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19 JUL 2012

on .....

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

**For the year ended 31 March 2005**

**Jaintia Hills Autonomous District  
Council  
Jowai, 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 points arising from the audit of the financial transactions of the Jaintia Hills Autonomous District Council, Jowai, 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 2004-05. Matters relating to the period subsequent to 2004-05 have also been included wherever necessary.

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 audit relating to the year 2004-05.



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# OVERVIEW

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## OVERVIEW

The significant audit findings are summarised in the following paragraphs:

- Closing cash balance as on 31 March 2005 shown in the Annual Accounts of the Council for the year 2004-05 (₹ 563.02 lakh) differs with that shown in the relevant cash book (₹ 46.45 lakh).
- As of 31 March 2005, ₹ 3.63 crore pertaining to the Council was lying in the bank accounts with different banks in contravention of Rule 14(1) of the Jowai Autonomous District Fund Rules, 1967, which provides for retention of all money in the Treasury.

(Paragraph 2.2)

- Council's revenue of ₹ 1.35 crore collected during 2004-05 was not deposited into treasury till the end of the year.

(Paragraph 2.3)

- Compared to budget provision, there was significant shortfall in collection of revenue during 2004-05 under different heads of account.

(Paragraph 2.4)

- Lack of timely action by the appropriate authority of the Council on gross irregularities and violation of Fund Rules in maintenance of cash book and management of fund, Council's fund of ₹ 5.49 crore was embezzled.

(Paragraph 3.1)

- The Council extended undue financial benefit of ₹ 94.23 lakh to the bidders due to remission of bid amounts of entry tax of vehicles.

(Paragraph 3.2)



## SECTION I

### 1.1 Introduction

The United Khasi and Jaintia Hills Autonomous 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 reserved forests, use 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 Councils to establish, construct or manage primary schools, dispensaries, markets, cattle pounds, ferries, 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 District, 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.

## **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 the management of the District Fund and for the procedure to be followed in respect of the payment of the moneys into the said Fund, the withdrawal of money therefrom, the custody of moneys therein and any other matter connected with or ancillary to these matters. These rules have not been finalised so far (December 2011). Meanwhile, the affairs of the Jaintia Hills Autonomous District Council are being regulated in accordance with the Jowai Autonomous District Fund Rules, 1967.

## **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 annual accounts of the Council for the year 2004-05 were prepared in the prescribed format. Results of the test check of accounts are given in the succeeding sections.

## SECTION II

### 2.1 Receipts and Expenditure

According to the Annual Accounts of the Council, the receipts and expenditure of the Council for the year 2004-05 and the resultant revenue surplus were as follows:

**Table 2.1**

(₹ in lakh)

Receipts		Disbursements	
PART I – DISTRICT FUND			
1. Revenue Receipts	2004-05	1. Revenue Expenditure	2004-05
(i) Taxes on Income and Expenditure	75.38	(i) District Council	51.73
(ii) Land Revenue	14.66	(ii) Executive Members	35.75
(iii) Stamps and Registration	1.70	(iii) Administration of Justice	25.13
(iv) Taxes on Vehicles	72.39	(iv) Land Revenue	167.89
(v) Interest Receipts	8.62	(v) Secretariat General Services	318.37
		(vi) Stationery and Printing	23.79
(vi) Other Administrative Services	3.08	(vii) Public works	398.60
(vii) Other General Economic Services	32.60	(viii) Pensions and other retirement benefits	46.77
(viii) Fisheries	2.76	(ix) Education	162.52
		(x) Urban Development	23.53
(ix) Forests	69.90	(xi) Information and Publicity	10.21
(x) Mines and Minerals	1138.72	(xii) Agriculture	88.40
(xi) Grants-in-aid from State Government	78.86	(xiii) Forest	295.42
(xii) 11 <sup>th</sup> Finance Commission	184.85		
Total Revenue Receipts	1683.52	Total Revenue Expenditure	1648.11
Revenue Deficit	...	Revenue Surplus	35.41

Receipts		Disbursements	
<b>2. Capital</b>	...	<b>2. Capital</b>	...
<b>3. Debt</b>		<b>3. Debt</b>	
(i) Loans received from Government	...	(i) Repayment of loans received from Government	...
(ii) Loans received from other sources	...	(ii) Repayment of loans received from other sources	...
<b>4. Loans and Advances</b>	...	<b>4. Loans and Advances</b>	...
Recoveries of Loans and Advances	...	Disbursement of Loans and Advances	...
<b>Total Part – I District Fund</b>	<b>1683.52</b>	<b>Total Part – I District Fund</b>	<b>1648.11</b>
<b>PART II – DEPOSIT FUND</b>			
Deposit Receipts	...	Deposit Payments	...
<b>Total Part II Deposit Fund</b>	...	<b>Total Part II Deposit Fund</b>	...
<b>Total Receipts (I + II)</b>	<b>1683.52</b>	<b>Total Disbursements (I + II)</b>	<b>1648.11</b>
Opening Balance	845.93	Closing Balance	881.34 <sup>(a)</sup>
<b>GRAND TOTAL</b>	<b>2529.45</b>	<b>GRAND TOTAL</b>	<b>2529.45</b>

Source: Annual Accounts of the Council.

## 2.2 Comments on Annual Accounts

The Annual Accounts of the Council for the year 2004-05 did not exhibit a correct picture of the financial transactions due to the reasons given below:

### 2.2.1 Discrepancy of Cash Balance

As on 31 March 2005, the cash balance of the Council as per Cash Book was ₹ 46.45 lakh (as discussed in paragraph 3.1). Against this, ₹ 563.02 lakh was exhibited in the annual accounts as 'Cash in hand' thereby overstating the cash balance by ₹ 516.57 lakh.

(a) Cash: ₹ 563.02 lakh; Bank Account: ₹ 128.76 lakh; Personal Ledger Account: ₹ 189.56 lakh.

### ***2.2.2 Excess exhibition of disbursement***

Government grants received against schemes and drawn from treasury were deposited into bank account operated by implementing departments and maintained separate ledger accounts for the purpose. Such drawals from treasury had been incorrectly booked under final expenditure in the Annual accounts without taking into consideration the actual expenditure incurred. It was observed that unspent balance as on 31 March 2005 was ₹ 3.56 crore as per two ledgers of Civil Works Department of the Council. Consequently, total disbursement for the year 2004-05 was overstated by ₹ 3.56 crore.

### ***2.2.3 Misclassification and understatement of bank balance***

Bank balance (₹ 128.76 lakh) shown in Annual accounts represents fund kept in fixed deposit (₹ 100 lakh) by Finance and Accounts Department of the Council and interest credited by bank (₹ 28.76 lakh) which should have been shown separately under the head of account 'Deposit bearing interest' instead of clubbing with closing balance.

### ***2.2.4 Understatement of bank balance***

As on 31 March 2005, ₹ 3.63 crore (including interest of ₹ 7.72 lakh) was lying in three bank accounts maintained by the Civil Works Department (₹ 363.42 lakh) and Forest Department (₹ 0.01 lakh) of the Council. The amounts were, however, not included in the bank balance (₹ 1.29 crore) shown in the annual accounts thereby understating the closing bank balance by ₹ 3.63 crore. Besides, retention of Council's fund in bank account was contrary to Rule 14(1) of the Jowai Autonomous



District Fund (JADF) Rules, 1967, which provide for retention of all money of the Council in the Treasury.

Further, there was a discrepancy of ₹ 34.49 lakh between the bank balance shown in the ledger maintained by the Council (₹ 363.42 lakh) and that shown in the pass book/bank statement. The discrepancy had not been reconciled (December 2011).

### **2.3 Shortfall in deposit of revenue**

According to Rule 18 of JADF Rules, 1967, all moneys received by cashier on account of the Council shall be remitted into the treasury promptly and shall on no account be appropriated towards expenditure.

Scrutiny (September –October 2010) of Daily Receipts Register and treasury *challans* revealed that against total collection of revenue of ₹ 2.55 crore during 2004-05, ₹ 1.20 crore was deposited into Treasury during the year resulting in short deposit of revenue of ₹ 1.35 crore. Shortfall in deposit of revenue not only resulted in understatement of receipts in the Annual Accounts of the Council for the year 2004-05 by ₹ 1.35 crore, but also fraught with the risk of embezzlement of Council's money. Information whether the amount was deposited to Council's Fund subsequently, though called for from the Council in July 2011, had not been furnished (December 2011).

### **2.4 Shortfall in collection of revenue**

Compared to budget provision, there was shortfall in collection of revenue during 2004-05 under different heads of account. Significant cases of shortfall are given below:

**Table 2.2**

(₹ in lakh)

Sl No.	Head of accounts	Budget estimate	Actual as per Annual Accounts	Percentage of shortfall
1.	Land Revenue	19.95	14.66	27
2.	Fisheries	3.30	2.76	16
3.	Stamp and Registration	2.50	1.70	32
4.	Forests	127.70	69.90	42
5	Taxes on Vehicles	110.00	72.39	34
6.	Mines and Minerals	1730.00	1138.72	34
7.	Miscellaneous Receipt	5.00	Nil	100

Source: Budget and Statement 5 of Annual Accounts.

Wide variations between the budget provision and actual collection of revenue indicated flaws in the budgeting process.

## **2.5 Personal Ledger Account**

The Council maintained a Personal Ledger Account (PLA) with the Jowai Treasury for crediting its receipts and meeting expenditure. As on 31 March 2005, the balance held in the PLA as per Treasury statement was ₹ 2.11 crore. Against this, ₹ 1.90 crore was accounted for in the Annual Accounts of the Council for the year 2004-05 as closing PLA balance. This resulted in understatement of PLA balance by ₹ 0.21 crore in the Annual Accounts for the year 2004-05. The discrepancy had not been reconciled (December 2011). The possibility of fraud or misappropriation escaping the notice of the authority due to such delays in reconciliation could not be ruled out.

## **2.6 Distinction of expenditure under Plan and Non-plan heads**

The Council had not framed any accounting manual nor formulated any guiding accounting principle for classification of expenses under Plan and Non-plan heads. Scrutiny

(September 2010) of budgeted and actual expenditure booked in the Annual Accounts for the year 2004-05 revealed the following:

- Council's approved budgeted expenditure for 2004-05 (₹ 26.86 crore) included ₹ 4.96 crore under Plan head for various departments<sup>2</sup> without explaining nature of expenses and mode of classification.
- Statement 6 of Annual Accounts for the year 2004-05 exhibits detailed account of expenditure by minor heads with break-up under Plan and Non-plan heads. An expenditure of ₹ 2.09 crore was shown in this statement under Plan head relating to Public Works (₹ 199.63 lakh) and Forest (₹ 9.07 lakh). Verification of individual expenses, however, revealed that original entries were not classified and booked separately under Plan and Non-plan heads. No such classification was also done during consolidation of department-wise expenses. While compiling Annual Accounts, the expenses were classified arbitrarily under Plan and Non-plan heads without any basis. Therefore, the break-up of expenses between Plan and Non-plan heads as exhibited in Statement 6 of Annual Accounts could not be vouched safe.

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<sup>2</sup> Revenue Department (₹ 3.73 lakh), Land Reforms Department (₹ 21.77 lakh), Taxation Department (₹ 26.11 lakh), Forest Department (₹ 145.96 lakh), Civil Works Department (₹ 238.02 lakh) and Agriculture, Soil, Fisheries and Marketing Department (₹ 60 lakh)



## **SECTION III**

### **3.1 Embezzlement of revenue and retention of heavy cash balance**

Rules 16 to 18 of the JADF Rules, 1967 provide that all receipts due to the Council should pass through Cashier (Nazir) who shall enter the same in cash book. The money so received by the cashier was to be remitted promptly into treasury and under no circumstances be appropriated towards expenditure. The cashier was required to close the cash book daily and have it completely checked and signed by the Secretary. At the end of each month the FAO was required to personally verify the cash balance as reflected in the cash book and record a certificate to that effect.

Despite repeated comments made in successive Reports of the Comptroller and Auditor General of India regarding retention of heavy cash balance at the end of each year in contravention of the Rules governing the District Fund, the position had not improved. Scrutiny (September-October 2010) of cash books revealed that closing cash balance as on 30 September 2004 was ₹ 5.49 crore. On the following month a new cash book was opened with 'Nil' opening balance without any attestation or authorisation order. Thus, fund amounting ₹ 5.49 crore was unauthorisedly removed from the cash book. On further Audit queries (September 2010), the Council admitted the fact and furnished the following information.

- The retired Nazir did not record the cash book for the last three years and six months from April 2001 and cash balance on the date of his retirement was not known. Since no cash was handed over, the relieving Nazir opened a new cash book with 'Nil' opening balance;
- The Council entrusted (January 2005) the job of updating the cash book to the Council's Examiner of Accounts and instituted (July 2007) departmental enquiry under Rule 13 of JADF Rules, 1967;
- The Council's Examiner of Accounts submitted two reports in January 2007<sup>2</sup> and August 2010<sup>3</sup>. The departmental enquiry report was submitted in March 2009.

Audit scrutiny of these reports disclosed the following facts:

- According to the first report of Examiner of Accounts, the cash book was last closed and signed by the Finance and Accounts Officer (FAO) of the Council at the end of March 2001 with huge cash balance of ₹ 2.37 crore. The total amount of revenue receipts allegedly retained by the Nazir during April 2001 to September 2004 was ₹ 4.79 crore, which was admitted by the Departmental Enquiry Committee. Out of ₹ 4.79 crore, ₹ 223.65 lakh was advanced to 40 Members of the District Council (MDC) in an unauthorised manner, ₹ 0.92 lakh

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<sup>2</sup> Report on Updating the Cash Book of the Jaintia Hills Autonomous District Council for the period from 01 April 2001 to 30 September 2004.

<sup>3</sup> Second Report on the Recovery of the Misuse and Missing Council's Revenue Collections during 01 April 2001 to 30 September 2004.

misappropriated towards office expenses and ₹ 37.07 lakh was refunded by the retired Nazir. The balance missing amount of ₹ 217.78 lakh remained unlocated.

- Outstanding position of missing amount of ₹ 5.49 crore based on 2<sup>nd</sup> Report (August 2010) of Council's Examiner of Accounts is given below:

**Table 3.1**

(₹ in lakh)

Sl. No.	Particulars	Amount
<b>1.</b>	<b>Amount embezzled</b>	
(a)	Missing amount reported	479.42
(b)	Not covered under the report of the Council's Examiner of Accounts	69.25
	<b>Total</b>	<b>548.67</b>
<b>2.</b>	<b>Amount recovered</b>	
(a)	Refunded by retired Nazir	49.27
(b)	Refunded by 26 members of the District Councils (MDC)	53.54
	<b>Total</b>	<b>102.81</b>
<b>3.</b>	<b>Missing amount yet to be recovered (1 -2)</b>	<b>445.85</b>
(a)	Untraced missing amount	192.87
(b)	Amount advanced to the MDCs	182.81
(c)	Misappropriation towards office expenses	0.92
(d)	Amount not covered under the report of the Council's Examiner of Accounts	69.25

*Source: Second report of the Examiner of Accounts of the Council.*

Thus, due to lack of timely action by the appropriate authority of the Council on gross irregularities and violation of Fund Rules in maintenance of cash book and management of fund, embezzlement of ₹ 5.49 crore had occurred. Of this, ₹ 1.03



crore was recovered and ₹ 4.46 crore yet to be recovered due to belated action.

Despite such serious irregularities in cash management, the Council had not initiated any corrective measure to safeguard its financial interest which would be evident from the persistent increase in cash balance in hand from ₹ 8.19 lakh in October 2004 to ₹ 46.45 lakh in March 2005, as detailed below:

**Table 3.2**

(₹ in lakh)

<b>Date</b>	<b>Closing cash balance</b>
29 October 2004	8.19
30 November 2004	16.62
31 December 2004	17.99
31 January 2005	19.13
28 February 2005	16.41
31 March 2005	46.45

*Source: Cash Book.*

In the above circumstances, appropriate steps need to be taken to recover the missing amount from the persons concerned so as to avoid loss of Council's funds. Further, appropriate action also to be taken to keep the Council's money in the PLA instead of cash in hand to avoid recurrence of misappropriation.

The matter was reported to the Council in March 2011; reply had not been received (December 2011).

### **3.2 Undue benefit to the bidders and loss of revenue**

Mention was made in Paragraph 3.2 of the Report of the Comptroller and Auditor General of India for the year ended

31<sup>st</sup> March 2004 regarding extension of undue financial benefit of ₹ 42.69 lakh to the bidders due to remission of bid amount of entry tax of vehicles at check posts located at (i) Mookyndur, Amlarem, Dawki, Garampani and Khanduli and (ii) Ratacherra. The Council, however, granted further extension for two months (June and July 2004) to the lessees without any payment thereby extending further undue financial benefit of ₹ 11.67 lakh<sup>4</sup>

Scrutiny (September-October 2010) of records of the Council further revealed that for collection of entry tax of vehicles at the above check posts during August 2004 to September 2005, tenders were invited by the Council in June 2004. In response, 10 tenders were received for each of the check gates. The Council allotted (July 2004) the work of collection of entry tax for the year 2004-05 at Mookyndur, *etc.* and Ratacherra check posts to the highest bidders at the offered price of ₹ 1.98 crore and ₹ 1.06 crore respectively with the direction to deposit half of the sale proceeds along with security deposit. The bidders, however, withdrew their tenders (July 2004). Though the earnest money of ₹ 1.40 lakh deposited by these two bidders was initially forfeited and deposited to the Nazir in March 2007, the entire amount was subsequently released to the bidders in April 2008 on the basis of the Executive Committee's decision of April 2008, which did not indicate any reason for release of forfeited amounts. Such injudicious decision, thus, led to loss of ₹ 1.40 lakh to the Council.

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<sup>4</sup> Mookyndur, Amlarem, <i>etc.</i> check gate:	
₹ 45 lakh ÷ 12 = ₹ 3.75 lakh x 2 months =	₹ 7.50 lakh
Ratacherra check gate:	
₹ 25 lakh ÷ 12 = ₹ 2.083 lakh x 2 months =	₹ 4.17 lakh
<b>Total</b>	<b><u>₹ 11.67 lakh</u></b>

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Instead of settlement of the check posts with the second highest bidders, the Council settled the Mookyndur, *etc.* and Ratacherra check gates for the year 2004-05 with the fifth and eighth highest bidders for ₹ 57.28 lakh and ₹ 35 lakh respectively without any recorded reason. Computed with reference to the amount offered by the second highest bidders, the Council sustained a loss of ₹ 81.16 lakh on settlement of the check posts. The details are given below:

Table 3.3

(₹ in lakh)

Sl. No.	Name of check gate	Amount at which settled	Amount offered by the second highest bidder	Loss of revenue
1.	Mookyndur, Amlarem, <i>etc.</i>	57.28	75.22	17.94
2.	Ratacherra	35.00	98.22	63.22
<b>Total</b>				<b>81.16</b>

*Source: Statement showing the list of tenderers and other relevant documents.*

From the foregoing paragraphs it is observed that due to injudicious extension of lease period without any payment, release of forfeited earnest money and settlement of check gates with the lowest bidders ignoring the second highest bidders, the Council sustained a loss of ₹ 94.23 lakh (₹ 11.67 lakh + ₹ 1.40 lakh + ₹ 81.16 lakh).

The Secretary, Executive Committee (EC) of the Council stated (October 2010) that the Council has no law, act and rules enforcing the erection of toll gate and to regulate the collection of toll and entry tax from vehicles and everything depends on the prerogative, power and discretion of the EC. The reply is not acceptable because the Council has a Regulation (Jaintia Hills

Regulation No. 1 of 1976) for settlement on lease, right to levy and collect tolls or taxes on entry of goods into the market wherein it was stipulated that the reason for not accepting the highest bid is to be recorded in writing. In absence of any Act & Rules for toll gates, the same financial principles should have been followed to safeguard the financial interest of the Council. Besides, any decision of the EC should not be in contravention of financial principles and to extend undue financial benefit to some individuals at the cost of the Council.

The matter was reported to the Council in March 2011; reply had not been received (December 2011).

### **3.3 Unfruitful expenditure**

Under the award of the Eleventh Finance Commission (EFC), the State Government released (January 2004, February 2005 and March 2005) ₹ 1.34 crore to the Council for maintenance of accounts and audit.

Scrutiny (September-October 2010) of utilisation records revealed that the entire amount so received was deposited by the FAO into Treasury and formed part of 'District Fund' instead of maintaining separate account thereof as per terms of EFC award. It was further observed that Council's estimated expenditure for the fund contained only salary components of officers and staff of Finance and Accounts Department which had hitherto been borne out of District Fund. Specific areas for improvement of quality in maintenance of accounts had not been identified, internal audit wing was not created, gross irregularities/ deficiencies in maintenance of accounts and

records persisted and compilation/submission of Annual Accounts from 2005-06 to 2009-10 was in arrears (October 2010). Thus, the expenditure of ₹ 1.34 crore on maintenance of accounts and audit under EFC award was unfruitful.

The matter was reported to the Council in March 2011; reply had not been received (December 2011).

### **3.4 Non-maintenance of records**

According to Rule 84 of the JADF Rules, 1967, unless otherwise directed by the District Council, payment for all works done (other than by daily labourer) shall be made on the basis of measurements recorded in Measurement Books.

During 2004-05 also the Council incurred expenditure of ₹ 91 lakh on payment for execution of various works like construction of footpath, village roads, *etc.* under Normal Development Schemes (₹ 61 lakh) and Members of District Council Scheme (₹ 30 lakh) without recording measurements in the Measurement Book. Inspection of works and their completion were also not certified by the Engineer in-charge. Bills were prepared by the Assistant Engineer showing quantity of work done, which were passed for payment by the Civil Engineer after obtaining approval by the Executive Member in-charge of Finance. In the absence of recorded measurement of works, actual execution of works as per required specification could not be ascertained in audit.

Further, records for monitoring of the works executed and evaluation of the impact of such huge expenditure on the socio-economic development of the tribal population under the



jurisdiction of the Council were not maintained. Thus, the overall impact of implementation of the schemes remained unassessed.

The matter was reported to the Council in March 2011; reply had not been received (December 2011).

### **3.5 Loss due to delay in deposit of premium of employees' salary savings scheme**

The Council operated employees Salary Savings (SS) scheme and 146 employees were covered under the scheme. The premium deducted under the scheme from the salaries of employees was to be deposited to Life Insurance Corporation (LIC) by 15<sup>th</sup> of every month. The Council defaulted to deposit the deducted premium for the period from April 2003 to October 2004 amounting to ₹ 14.07 lakh (including ₹ 0.90 lakh for 2004-05). To revive the lapsed policies, the defaulted amount of ₹ 14.07 lakh with penalty (late fee) of ₹ 0.90 lakh was deposited to LIC on 25 November 2004. Subsequently, under office order of 22 November 2004, the Executive Committee discontinued the system of deducting the premium from monthly salary of employees and directed the employees concerned to deposit premium in their individual capacity directly to LIC authority.

Thus, due to delay in payment of premium despite deduction from the employees, the Council sustained a loss of ₹ 0.90 lakh on payment of penalty. Reasons for the lapse need to be ascertained to initiate appropriate action.

The matter was reported to the Council in March 2011; reply had not been received (December 2011).

### **3.6 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.

An evaluation of internal control system in the Council revealed that internal control mechanism was weak in vital areas as under:

- Absence of office procedure, accounting, budget and internal audit manuals;
- Deficiencies in cash management, irregular and unauthorised retention of heavy cash balance, absence of physical verification of cash at the end of each month and bill wise analysis of cash balance, delayed deposit and non-deposit of revenue realised;
- Non-existence of Internal Audit Wing;
- Non-maintenance of asset register and absence of physical verification of assets;
- Non-reconciliation of cash balance with treasury and bank accounts;
- Non-maintenance of ledger accounts and absence of guiding principles for classification of expenses under plan and non-plan.

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.

The matter was reported to the Council in March 2011; reply had not been received (December 2011).

### **3.7 Outstanding Inspection Reports**

Audit observations on financial irregularities and deficiencies 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).

Two IRs relating to the Council issued between November 1997 and March 2005 containing five paragraphs are yet to be settled (December 2011).

### **3.8 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 2001-02 in respect of the Jaintia Hills Autonomous District Council were placed before the Council, no action on the audit paragraphs included in these reports was taken by the Council.

As such, it is recommended that the Council should look into this matter and ensure proper action on the audit observations pointed out in the Audit Reports in a time bound manner, which would help in facilitating reduction in financial irregularities and lapses of various types leading to good governance.



**(A.W.K. LANGSTIEH)**

Principal Accountant General (Audit)  
Meghalaya

Shillong

The

**23 FEB 2012**

Countersigned



**(VINOD RAI)**

Comptroller and Auditor General of India

New Delhi

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**27 FEB 2012**

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