

Presented to the Legislature

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

For the year ended 31 March 2008

**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 2007-08.

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 2007-08.

OVERVIEW

OVERVIEW

The significant audit findings are given below:

- Utilisation certificates for ₹ 8.68 lakh paid to the members of the District Council for youth affairs and arts and culture had not been furnished.

(Paragraph 3.1)

- Non-deduction of value added tax resulted in loss of revenue of ₹ 8.06 lakh.

(Paragraph 3.2)

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

¹ A form of shifting agriculture practice that adversely affects the soil fertility.

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.

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 all moneys received by the Council in the course of administration of the district is to be credited 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. 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 of India in April 1977.

The accounts of the Council for the year 2007-08 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 Annual Accounts, receipts and expenditure of the Council for the year 2007-08 and the resultant revenue surplus were as under:

Table 2.1

(₹ in lakh)

Receipts	2007-08	Disbursements	2007-08
Part – I DISTRICT FUND			
1. Revenue Receipts		1. Revenue Expenditure	
(i) Taxes on professions, trades and employments	386.47	(i) District Council & Executive Members	136.30
(ii) Land revenue	5.72	(ii) Administration of Justice	79.57
(iii) Taxes on vehicles	50.00	(iii) Land revenue	24.13
(iv) Other Administrative Services	10.10	(iv) Secretariat General Services	527.02
(v) Other General Economic Services	34.70	(v) Public Works	111.69
(vi) Forests	111.31	(vi) Pension and other retirement benefits	101.16
(vii) Mines & Minerals	677.00	(vii) Education	10.68
(viii) Stationery and Printing	0.60	(viii) Social Security & Welfare	84.60
(ix) Public Works	1.13	(ix) Other General Economic Services	31.76
(x) Grants-in-aid from State Government	550.94	(x) Forests	205.32
		(xi) Roads and Bridges	26.63
		(xii) Public Health & Sanitation	115.52
		(xiii) Arts & Culture	18.28
Total Revenue Receipts	1827.97	Total Revenue expenditure	1472.66
<i>Revenue Deficit</i>	---	<i>Revenue surplus</i>	355.31
2. Capital	NIL	2. Capital	NIL
3. Debt	NIL	3. Debt	NIL

Receipts	2007-08	Disbursements	2007-08
4. Recoveries of loans and advances	13.53	4. Disbursement of loans and advances	17.49
Total of Part-I	1841.50	Total of Part-I	1490.15
PART – II DEPOSIT FUND			
A. Deposits not bearing interest – (a) Security Deposit	5.36	A. Deposits not bearing interest – (a) Security Deposit	0.57
B. Civil Advances - Departmental Advances	10.09	B. Civil Advances – Departmental Advances	10.09
C. Deposit bearing interest – (a) Term Deposit	6.10	C. Deposit bearing interest – (a) Term Deposit	0.00
Total of Part-II Deposit Fund	21.55	Total of Part-II Deposit Fund	10.66
Total Receipts (Part I+II)	1863.05	Total Disbursements (Part I+II)	1500.81
Opening Balance	1122.76	Closing Balance ¹	1485.00
Grand Total	2985.81	Grand Total	2985.81

Source: Annual Accounts of the Council.

2.2 Comments on Accounts

2.2.1 As per the Annual Accounts for the year 2007-08, the capital expenditure on capital works was shown as 'NIL'. Scrutiny of records, however, revealed that during 2007-08, the Council incurred expenditure of ₹ 2.26 crore on construction of village roads, markets, market stalls, public latrines, drains, dumping grounds, playgrounds, drinking wells, etc. which are of capital in nature. Further, the Council purchased a plot of land worth ₹ 10 lakh in 2007-08, but the cost of land was not reflected as capital expenditure in the

¹ Cash: ₹ 1.57 lakh; Personal Ledger Account: ₹ 1017.28 lakh; Bank: ₹ 343.68 lakh; Term Deposit: ₹ 122.47 lakh

Annual Accounts for the year. Consequently, capital expenditure of ₹ 2.26 crore was not reflected in the Annual Accounts of the Council as such.

The Secretary, Executive Committee (SEC) of the Council stated (January 2013) that the misclassification had been noted and all expenditure of capital nature would be classified and booked under 'capital outlay'.

2.2.2 Statement 6 of the Annual Accounts for the year 2007-08 showed expenditure of ₹ 18.28 lakh under the Head of accounts 'Arts and Culture'. It was, however, noticed from the compilation sheet that the expenditure under this head during 2007-08 was ₹ 5 lakh. Out of the balance amount of ₹ 13.28 lakh, ₹ 6 lakh was incurred on youth affairs and the details of expenditure of ₹ 7.28 lakh were neither available in the compilation sheet nor furnished by the Council, though called for in March 2012. Besides, expenditure of ₹ 6 lakh incurred on youth affairs was accounted for under 'Arts and Culture', though as per the prescribed Heads of Accounts for the District Councils, there is a Minor Head of Accounts 'Sports and Youth Welfare' under the Major Head 'Education'. Consequently, the expenditure on 'Arts and Culture' was overstated in the Annual Accounts of the Council for the year 2007-08 by ₹ 13.28 lakh and the expenditure of ₹ 6 lakh on Youth Affairs was not accounted for in the Annual Accounts of the Council for the year 2007-08 as such.

The SEC stated (January 2013) that strict adherence on the classification of expenditure under various heads were being followed, which was not the case. The reply does not provide clarification on the expenditure of ₹ 7.28 lakh for which no details was available in the compilation sheet.

2.3 Shortfall in collection of revenue

Compared to the Budget provisions, there was a shortfall in collection of revenue during 2007-08 under different heads of accounts. Significant cases of shortfall are given below:

Table 2.2

(₹ in lakh)

Sl. No.	Head of Revenue	Budget Estimates	Actuals	Shortfall
1.	Taxes on Motor Vehicles	100.00	50.00	50.00
2.	Forest	123.84	111.31	12.53

Source: Budget of Council 2007-08 and Statement No. 5 of the Council's Annual Accounts for 2007-08.

Wide variations between the budget provisions and actual collection of revenue indicated the budgeting process was not stringent.

The SEC of the Council stated (January 2013) that 'Taxes on Motor Vehicles' are assessed and collected by the State Government and the shortfall under 'Forest' was due to non-release of fund by the State Government. The fact remains that the Budget provisions were not realistic because of huge shortfall in collection of revenue.

2.4 Non-maintenance of records

The Council did not maintain any asset register to record the details of various assets created by it. Further, there was no system in place to physically verify the Council's assets by responsible officers to ascertain the condition and utility of its different assets. In the absence of such mechanism, the net value along with existence of the Council's assets could not be ascertained. Non-maintenance of any record about the available assets of the Council was also fraught with the risk of theft or loss of these assets.

2.5 Personal Ledger Account

According to Fund Rules, all moneys received on behalf of the Council and all the expenditure incurred in relation to the affairs of the Council are required to be exhibited in the Personal Ledger Account (PLA) maintained with the Shillong Treasury. It was noticed that as on 31 March 2008, the balances in respect of the Council held in the PLA as per record of the Treasury was ₹ 1031.05 lakh. But as per Annual Accounts of the Council for the year, the closing balance under PLAs was shown as ₹1017.28 lakh.

The SEC of the Council stated (January 2013) that the reconciliation of PLA was being carried out.

SECTION III

3.1 Utilisation Certificates of funds not received from Members of District Council

Grants-in-aid amounting to ₹ 6 lakh under 'Youth Affairs' and ₹ 4.20 lakh under 'Arts and Culture' were sanctioned by the Council during 2007-08 for 30 members of the District Council (MDC). Each MDC was paid ₹ 20,000 for youth affairs and ₹ 14,000 for arts and culture. The MDCs were to submit utilisation certificates and proof of disbursement of grants. It was, however, noticed that till April 2012, utilisation certificates in respect of grants paid for youth affairs were submitted by only two out of 30 MDCs and those for arts and culture were submitted by eight MDCs. In absence of utilisation certificates, proper utilisation of grants of ₹ 8.68 lakh paid to the remaining MDCs could not be vouched by Audit.

The matter was referred to the Council in December 2012; reply had not been received (April 2013).

3.2 Loss of revenue due to non-deduction of Value Added Tax

Rule 39 of the Meghalaya Value Added Tax Rule (VAT), 2005 provides *inter alia* that the amount of tax payable shall

be deducted from the bill in respect of works contracts. As per Section 5(1) and 5(2)(c), read with Schedules IV and IV A, of the Meghalaya VAT Act, 2003 (amended in 2005), the rate of VAT in respect of works contract shall be 12.5 *per cent* after allowing deduction of 25 *per cent* from the work value.

Scrutiny of records of the KHADC relating to the deduction of VAT, revealed that the Council did not deduct VAT amounting to ₹ 8.06 lakh from 155 different works contracts during the year 2007-08.

The matter was referred to the Council in December 2012; reply had not been received (April 2013).

3.3 Management of transit passes

Rule 55(iii) of the United Khasi-Jaintia Hills Autonomous District (Management and Control of Forests) Rules, 1960 provides *inter alia* that no forest produce shall be removed unless covered by a transit pass in the prescribed form issued by a Forest Officer authorised by the Chief Forest Officer of the Council. As per the prescribed form of the transit pass, number and date of permit of certificates of origin on which the pass is granted, kind of forest produce, rate and amount collected are to be clearly mentioned.

Scrutiny of transit passes issued during 2007-08 revealed the following irregularities.

- There were no entries of the rates and amount of forest royalty collected. As such, the money collected through each transit pass could not be ascertained in audit. Absence of such vital information was thus fraught with the risk of misappropriation of revenues of the Council.
- In some transit passes, permit number and date, kind of forest produce and signature of the issuing officer were not recorded.
- There was no record to monitor the returns of used transit pass books by the Forest Department of the Council to prevent their misuse.

The SEC of the Council stated (January 2013) that compliance to the Audit objections were being strictly observed.

3.4 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. Inadequate internal control mechanism resulted in improper maintenance of cash book as discussed below:

- Rule 16 (iii) of the Fund Rules provides that the cash book shall be closed daily supported by a certificate of verification, duly authenticated by the Secretary in

token of acceptance of its correctness. Further, Rule 16 (iv) of the Fund Rules provides for verification of cash balance in the cash book at the end of each month and recording a certificate to that effect in the cash book. It was observed that these requirements were not adhered to during 2007-08.

Absence of verification of cash balance was not only highly irregular but also fraught with the risk of misappropriation and losses.

The SEC of the Council stated (January 2013) that physical verification of cash was conducted at regular intervals and necessary certificates were endorsed in the cash book. The reply is not acceptable because on further verification (May 2013) of cash books it was noticed that except a signature of the SEC, there was no certificate of cash verification by any authority in the cash book.

3.5 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 higher authorities through the Inspection Reports (IRs).

Three IRs relating to the Council issued between November 2001 and March 2007 containing 12 paragraphs were yet to be settled (April 2013).



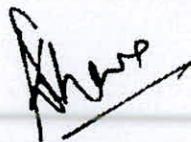
Shillong
The

13 SEP 2013

(A.W.K. Langstieh)

Principal Accountant General (Audit)
Meghalaya

Countersigned



New Delhi
The

24 SEP 2013

(Shashi Kant Sharma)

Comptroller and Auditor General of India

