

25 JUN 2010

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

**For the year ended 31 March 2006**

**Khasi Hills Autonomous District Council  
Shillong, Meghalaya**



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## PREFACE

This Report has been prepared for submission to the Governor of Meghalaya under Paragraph 7(4) of the Sixth Schedule to the Constitution of India. It relates mainly to the points arising from the audit of the financial transactions of the Khasi Hills Autonomous District Council, Shillong, Meghalaya.

2. The cases mentioned in this Report are those which came to notice in the course of test-check of the accounts of the Council for the year 2005-06.
3. This 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 District Council. The remaining two sections deal with the Council's financial position and irregularities noticed in the audit of transactions relating to the year 2005-06.



## SECTION I

### 1.1 Introduction

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

The Sixth Schedule (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 *etc.* of land, management of forests other than reserve forests, use of any canal or water courses for agriculture, regulation of the practice of '*Jhum*'<sup>1</sup> 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.

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<sup>1</sup>A form of shifting agriculture practice that adversely effects the soil fertility.



## **1.2 Rules for the management of District Fund**

The Sixth Schedule provides for the constitution of a District Fund for each autonomous district to which is to 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 terms of Paragraph 7(2) of the Schedule, rules are to be framed by the Governor for the management of the District Fund and for the procedure to be followed in respect of payment of money into the said Fund, withdrawal of moneys therefrom, custody of moneys therein and any other matter connected with or ancillary to these matters. These rules have not been framed so far (May 2009). Meanwhile, the United Khasi and Jaintia Hills District Council Fund Rules, 1952 (which had been framed by the erstwhile United Khasi and Jaintia Hills District Council for management of the District Fund) are being followed by the Council.

## **1.3 Maintenance of Accounts**

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

The accounts of the Council for the year 2005-06 were prepared in the prescribed format. Results of the test check of accounts are given in the succeeding paragraphs.



## SECTION II

### 2.1 Receipts and Expenditure

As per the revised Annual Accounts furnished to Audit in July 2009, receipts and expenditure of the Council for the year 2005-06 and the resultant revenue deficit were as under:

Table 2.1

(Rupees in lakh)

Receipts	2005-06	Disbursements	2005-06
<b>Part – I DISTRICT FUND</b>			
<b>1. Revenue Receipts</b>		<b>1. Revenue Expenditure</b>	
(i) Taxes on professions, trades and employments	289.24	(i) District Council & Executive Members	117.76
(ii) Land revenue	19.98	(ii) Administration of Justice	66.58
(iii) Taxes on vehicles	71.41	(iii) Land revenue	18.84
(iv) Other Administrative Services	6.54	(iv) Secretariat General Services	448.13
(v) Other General Economic Services	46.00	(v) Public works	219.11
(vi) Forests	85.41	(vi) Pension and other retirement benefits	94.12
(vii) Mines & Minerals	591.24	(vii) Education	8.92
(viii) Stationery and Printing	0.92	(viii) Social Security & Welfare	160.13
(ix) Public works	1.78	(ix) Other General Economic Services	64.24
(x) Grants-in-aid from State Government	173.07	(x) Forests	168.01
		(xi) Roads and Bridges	158.05
		(xii) Public Health & Sanitation	24.83
		(xiii) Fisheries	0.67
<b>Total Revenue Receipts</b>	<b>1285.59</b>	<b>Total Revenue expenditure</b>	<b>1549.39</b>
<i>Revenue Deficit</i>	<i>263.80</i>	<i>Revenue Surplus</i>	<i>---</i>
<b>2. Capital</b>	<b>NIL</b>	<b>2. Capital</b>	<b>NIL</b>
<b>3. Debt</b>	<b>NIL</b>	<b>3. Debt</b>	<b>NIL</b>
<b>4. Recoveries of loans and advances</b>	<b>9.53</b>	<b>4. Disbursement of loans and advances</b>	<b>9.36</b>
<b>Total of Part-I</b>	<b>1295.12</b>	<b>Total of Part-I</b>	<b>1558.75</b>
<b>PART – II DEPOSIT FUND</b>			
<b>A. Deposits not bearing interest –</b>		<b>A. Deposits not bearing interest –</b>	
(a) Security Deposit	10.61	Security Deposit	11.48
(b) Term Deposit	11.72		
<b>B. Civil Advances -</b>	<b>6.25</b>	<b>B. Civil Advances -</b>	<b>6.24</b>
Departmental Advances		Departmental Advances	
<b>Total of Part-II Deposit Fund</b>	<b>28.58</b>	<b>Total of Part-II Deposit Fund</b>	<b>17.72</b>
<b>Total Receipts (Part I+II)</b>	<b>1323.70</b>	<b>Total Disbursements (Part I+II)</b>	<b>1576.47</b>
Opening Balance	964.94	Closing Balance <sup>1</sup>	712.17
<b>Grand Total</b>	<b>2288.64</b>	<b>Grand Total</b>	<b>2288.64</b>

Source: Revised Annual Accounts of the Council.

<sup>1</sup> Cash: Rs. 9.26 lakh; Personal Ledger Account: Rs. 291.78 lakh; Bank: Rs. 411.13 lakh.



## **2.2 Discrepancy in the accounts**

Opening balance (Rs. 9.65 crore) shown in the Annual Accounts for the year 2005-06 was in excess of the closing balance (Rs. 7.65 crore) shown in the Annual Accounts for the year 2004-05 by Rs. 2 crore. The Secretary, Executive Committee of the Council stated (July 2009) that investment of Rs. 2 crore made with a rural bank during 2004-05, but not accounted for in the closing balance of the year through oversight, had now been included in the opening balance for the year 2005-06.

## **2.3 Shortfall in collection of revenue**

Compared to budget provision, there was shortfall in collection of revenue during 2005-06 under different heads of account. Significant cases of shortfall are given below:

**Table 2.2**

(Rupees in lakh)

Sl. No.	Major Head of Account	Budget provision	Actual as per Annual Accounts	Percentage of Shortfall
1.	Stationery and Printing	2.00	0.92	54
2.	Administration of Justice	8.00	6.54	18
3.	Taxes on Vehicles	80.00	71.41	11

Source: Budget and Statement 5 of Revised Annual Accounts – 2005-06.

Wide variations between the budget provision and actual collection of revenue indicated flaws in the budgeting process particularly under stationery and printing and administration of justice.

The Secretary, Executive Committee of the Council (SEC) stated (July 2009) that the shortfall in collection of revenue was due to less sale of forms, acts, rules, *challans*, etc. (Stationery and Printing), less Court cases (Administration of Justice) and non-release of the due share of Council's revenue by the State Government because of non-finalisation of accounts for the year 2005-06 by the Council (Taxes on Vehicles).



The reply is not acceptable because the collection of revenue under Administration of Justice during 2005-06 was more than the average collection during the last five years (Rs. 3.26 lakh) and thus, the shortfall was due to unrealistic budget provision. As regards shortfall of revenue under Stationery and Printing and Taxes on Vehicles, the Council did not furnish reasons.

#### **2.4 Non-compliance with Rule**

According to Rule 14(1) of the United Khasi-Jaintia Hills District Fund Rules, 1952, all moneys pertaining to the District Fund should be held in the treasury. Scrutiny (March 2009) of records of the Council revealed that contrary to the Rule, Council's funds of Rs. 2 crore were invested (December 2004) in term deposit with Bank Nongkyndong Ri-Khasi Jaintia, Shillong, where the Council had been maintaining a savings bank account.



## SECTION III

### 3.1 Avoidable expenditure

The Executive Committee of the Council decided in September 2005 to condemn and dispose of 13 vehicles as these vehicles were very old and repairing them was not considered economical. Of these, 11 vehicles were disposed of in October 2005 by auction for Rs. 3.73 lakh.

Scrutiny (March 2009) of records of the Council revealed that between March and October 2005, nine out of these 11 vehicles were got repaired at a cost of Rs. 7.96 lakh. Since these vehicles were very old, justification for their repair should have been assessed by the Council before incurring such huge expenditure.

It was further noticed that out of 11 vehicles disposed of, two vehicles (Bolero) were purchased by the Council in July 2002 and February 2003 at a cost of Rs. 11.33 lakh and an expenditure of Rs. 3.48 lakh was incurred on repair of these vehicles during 2005. However, both the vehicles were disposed of (October 2005) through auction at Rs. 2.22 lakh only after two to three years of purchase.

Thus, the action of the Council to get the vehicles repaired which were due for disposal had resulted in avoidable expenditure of Rs. 7.96 lakh. Disposal of two vehicles after utilisation for a short period further showed the apathy of the Council in proper utilisation of its assets.

The SEC stated (July 2009) that all possible steps were taken to minimize the repair and maintenance charges. The reply is not acceptable because the condition of the vehicles should have been assessed before incurring such huge expenditure in the financial interest of the Council.



### 3.2 Loss of revenue due to non-deduction of sales tax

According to the Government Notification of October 1991<sup>1</sup> (modified and revised in December 1999), sales tax at the prescribed rate of 8 *per cent* is to be deducted at source from the bills of contractors for civil works like construction of buildings, bridges and roads after allowing a deduction of 25 *per cent*.

Scrutiny of vouchers revealed that during 2005-06, 25 contractors' bills for a total amount of Rs. 67.59 lakh were paid by the Council for construction of buildings. However, sales tax amounting to Rs. 4.06 lakh was not deducted from their bills thereby giving undue benefit to the contractor to that extent.

The SEC stated (July 2009) that the sales tax was not deducted from the contractors' bills because they purchased the building material after payment of required taxes. The Council, however, could not provide evidence about payment of sales tax by the contractors.

### 3.3 Non-realisation of licence fee from non-tribal traders

The United Khasi-Jaintia Hills District (Trading by Non-Tribals) Regulation, 1954 provides that every licence granted under Section 3 of this Regulation shall be chargeable with a fee to be prescribed by the Executive Committee. If any person contravenes any of the provisions of this Regulation, he will be liable to pay a fine extending up to Rs.1,000.

Test-check (March 2009) of trading licence register maintained by the Council revealed that Rs. 2.40 lakh being the licence fee for the years 2004-05 and 2005-06 was not realised from 85 non-tribal traders. Reasons for non-realisation of licence fee as well as action taken to realise the same with or without fine were not on record.

<sup>1</sup> Notification No.ERTS (T) 134/90/62 dated 30 October 1991 issued by the Government of Meghalaya, Excise Registration, Taxation and Stamps Department



The SEC stated (July 2009) that some of the business houses transferred their business to other parties and in some other cases trading licences were not issued due to non-submission of requisite documents. The reply is not convincing because the Council did not furnish details of these business houses indicating the period of transfer of business and reasons for non-realisation of licence fee for the period prior to such transfer.

### **3.4 Non-accounting of material**

Rules 96 of the United Khasi Jaintia Hills District Fund Rules, 1952 provides that all articles purchased by the Council should be entered in the stock register. However, material worth Rs. 6.50 lakh purchased by the Council from the local market during 2005-06 was not entered in the stock register contrary to the Rule *ibid*.

The SEC admitted the fact and stated (July 2009) that material were entered in the stock register subsequently.

### **3.5 Internal control mechanism**

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. It was noticed that the Council had not taken any step to analyse or evaluate the efficacy of its internal control system.

Internal audit is an important component of any internal control system. The Council had neither introduced any internal audit manual nor established internal audit wing.

The SEC stated (July 2009) that two internal auditors were appointed in March 2007.



**3.6 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 heads of the offices and to the next higher authorities through the Inspection Reports (IRs).

Three IRs relating to the Council issued between November 2001 and March 2006 containing 11 paragraphs are yet to be settled (August 2009).

Shillong

The 12 APR 2010



(ONKAR NATH)  
Accountant General (Audit)  
Meghalaya

Countersigned

New Delhi

The 21 APR 2010



(VINOD RAI)  
Comptroller and Auditor General of India