

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

For the year ended 31 March 2005

**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 2004-05.

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 2004-05.

OVERVIEW

OVERVIEW

The significant audit findings are given below:

- Contrary to the condition for utilisation of grants within one year, grants-in-aid of Rs. 8.27 crore given by the State Government under the award of the Eleventh Finance Commission remained unutilised with the Council even after three to five years. Further, grant of Rs. 2 crore was invested in term deposit.

(Paragraph 3.1)

- The Council executed four construction works in deviation from the sanctioned estimates.

(Paragraph 3.2)

- Non-deduction of sales tax from the contractors' bills resulted in a loss of revenue of Rs. 4.04 lakh.

(Paragraph 3.3)

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*'¹ or other forms of shifting cultivation, establishment of village or town committees or councils and their powers, village or town administration including police, public health and sanitation and inheritance of property. Paragraph 6(1) of the Schedule empowers the Councils to establish, construct or manage primary schools, dispensaries, markets, cattle pounds, ferries, fisheries, roads, road transport and water ways in the respective autonomous districts. Paragraph 8 of the Schedule further empowers the Councils to assess, levy and collect within the autonomous districts, revenue in respect of land and buildings, taxes on professions, trades, calling and employments, animals, vehicles and boats, tolls on passengers and goods carried in ferries and taxes for the maintenance of schools, dispensaries or roads.

¹A 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 (November 2008). 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 2004-05 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 January 2008, the receipts and expenditure of the Council for the year 2004-05 and the resultant revenue surplus were as under:

Table 2.1

(Rupees in lakh)

Receipts	2004-05	Disbursements	2004-05
Part - I DISTRICT FUND			
1. Revenue Receipts		1. Revenue Expenditure	
(i) Taxes on professions trades and employments	261.22	(i) District Council & Executive Members	111.42
(ii) Land revenue	8.52	(ii) Administration of Justice	60.86
(iii) Taxes on vehicles	21.00	(iii) Land revenue	20.53
(iv) Other Administrative Services	5.64	(iv) Secretariat General Services	415.10
(v) Other General Economic Services	9.43	(v) Public works	116.49
(vi) Forests	41.95	(vi) Pension and other retirement benefits	62.40
(vii) Mines & Minerals	706.95	(vii) Education	8.45
(viii) Stationery and Printing	1.69	(viii) Social Security & Welfare	131.93
(ix) Public works	2.29	(ix) Other General Economic Services	36.36
(x) Grants-in-aid from State Government	691.68	(x) Forests	149.81
		(xi) Roads and Bridges	255.69
		(xii) Public Health & Sanitation	31.18
		(xiii) Fisheries	3.92
Total Revenue Receipts	1750.37	Total Revenue expenditure	1404.14
<i>Revenue Deficit</i>	-	<i>Revenue surplus</i>	<i>346.24</i>
2. Capital	NIL	2. Capital	NIL
3. Debt	NIL	3. Debt	NIL
4. Recoveries of loans and advances	8.53	4. Disbursement of loans and advances	8.36
Total of Part-I	1758.90	Total of Part-I	1412.50
PART - II DEPOSIT FUND			
A. Deposits not bearing interest - Security Deposit	11.36	A. Deposits not bearing - interest Security Deposit	202.72
B. Civil Advances - Departmental Advances	4.20	B. Civil Advances - Departmental Advances	4.20
Total of Part-II Deposit Fund	15.56	Total of Part-II Deposit Fund	206.92
Total Receipts (Part I+II)	1774.46	Total Disbursements (Part I+II)	1619.42
Opening Balance	609.90	Closing Balance ¹	764.94
Grand Total	2384.36	Grand Total	2384.36

(Source: Annual Accounts of the Council)

¹ Cash: Rs.3.71 lakh; Personal Ledger Account: Rs.761.23 lakh

2.2 Shortfall in collection of revenue

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

Table 2.2

Major Head of Account	Budget provision	Actual as per Annual Accounts	(Rupees in lakh)
			Percentage of Shortfall
Land Revenue	11.80	8.53	28
Forest	105.42	41.95	60
Taxes on Profession, etc.	324.00	261.22	19
Taxes on Vehicles	80.00	21.00	74

Source: Budget and Statement 5 of Annual Accounts – 2004-05.

Wide variations between the budget provision and actual collection of revenue indicated flaws in the budgeting process particularly under forest and taxes on vehicles.

The Secretary, Executive Committee (SEC) of the Council stated (July 2008) that the shortfall in collection of revenue was due to fewer land transfer and mortgage cases during the year and non-release of the due share of Council's revenue by the State Government.

The reply is not acceptable because the collection of land revenue during 2004-05 was more than the average collection during the last five years and thus, the shortfall was due to unrealistic budget provision. As regards shortfall under taxes on vehicles, the Council's share was not released by the State Government due to non-finalisation of annual accounts for the year 2004-05. Regarding forest and taxes on profession, etc., reasons for non-release of the Council's share were neither on record nor stated.

2.3 Personal Ledger Account

2.3.1 Understatement of receipts

According to Rule 18 of the United Khasi-Jaintia District Fund Rules, 1952, all moneys received by the Cashier on account of the Council is to be remitted in the Treasury promptly and should on no account be appropriated towards expenditure.

Scrutiny (April 2008) of records (Revenue Receipt Registers and Receipt Books) revealed that revenue of Rs. 1.14 lakh received on account of mortgage fee, permission fee, cost of tender paper, *etc.* during March 2005 was neither remitted into the PLA maintained with the Treasury nor accounted for in the Annual Accounts for the year 2004-05, resulting in understatement of receipts by Rs. 1.14 lakh. Retention of revenue outside the PLA was not only contrary to the Rule *ibid* but is also fraught with the risk of misappropriation.

The SEC stated (July 2008) that due to heavy rush in the Treasury at the fag end of March 2005, the Cashier could not deposit the amount in that month and that the amount was deposited during the first part of 2005-06.

SECTION III

3.1 Non-utilisation of Government grants and blocking of funds

Under the award of the Eleventh Finance Commission, the State Government sanctioned (March 2001 to September 2004) grants-in-aid of Rs. 11.52 crore to the Council for implementation of the schemes relating to upgradation of the standard of administration of the Council, with the condition to utilise the grant within one year and submit the utilisation certificates (UCs) to the Accountant General with a copy to the District Council Affairs Department, Government of Meghalaya.

Scrutiny (April 2008) of records revealed that out of Rs. 11.52 crore, UCs for only Rs. 3.25 crore were submitted by the Council to the State Finance Department in March 2005. UCs for the balance amount of Rs. 8.27 crore were not submitted by the Council even after three to five years of release of grants, reasons for which were not on record.

Further, out of the grant of Rs. 4.96 crore sanctioned in September 2004, Rs. 2 crore was invested (December 2004) in short term deposit with Ka Bank Nongkyndong Ri Khasi Jaintia, Shillong Branch. Retention of funds in term deposit instead of utilising for the purpose for which these were sanctioned was contrary to the conditions of sanction of grants.

The SEC stated (July 2008) that though Rs. 2 crore (out of Rs. 4.96 crore) was withdrawn for construction of a market complex, it could not be utilised due to objection from the village committee about the market complex and as such, the money was invested in short term deposit as per the decision of the Executive Committee. The reply is indicative of improper planning by the Council with regard to construction of the market complex.

3.2 Execution of work in deviation from the estimated provision

During October-November 2002 and March 2003, the Council, without obtaining administrative approval and technical sanction and also without inviting tenders, awarded four construction works, estimated to cost Rs. 23.54 lakh, to local contractors at par with the estimated cost. The works were completed at a cost of Rs. 19.64 lakh.

Scrutiny of records revealed that there was huge variation between the estimated quantities of the works and the quantities actually executed by the contractor. Significant cases of variations (exceeding 20 *per cent*) are given in **Appendix**. While execution of earth work in respect of all the four works was two to 43 times of the estimated provisions, execution of items like ornamental grills, shuttering, varnishing, painting, *etc.* fell short of the estimated provisions by 29 *per cent* to 89 *per cent*. This was indicative of the fact that either the estimate was unrealistic or the construction was not up to the required standard.

The SEC stated (July 2008) that in execution of any work some deviation was unavoidable due to topographical position of the area and soil condition. The reply is not tenable because the variation ranged up to 43 times.

3.3 Loss of revenue

According to the Government Notification of October 1991¹ (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*.

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

Scrutiny of vouchers revealed that during 2004-05, 23 contractors' bills for a total amount of Rs. 67.24 lakh were paid by the Council for construction of buildings. However, sales tax amounting to Rs. 4.04 lakh was not deducted from their bills thereby giving undue benefit to the contractor to that extent.

The SEC stated (July 2008) 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.

3.4 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).

Six IRs relating to the Council issued between November 2000 and March 2007 containing 28 paragraphs are yet to be settled (January 2009).

Shillong

The 12 MAY 2009



(ONKAR NATH)
Accountant General (Audit)
Meghalaya

Countersigned

New Delhi

The

15 MAY 2009



(VINOD RAI)
Comptroller and Auditor General of India

APPENDIX

APPENDIX

Comparative position of estimated quantity and quantity executed
(Reference: Paragraph 3.2; Page 7)

Sl No	Name of work	Estimated cost/ expenditure	Month and year of issue of work order	Description of works	Unit	Quantity as per estimate	Quantity as per bill	Variation Excess (+) Less (-)	Percentage of variation
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1.	Construction of community Durbar Hall cum toilet at Maw-U. Sam	3.46/3.44	November 2002	Earth work in excavation to the proper grade, etc. in ordinary soil	Cum	9.45	420	(+)410.55	4,344
				Providing MS Rod	Quintal	0.56	0.41	(-)0.15	27
				Providing coursed stone masonry, etc.	Cum	16.26	22.81	(+)6.55	40
				Providing 100 mm thick soling etc.	Sqm	55.63	76.51	(+)20.88	38
				Providing and fixing 38 mm thick full panelled shutter, etc.	Sqm	14.36	10.20	(-)4.16	29
				Varnishing with approved varnish etc.	Sqm	37.34	26.52	(-)10.82	29
2.	Construction of community Durbar Hall cum toilet at Rongmaw	3.46/3.42	March 2003	Earth work in excavation to proper level etc in ordinary soil	Cum	19.80	280	(+)260.20	1,314
				Providing M.S. Rod	Quintal	0.56	0.41	(-)0.15	27
				Providing shuttering including centering etc.	Sqm	229.50	159.29	(-)70.21	31
				Providing coursed stone masonry etc.	Cum	16.26	22.33	(+)6.07	37
				Providing & fixing 38 mm. thick full panelled shutter etc.	Sqm	14.36	10.20	(-)4.16	29
				Varnishing with approved varnish etc.	Sqm	37.34	26.52	(-)10.82	29
3.	Construction of community Hall cum Toilet at Midan Lyngdoh Nong kynih	3.45/3.42	November 2002	Earth work in excavation in the proper level in ordinary soil	Cum	Nil	280	(+)280	100
				Providing M.S. etc.	Quintal	0.56	0.41	(-)0.15	27
				Providing coursed stone masonry etc.	Cum	16.26	23.57	(+)7.31	45
				Providing 100 mm thick soling, etc.	Sqm	55.63	76.51	(+)20.88	38
				Providing and fixing 38 mm thick full panel shuttering, etc.	Sqm	14.36	10.20	(-)4.16	29
				Varnishing with approved varnish, etc.	Sqm	37.34	26.52	(-)10.82	29

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
4.	Construction of Site Development, Compound improvement, Retaining walls, gates, etc. for KHADC, Shillong	13.17/9.36	October 2002	Earth work in excavation in foundation trenches, etc.	Cum	395.177	551.04	(+155.86	39
				Providing & laying c.c. in proportion 1:2:4, etc.	Cum	4.90	2.63	(-)2.27	46
				Providing shuttering including centering, etc.	Sqm	451.45	88.12	(-)363.33	80
				Providing coursed random rubble stone, etc.	Cum	238.085	310.19	(+)72.105	30
				Providing 12mm thick cement plastering, etc.	Sqm	417.65	265.34	(-)152.31	36
				Providing torsteel re-enforcement, etc.	Quintal	34.55	5.38	(-)29.17	84
				Painting with synthetic enamel, etc.	Sqm	437.75	46.50	(-)391.25	89
				Applying ready mixed primary coat, etc.	Sqm	437.75	46.50	(-)391.25	89
				Providing and fixing MS ornamental grills, etc.	Sqm	110.40	43.80	(-)66.60	60
				Providing fitting and fixing in position steel gates, etc.	Sqm	12.00	6.67	(-)6.33	53
				Disposal of surplus earth, etc.	Cum	1894.17	2881.66	(+)987.49	52
				Demolishing R.C.C. work including stacking, etc.	Cum	-	1.03	(+)1.03	100
				Demolishing Brick works etc.	Cum	-	5.33	(+)5.33	100
				Demolishing stone masonry works, etc.	Cum	-	45.06	(+)45.06	100
				Demolishing steel works, etc.	Sqm	-	34.36	(+)34.36	100
				Providing 1 st class bricks, etc.	Sqm	-	64.35	(+)64.35	100
				White washing on new works	Sqm	-	134.95	(+)134.95	100
				Earth work in excavation, etc. hard soil	Cum	1324.86	2336.85	(+)1011.95	76
				Providing coursed random, etc.	Cum	113.88	14.53	(-)99.35	87
				Collection & supply of hard stone, etc.	Cum	172.432	121.15	(-)51.282	30
				Labour for laying, etc.	Cum	172.432	121.15	(-)51.282	30

Source : Estimates, Bills, etc.