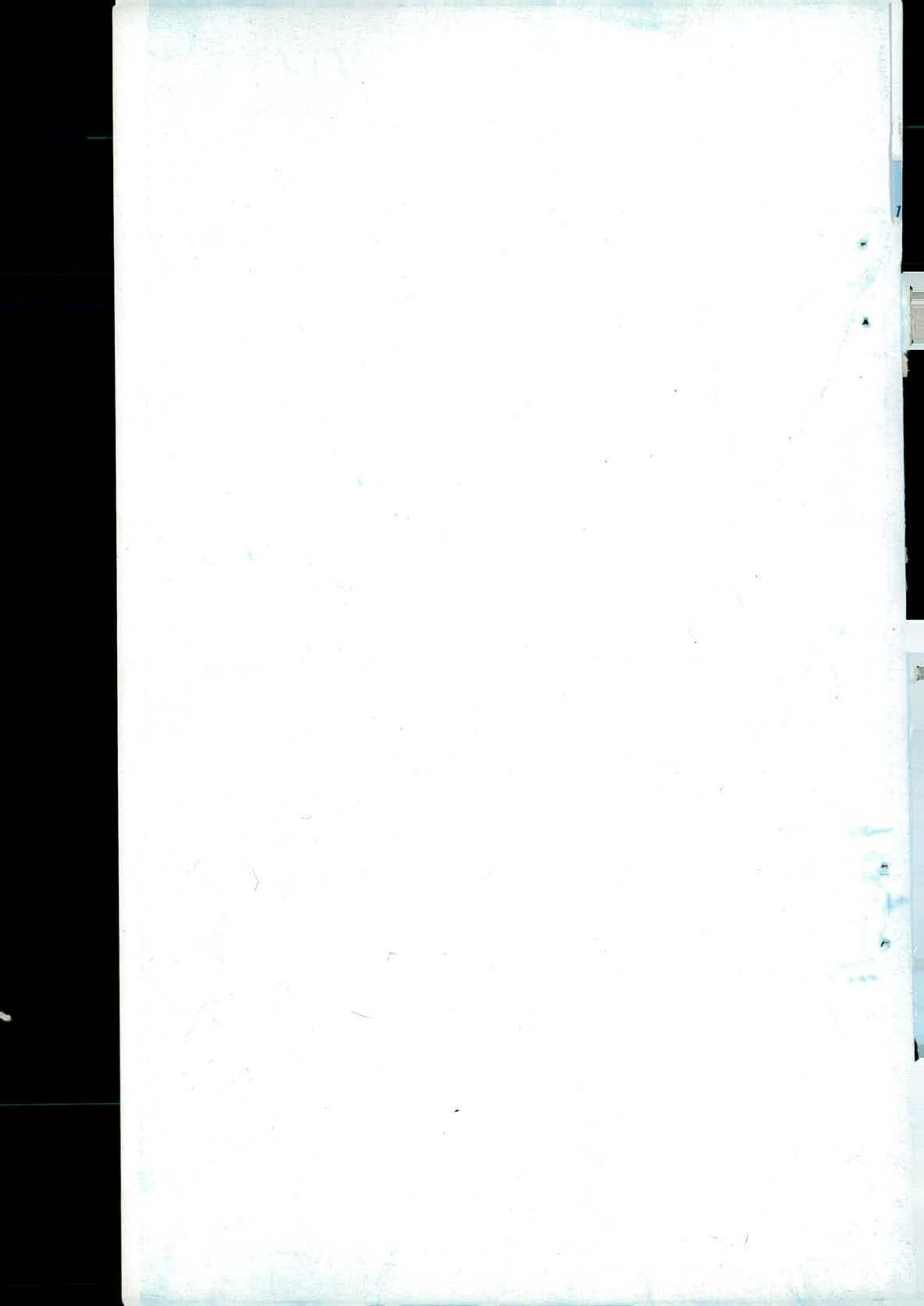


## PREFACE

*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, Haflong, Assam.*

*The cases mentioned in the Report are those which came to notice in the course of test-check of the accounts for the year 2005-06.*

*The Report contains three sections, of which one 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 comments on the Council's financial position and various irregularities in the transactions relating to the year 2005-06.*





## Overview

A synopsis of the significant audit findings contained in the Report is given below:

The Council met its net revenue deficit of Rs.26.18 crore under normal functions by irregular diversion of funds advanced by the State Government for discharging entrusted functions.

*(Paragraph 2.1.1)*

District Fund was understated by Rs.12.17 crore due to incorrect exhibition of grants-in-aid.

*(Paragraph 2.2.4)*

Under entrusted functions of the Council, receipts and expenditure were overstated by Rs.12.24 crore and Rs.3.55 crore respectively.

*(Paragraph 2.3.1)*

The Council diverted and utilised plan funds of entrusted functions amounting to Rs.9.35 crore towards expenditure on its own functions.

*(Paragraph 2.3.2)*



- **Non-extraction of allotted quota of bamboos resulted loss of revenue of Rs.41.52 lakh.**

*(Paragraph 3.*

- **Due to deployment of teachers in excess of norms, the Council incurred extra expenditure of Rs.2.89 crore during 2005-06.**

*(Paragraph 3.4*

- **The Council diverted grants-in-aid of Rs.6.45 crore meant for Primary Education towards other heads of account.**

*(Paragraph 3.5*

## **Section – I**

### **1.1 Introduction**

The North Cachar Hills District Council was set up in April 1952 under Article 244 (2) read with the Sixth Schedule to the Constitution of India. It was renamed as the North Cachar Hills Autonomous Council on 13 September 1995.

The Sixth Schedule (Schedule) to the Constitution of India provides for the 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 etc. of any canal or water course for agriculture, regulation of the practice of 'Jhum' or other forms of shifting cultivation, establishment of village or town committees or Councils and their powers, village or town administration including Police, Public Health and Sanitation and inheritance of property.



Paragraph 6 (1) of the Schedule empowers the Council 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 power 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.

Paragraph 6 (2) of the Schedule empowers the State Government to entrust additional functions to the District Council in relation to agriculture, animal husbandry, cottage industries, soil conservation, social welfare, fisheries, forests (including reserve forests), etc. According to the terms of entrustment, the District Council is to receive grants from the State Government for the management of the entrusted functions, and is to render monthly accounts in the prescribed form to the Accountant General with supporting vouchers. Provision is made in the State budget for these functions (except for management of reserve forests) and the Council is responsible to the State Legislature in respect of all the matters relating to such funds provided for discharge of functions transferred to it. The State Government is to pay administrative charges to the Council for

implementing these functions. In respect of reserve forests, no provision (expenditure or revenue) is made in the State budget, as the Council collects revenue and incurs normal expenditure relating to the management of forests.

## **1.2' Rules for the management of the 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-paragraph (2) of Paragraph 7 of the Schedule (as it stood originally), the affairs of the District Councils are being regulated under the respective District Fund Rules. In respect of this District Council, these are regulated under the North Cachar Hills District Fund Rules, 1953 as approved by the Governor of Assam. In view of the amendment of Paragraph 7 (2) of the Schedule (with effect from 2 April 1970), the Government prepared the draft District Fund Rules, common to both the District Councils in Assam in 1972. These draft rules were subsequently revised as the District Fund Rules, 1978, the Autonomous District Fund Rules, 1989, 1992 and 1995. The revised Rules, 1995 are yet to be finalised due to non-amendment of the Sixth Schedule to the Constitution of India.

### **1.3 Maintenance of accounts**

In pursuance of Paragraph 7 (3) of the Sixth Schedule to the Constitution of India, the form of accounts of the Council was prescribed by the Comptroller and Auditor General of India with the approval of the President of India in April 1977. The annual accounts of the Council for the year 2005-06 were prepared in the prescribed format.

Results of test check of annual accounts of the Council for the year 2005-06 are given in the succeeding paragraphs.



## Section – II

### 2.1 Receipts and expenditure

As per the Annual Accounts, the receipts and expenditure of the Council for the year 2005-06 and the resultant revenue and capital deficits were as shown in Table – I below:

**Table – 1**

*(Rupees in lakh)*

Part – I District Fund		
A. Revenue Receipts and Disbursements		
Receipts		Disbursements
166.87	Taxes on Income and Expenditure	—
21.12	Land Revenue	118.03
0.73	Stamps and Registration fees	—
23.28	Taxes on vehicles	—
0.02	Interest Receipts	—
0.03	Stationery and Printing	12.18
3.41	Public Works	286.73
0.07	Other Administrative Services	—
134.07	Other General Economic Services	83.89
200.79	Forests	626.27
4.40	Mines and Minerals	—
5.91	Roads and Transport Services	40.86
1244.33	Grants-in-aid from the State Government	—
	District Council	36.86
	Executive Member	29.90
	Administration of Justice	18.12
	Secretariat General Services	350.84
	Pension and Other Retirement Benefits	45.22
	Education	2705.98
	Art and Culture	37.94
	Urban Development	10.15

	Information and Publicity	0.13
	Social Security and Welfare	19.31
	Relief on account of Natural Calamities	0.12
1805.03	<b>Total-A : Revenue Receipts and Disbursements</b>	<b>4422.53</b>
2617.50	<b>Revenue deficit</b>	—
	Capital Account	81.24
0.13	Recoveries of Loans and Advances	—
0.13	<b>Total-B: Capital Receipts and Disbursement</b>	<b>81.24</b>
81.11	<b>Deficit under Capital and Loans and Advances</b>	—
1805.16	Total receipts and payments under Part – I District Fund	4503.77
4503.77	<b>Total Part – I District Fund</b>	<b>4503.77</b>
<b>Receipts</b>	<b>Receipts and Disbursements for transferred functions of the State Government</b>	<b>Disbursements</b>
14538.28	Funds received from the State Government	—
	Expenditure incurred out of deposit fund	11911.15*
	Surplus/savings on deposit fund	2627.13
14538.28	<b>Total-C : Part – II Deposit Fund</b>	<b>14538.28</b>
16343.44	<b>Total of Receipts and disbursement under Part – I and II</b>	<b>16414.92*</b>
91.92**	<b>Opening balance</b>	<b>20.44*</b>
16435.36	<b>Closing balance</b>	<b>16435.36</b>
	<b>Grand Total</b>	

\* Rounded appropriately to tally with the total as per annual accounts

\*\* Discrepancy between closing balance for the year 2004-05 and opening balance for the year 2005-06 has been mentioned in para 2.5

### **2.1.1 Revenue Deficit**

Revenue receipts (including grants-in-aid received from the State Government) of the Council for the year 2005-06 pertaining to the functions specified in the Sixth Schedule to the Constitution of India were Rs.18.05 crore. Against this, the Council spent Rs.44.23 crore resulting in a revenue deficit of Rs.26.18 crore. The excess expenditure was met through irregular diversion of funds provided by the State Government for discharging entrusted functions.

## **2.2 Comments on accounts**

### **2.2.1 Overstatement of expenditure**

According to the annual accounts (Statement No.1) the expenditure of the Council during 2005-06 both under District Fund and Deposit Fund was Rs.164.15 crore, which included four cancelled cheques issued between June 2005 and March 2006 for an amount aggregating Rs.2 lakh. This resulted in overstatement of expenditure to that extent.

The Council did not furnish any reply (January 2009).

### **2.2.2 Understatement of revenue receipts**

Scrutiny of Cash Book, ledgers and challans revealed that as against the actual revenue of Rs. 35.25 lakh under three heads of account, the Council had accounted for only Rs. 31.43 lakh in the annual accounts resulting in understatement of revenue receipts by Rs. 3.82 lakh (Net) as shown in Table - 2.

**Table – 2**

*(Rupees in lakh)*

Sl. No.	Heads of account	Actual receipts as per records	Amount as per annual accounts	Less (-) in accounts
1.	Land Revenue	21.20	21.12	(-) 0.08
2.	Road Transport Services	6.70	5.91	(-) 0.79
3.	Mines and Minerals	7.35	4.40	(-) 2.95
<b>Total</b>		<b>35.25</b>	<b>31.43</b>	<b>(-) 3.82</b>

The Council did not furnish any reply (January 2009).

### **2.2.3 Overstatement of capital expenditure**

Test check of Cash Books and vouchers of the Roads and Transport Services (RTS) and Public Works (PW) department of the Council revealed that the capital expenditure of Rs.51.69 lakh booked under “42-Capital Outlay on Road Transport Services – Acquisition of Fleet” and Rs 29.55 lakh booked under “40 Capital Outlay on Public Works” include revenue expenditure of Rs 12.77 lakh and Rs. 13.58 lakh respectively.

Thus, due to erroneous classification of revenue expenditure as capital expenditure, the latter stood overstated by Rs.26.35 lakh (Rs.12.77 lakh + Rs.13.58 lakh).

### **2.2.4 Understatement of District Fund**

In the annual accounts for 2005-06, the Council exhibited grants-in-aid as Rs.12.17 crore under “Education” against the total grants-in-aid of Rs.24.34 crore received from the State Government and



deposited into Personal Ledger Account (PLA) under Deposit Fund during the financial year resulting in understatement of District Fund against grants-in-aid and overstatement of Deposit Fund by Rs.12.17 crore.

## **2.3<sup>1</sup> Entrusted functions**

### **2.3.1 Overstatement of receipts and expenditure**

According to the annual accounts (Statement No. I), the Council's receipts during 2005-06 for the entrusted functions from the State Government and expenditure thereagainst were Rs.145.32 crore and Rs.119.10 crore respectively.

Scrutiny of grants sanctioning orders and the Cash Book of the entrusted functions wing of the Council revealed that for entrusted functions, the Council had actually received Rs.133.08 crore<sup>1</sup> and spent Rs.115.55 crore<sup>2</sup> during the year. Thus, in the annual accounts both receipts and expenditure were overstated by Rs.12.24 crore<sup>3</sup> and Rs.3.55<sup>4</sup> crore respectively. The discrepancies had not been reconciled till the date of audit (December 2007).

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<sup>1</sup> Rs.67.75 crore (plan) + Rs.65.33 crore (Non-plan) = Rs. 133.08 crore

<sup>2</sup> Rs.58.40 crore (plan) + Rs. 57.15 crore (Non-plan) = Rs. 115.55 crore

<sup>3</sup> Rs.145.32 crore - Rs.133.08 crore = Rs.12.24 crore

<sup>4</sup> Rs.119.10 crore - Rs.115.55 crore = Rs.3.55 crore



### **2.3.2 Violation of terms of entrustment**

According to clause 'e' of revised terms and conditions of the entrusted functions effective from November 1979, Plan funds received from the Government that remain unutilised at the end of the financial year, should be refunded to the Government account by 15 March every year. The amount cannot be carried over to the next financial year.

(i) During 2005-06 the Council received plan funds of Rs.67.75 crore against which, it had incurred an expenditure of Rs.58.40 crore leaving an unutilised balance of Rs.9.35 crore. The Council, in violation of the terms of entrustment, utilised the unspent balance plan fund of Rs.9.35 crore towards expenditure pertaining to its own functions, which was irregular. The Council did not furnish any reply (January 2009) in this regard.

(ii) Revenue collected by the Council from entrusted departments was required to be deposited into the Government account. In violation of the terms of entrustment, the Council deposited the State revenue of Rs.3.95 lakh collected during 2005-06 from the entrusted departments into the Council's fund under "XI-other General Economic Services".

### **2.4 Personal Ledger Account**

The Council maintains a 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 the Council's Cash Book, as of 31 March 2006, was required to be reconciled with the balance shown in the records of the Treasury and discrepancies, if any, between the two sets of records, were to be reconciled.

Scrutiny of records of the treasury with the PLA Cash Book maintained by the Council revealed that, as of 31 March 2006, there was a difference of Rs.59.39 lakh in the closing cash balance between the two sets of records as shown in Table - 3 below:

**Table – 3**

*(Rupees in lakh)*

Sl. No.		As per Treasury records	As per annual accounts and PLA Cash Book	Discrepancy excess (+) Less (-) in Cash Book
1	Opening balance as on 01-04-05	170.79	91.92	(-) 78.87
2	Closing balance as on 31-03-06	79.83	20.44	(-) 59.39

The above discrepancies had not been reconciled by the Council despite such discrepancies having been pointed out in earlier Audit Reports. The Council stated (November 2007) that the reconciliation of figures of Cash Book (PLA) with Treasury records was in progress. The Council furnished a similar reply on an earlier occasion also but no real progress was noticed during the current year.

## **2.5 Incorrect exhibition**

The opening balance as per the annual accounts was shown as Rs.91.92 lakh while the closing balance of the previous year was Rs.90.75 lakh resulting in a discrepancy of Rs.1.17 lakh. The Council had not reconciled this discrepancy.

Scrutiny of annual accounts (statement no. 6) also revealed that expenditure on "42 Capital Outlay on Road Transport Services - Acquisition of fleet" of Rs.51.69 lakh (non-plan) was correctly shown under Column No. 2 but incorrectly shown under final Column No. 4 as Rs.51.59 lakh and thus led to a discrepancy of Rs.10,000. These need to be rectified.

The Council did not furnish any reply (January 2009).

## Section – III

### 3.1 Loss of forest revenue due to non-extraction of bamboos

As per Management plan for bamboo of North Cachar Hills, the average life span of bamboo is six years and it is to be extracted in the fourth year for sale. If extraction is not done in the fourth year, regeneration and recouplement in the coupes will be disturbed with the possibility of the bamboo drying up and consequently becoming unfit for utilisation for industrial purposes leading to loss of revenue.

Scrutiny of records revealed that for 2005-06, the Council allotted (July 2005) extraction of 74,985 MTG (Metric Tonne Green) bamboo @ Rs.85/- per MTG to M/S Hill Trade Agency (HTA). The firm could extract only 26,138.841 MTG during the year 2005-06 leaving an unextracted quantity of 48,846.159 MTG.

The Council confirmed (February 2009) that the bamboos in question were yet to be extracted in the forest coupes and that, the condition of such bamboos could not be assessed/surveyed due to the tense situation in the N.C. Hills.

Thus, due to non extraction of allotted quantity of bamboo by the firm within the stipulated period, there was a loss of forest revenue amounting to Rs.41.52 lakh to the Council.



### **3.2 Loss of revenue due to irregular settlement of bazaar at lower rate**

Scrutiny of records of the Council revealed that the right of collection of entry tax from Haflong bazaar for the year 2005-06 was settled by the Council in March 2005 with a lessee at a negotiated amount of Rs.7.51 lakh without inviting any tender as required under Section 37 of N.C. Hills District (Taxes on entry of goods into market) Regulation (1<sup>st</sup> amendment) Act, 1976.

Earlier, during 2002-03 and 2003-04, the right of collection of entry taxes at Haflong bazaar was settled with the same lessee at his offered rate of Rs.13 lakh. Reasons for settlement of the same bazaar for 2005-06 at a lower rate than the previously settled amount with the same lessee without inviting tenders were neither available on record nor stated.

Thus, due to settlement of bazaar at lower rate, the Council sustained a loss of revenue to the tune of Rs.5.49 lakh which could have been avoided.

### **3.3 Loss due to non-settlement of stone mahals**

Stone in a river bed is in a constant process of accumulation and depletion due to the river current. If a mahal<sup>5</sup> is not operated during

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<sup>5</sup> Mahal – A notified area having plenty of stones/sands.



its specified working period, the stone is carried away by the river current and cannot be operated upon later. The working period so lost, thus, results in loss of revenue and therefore, all steps need to be taken to put the mahal on sale before the expiry of the earlier working period, so that revenue is not lost.

Scrutiny of the records of the Council revealed that four stone mahals were settled with mahaldars between November 2002 and November 2003 for extraction of 9,000 cum stone annually with a request to deposit the first instalment with security deposit and sign the agreements. The mahaldars neither deposited their first instalment and security deposit nor signed the agreements. Ultimately after a lapse of 11 to 16 months, the settlement orders were cancelled by the Council. However, it did not make any effort to put the mahals on fresh sale resulting in all the mahals remaining inoperative as of the date of audit.

Thus, inaction of the Council in cancelling the settlement orders and putting the mahals on fresh sale in time led to loss of revenue.

#### **4. Extra expenditure due to deployment of excess teachers**

According to the prescribed norms for granting permission/recognition of primary schools by the Council, the maximum enrolment in a section/class should be 40 and minimum 20 which has been relaxed to 15 in areas inhabited by SC/ST population and hilly areas. Thus, in primary schools of N.C. Hills district, teacher-

student ratio was required to be maintained at 1:15. The Government, vide Notification of 23 January 2004 has also stressed the need for rational deployment of teachers in primary schools.

Scrutiny of records of Education Department of the Council revealed that, during the academic session of 2005, the Council deployed 769 teachers in excess of norms as shown in Table - 4 below:

**Table - 4**

*(Rupees in lakh)*

Sl. No.	Name of the circle	No. of Schools	Enrolment of students	Teachers in position	Requirement of teachers as per norms	Excess teachers
1	Haflong A	26	987	282	66	216
2	Haflong B	26	2318	438	155	283
3	Mahur	36	1172	162	78	84
4	Dihanlai	35	771	80	51	29
5	Kalachand	24	675	102	45	57
6	Jatinga	28	1428	195	95	100
<b>Total</b>		<b>175</b>	<b>7351</b>	<b>1259</b>	<b>490</b>	<b>769</b>

The deployment of teachers in excess of norms had resulted in extra expenditure of Rs.2.89 crore<sup>6</sup> during 2005-06 alone.

The Council did not furnish any reply (January 2009).

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<sup>6</sup> Minimum basic pay of Primary Teacher = Rs.3130 p.m. x 12 months x 769 teachers

### **3.5 Unauthorised utilisation of grants-in-aid**

During the year 2005-06, the Council received grants-in-aid of Rs.24.34 crore from the State Government for Primary Education in the Council area.

Scrutiny of records (Statement No. 6) revealed that the Council released only Rs.17.89 crore to its Education Department and diverted the balance amount of Rs.6.45 crore irregularly towards expenditure under other heads of account. Utilisation certificate in respect of the grants already received was also not furnished (December 2007) to the Government.

### **3.6 Internal Control Mechanism**

- Internal control is an integral process which is designed to provide
- reasonable assurance about achieving the organisational 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 of the Council. The Council made a beginning in establishing an IA wing in March 2005, but failed to provide job description to the officers and staff of the wing. Consequently, the internal control in the Council was ineffective as brought out in the preceding paragraphs.

### **3.7 Outstanding Inspection Reports**

Audit observations on financial irregularities and defects in the maintenance of accounts noticed during local audit and not settled on the spot are communicated to the head of the office and to the next higher authorities through the Inspection Reports (IRs). Twelve

IRs on the accounts of the Council containing 261 paragraphs pertaining to the period 1993-94 to 2005-06 were yet to be settled (January 2009).



**Guwahati**  
**The**

**(Sword Vashum)**  
**Principal Accountant General**

20 APR 2009

**Countersigned**



**New Delhi**  
**The**

**(Vinod Rai)**  
**Comptroller and Auditor**  
**General of India**

05 MAY 2009



