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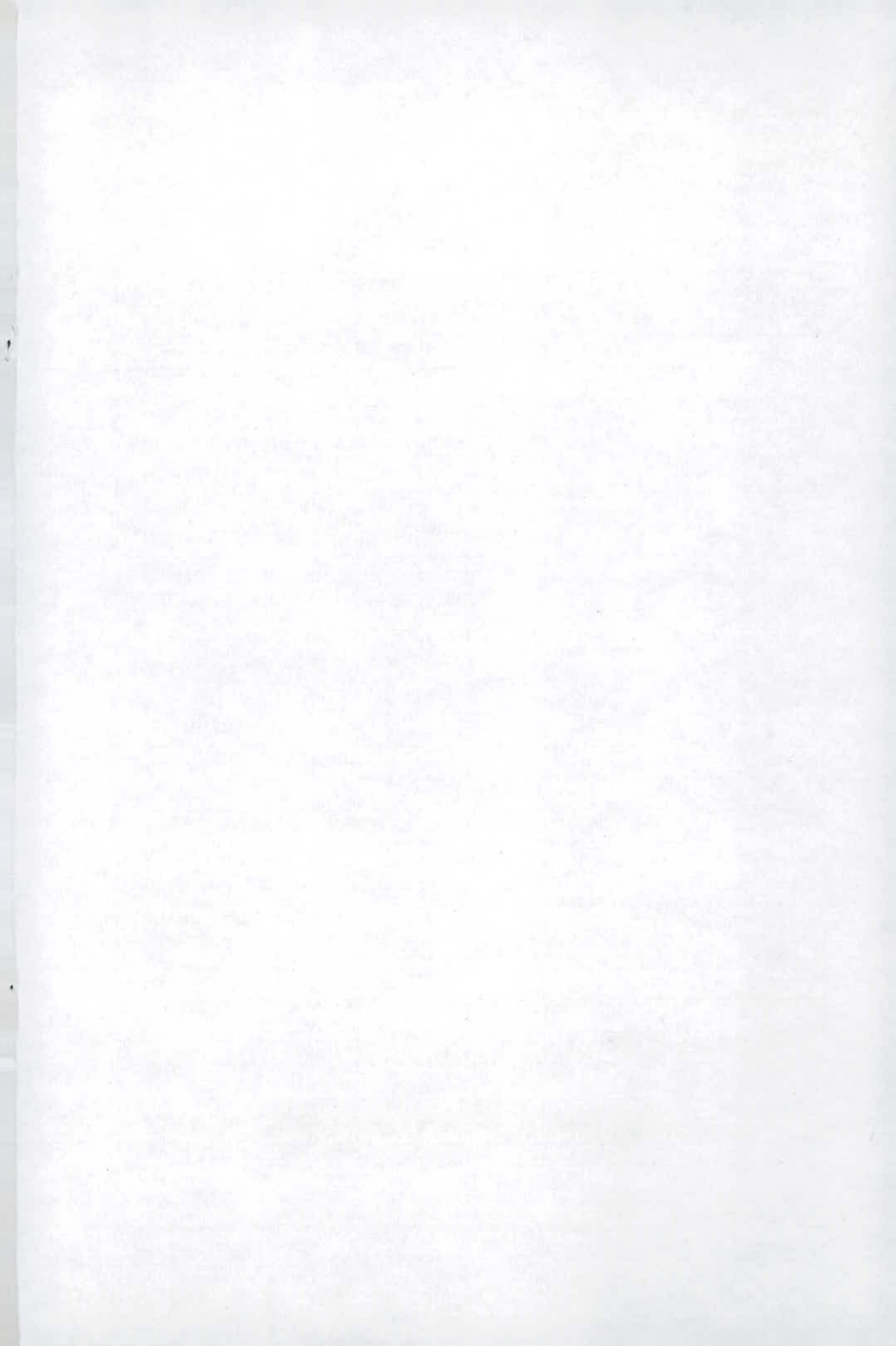
**Report of the
Comptroller and Auditor General of
India**

For the year ended 31 March 2004

**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 issues 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 2003-04.

3. This Report contains three sections, of which section one 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 2003-04.

OVERVIEW

OVERVIEW

The significant audit findings are summarised in the following paragraphs:

- Compared to budget provision, there was significant shortfall in collection of revenue during 2003-04 under different heads of account.

(Paragraph 2.3)

- As of 31 March 2004, ₹ 2.20 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 2.4)

- The Council had retained heavy cash balance at the end of each year since 1987-88 in contravention of Rules. As of 31 March 2004, there was cash balance of ₹ 5.39 crore with the Council.

(Paragraph 3.1)

- The Council extended undue financial benefit of ₹ 42.69 lakh to the bidders due to remission of bid amounts of entry tax of vehicles.

(Paragraph 3.2)

- The Council furnished fictitious utilisation certificates to the State Government for ₹ 44.82 lakh released by the latter as grants for upgradation of the standard of administration and which was lying unutilised till the date of submission of such certificates.

(Paragraph 3.3)



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 (September 2010). 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 2003-04 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 2003-04 and the resultant revenue surplus were as follows:

Table 2.1

(Rupees in lakh)

Receipts		Disbursements	
PART I – DISTRICT FUND			
1. Revenue Receipts	2003-04	1. Revenue Expenditure	2003-04
(i) Taxes on Income and Expenditure	73.29	(i) District Council	37.15
(ii) Land Revenue	13.41	(ii) Executive Members	32.19
(iii) Stamps and Registration	1.62	(iii) Administration of Justice	26.92
(iv) Taxes on Vehicles	74.17	(iv) Land Revenue	166.46
(v) Interest Receipts	16.98	(v) Secretariat General Services	331.20
(vi) Stationery and Printing	0.60	(vi) Stationery and Printing	17.71
(vii) Other Administrative Services	3.21	(vii) Public works	498.92
(viii) Other General Economic Services	44.80	(viii) Pensions and other retirement benefits	43.27
(ix) Fisheries	3.32	(ix) Education	143.71
		(x) Urban Development	20.56
(x) Forests	59.32	(xi) Information and Publicity	13.34
(xi) Mines and Minerals	1204.13	(xii) Agriculture	46.54
(xii) Grants-in-aid from State Government	336.87	(xiii) Fisheries	283.72
Total Revenue Receipts	1831.72	Total Revenue Expenditure	1661.69
Revenue Deficit	...	Revenue Surplus	170.03
2. Capital	...	2. Capital	...

Receipts		Disbursements	
3. Debt		3. Debt	
(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	...
4. Loans and Advances		4. Loans and Advances	
Recoveries of Loans and Advances	...	Disbursement of Loans and advances	...
Total Part – I District Fund	1831.72	Total Part – I District Fund	1661.69
PART II – DEPOSIT FUND			
Deposit Receipts	...	Deposit Payments	...
Total Part II Deposit Fund	...	Total Part II Deposit Fund	...
Total Receipts (I + II)	1831.72	Total Disbursements (I + II)	...
Opening Balance	675.90	Closing Balance	845.93 ⁽¹⁾
GRAND TOTAL	2507.62	GRAND TOTAL	2507.62

Source: Annual Accounts of the Council.

2.2 Comments on accounts

The Annual Accounts of the Council for the year 2003-04 did not exhibit a correct picture of the financial transactions due to the reasons given below:

2.2.1 Misclassification

Expenditure of ₹ 2.84 crore incurred during 2003-04 by Forest Department of the Council was shown in the Annual Accounts under Fisheries Department. The discrepancy remained unreconciled (August 2010).

⁽¹⁾ Cash: ₹ 539.01 lakh; Bank Account: ₹ 120.14 lakh; Personal Ledger Account: ₹ 186.78 lakh.

The Secretary to the Executive Committee of the Council (SEC) stated (May 2010) that the misclassification had been rectified and corrected Annual Accounts was under submission. The corrected accounts, however, had not been furnished even after three months (September 2010).

2.2.2 Incorrect depiction of receipts and expenditure

Against actual receipt of ₹ 1.64 crore as grants-in-aid under the award of the Eleventh Finance Commission (EFC) during 2003-04, ₹ 2.39 crore was exhibited in the Annual Accounts for the year 2003-04, resulting in overstatement of receipts by ₹ 0.75 crore.

Scrutiny of records further revealed that though the entire amounts received under the award of EFC were booked as final expenditure under the Civil Works Department of the Council during the respective years' accounts by withdrawal from the Personal Ledger Account (PLA), the amount of ₹ 75.17 lakh was again deposited (February 2004) to the Council's Fund by the Civil Works Department without adjustment in the total expenditure of Civil Works department for the year 2003-04. This had resulted in incorrect reporting of expenditure of Civil Works Department by ₹ 75.17 lakh. The Discrepancy had remained unreconciled till the date of audit.

The SEC stated (May 2010) that the overstatement of receipt was due to the re-deposit/refund of ₹ 75.17 lakh by the Civil Works Department which was misclassified while preparing the refund challan and the rectified Annual Accounts was under submission. The rectified accounts, however, had not been furnished even after three months (September 2010).

2.3 Shortfall in collection of revenue

Compared to budget provision, there was shortfall in collection of revenue during 2003-04 under different heads of account. Significant cases of shortfall are given below:

Table 2.2

(Rupees in lakh)

Sl. No.	Head of Account	Budget provision	Actual as per Annual Accounts	Percentage of shortfall
1.	Land revenue	17.85	13.41	25
2.	Taxes on vehicles	100.00	74.17	26
3.	Royalty on minerals	1480.00	1204.13	19
4.	Forest	142.32	59.33	58
5.	Trading by non-tribals	15.50	9.80	37

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. The SEC stated (May 2010) that the estimation was done by guess work and approximation. Reply underscores the indifferent attitude of the Council towards framing of budget and there is a need for more realistic estimation of revenue collection.

2.4 Personal Ledger Account

The Council maintained a Personal Ledger Account (PLA) with the Jowai Treasury for crediting its receipts and meeting its expenditure. Scrutiny (August-September 2009) of records relating to PLA disclosed the following:

2.4.1 As on 31 March 2004, the balances held in the PLA as per records of the Treasury were ₹ 2.04 crore. Against this, ₹ 1.87 crore was accounted for in the Annual Accounts of the Council for the year 2003-04 as closing PLA balance. This resulted in understatement of closing PLA balance by ₹ 0.17 crore in the Annual Accounts for the year 2003-04. The discrepancy had not

been reconciled (March 2010). The possibility of fraud or misappropriation escaping the notice of the authority due to such delays in reconciliation could not be ruled out.

The SEC stated (May 2010) that the accounts were under verification.

2.4.2 According to Rule 14(1) of the JADF Rules, 1967, all money pertaining to the Council shall be held in the Treasury. Contrary to this, ₹ 20.14 lakh was lying in a Savings Bank account with the United Bank of India (UBI), Jowai Branch as on 31 March 2004 in the name of the Finance and Accounts Officer.

Scrutiny of records further revealed that as on 31 March 2004, ₹ 2 crore was lying in three other Savings Bank accounts with the UBI and State Bank of India in favour of Civil Works (₹ 1.98 crore) and Forest (₹ 2.43 lakh) Departments of the Council. The amounts were, however, accounted for as expenditure in the Annual Accounts instead of as closing balance resulting in depiction of incorrect expenditure and closing balance.

The SEC stated (May and June 2010) that as per Rule 99 of the JADF Rules, 1967, the Council was empowered to operate savings bank account in the manner profitable to the Council and the amounts would be accounted for in the annual accounts as closing balance. The reply is not acceptable because Rule 99 of the JADF Rules, 1967 provides for investment of surplus funds, usually in the recognised form of Government securities, on the recommendations of the Executive Committee and with the approval of the Governor. Corrected accounts had, however, not been furnished even after four months (September 2010).

SECTION III

3.1 Retention of heavy cash balance and short/delay in remittance of revenue

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. Instead of reducing the cash balance, the Council continued to retain heavy cash balance which stood at ₹ 5.39 crore as of 31 March 2004 against ₹ 4.53 crore during the preceding year.

Retention of huge cash in hand instead of in the PLA had not only reduced the Government's balance with the Reserve Bank of India, but also increased the possibility of misappropriation of the Council's funds. The cash in hand needs to be remitted to the PLA immediately.

Scrutiny (August-September 2009) of records of the Council, viz., Daily Receipt Register, Cash Book, *Challan*, etc., further revealed that against realisation of ₹ 1.45 crore during 2003-04 as revenue on taxes on vehicles (₹ 68.50 lakh), weigh bridge (₹ 54.74 lakh), land revenue (₹ 13.41 lakh), royalty on other forest produce (₹ 4.59 lakh) and rent on fishery (₹ 3.32 lakh), only ₹ 33.34 lakh was deposited in the PLA maintained with the Treasury, leaving a balance of ₹ 1.12 crore with the Council. Besides, revenue amounting to ₹ 43.14 lakh realised by the Nazir of the Council from various sources was remitted in the Treasury after delays ranging between four months and 25 months. The details are given below:

Table 3.1

Sl. No.	Particulars of revenue	Amount received realized (Rupees)	Month of receipt	Month of deposit	Period of delay (Months)
1.	Fishery Rent	60,000	October 2003	August 2004	09
2.	Council Market	11,090	March 2004	November 2004	07
		73,275	August 2003	August 2004	11
		39,250	September 2003	August 2004	10
		25,500	December 2003	August 2004	7
		84,425	January 2004	August 2004	6
		1,41,025	March 2004	August 2004	4
		13,350	August 2003	August 2004	11
		1,76,025	July 2003	August 2004	12
		6,700	August 2003	August 2004	11
		6,700	November 2003	August 2004	08
		60,000	October 2003	August 2004	09
		1,75,000	January 2002	June 2003	16
		1,62,894	January 2002	June 2003	16
		3,49,045	April 2001	June 2003	25
		3,85,250	March 2002	September 2003	17
		2,86,777	February 2002	September 2003	18
3.	Professional Tax	13,56,575	April-June 2001	March-2004	2 - 8
		4,06,945	September 2001	March-2004	2 - 5
4.	License fee & fines	2,05,220	April-May 2001	March-2004	2 - 9
		2,88,470	June-August 2001	March-2004	2 - 6
Total		43,13,516			

Source: Daily Receipt Register, Cash Book, Challan, etc.

Retention of revenue outside the PLA was contrary to the Rule 18 of the Jowai Autonomous District Fund Rules, 1967, which provides that all moneys received by the Cashier on account of the Council shall be promptly remitted in the Treasury and shall on no account be appropriated towards expenditure. Therefore, there appears to be temporary misappropriation of funds.

The SEC accepted (May 2010) the fact but did not offer any comment.

3.2 Undue financial 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 March 2003 regarding loss of revenue of ₹ 42.69 lakh due to grant of remission of the bid amount of entry tax of vehicles at check posts located at (i) Mookyndur, Amlaren, Dawki, Garampani and Khanduli and (ii) Ratacherri, which were leased out (May 2002) to two bidders at the bid amount of ₹ 57.17 lakh and ₹ 55.52 lakh respectively.

Scrutiny (August-September 2009) of records of the Council further revealed that both the bidders prayed for extension of the period of lease for five years (2003-08) on the ground that they had sustained financial loss during 2002-03. Considering that the bidders paid the bid amount regularly during 2002-03, the Executive Committee of the Council granted (May 2003) extension for one year from June 2003 to May 2004 at reduced rate of ₹ 45 lakh (Mookyndur, etc. check posts) and ₹ 25 lakh (Ratacherri check post). Accordingly, the bidders operated the check posts and paid the bid amounts between June 2003 and April 2004.

The decision of extension of lease period at reduced rates without inviting fresh tenders was not justified. Computed with reference to the bid amounts of ₹ 57.17 lakh and ₹ 55.52 lakh at which the check posts were initially leased out (May 2002) to the bidders, the Council sustained a loss of ₹ 42.69 lakh¹ during the extended lease period.

The Council stated (May 2010) that the reduction/remission of the bid money/revenue was the decision of the Executive Committee. The fact remains that the decision of the Executive Committee was against the financial interest of the Council.

3.3 Non-utilisation of grants and submission of fictitious utilisation certificates

Under the award of the Eleventh Finance Commission (EFC), the State Government sanctioned (March 2003) grants-in-aid of ₹ 97.86 lakh to the Council for implementation of the schemes relating to upgradation of the standard of administration, with the condition to utilise the grant within one year and submit certificate to the Accountant General with a copy to the State Government.

Scrutiny (August-September 2009) of records of the Council revealed that out of ₹ 97.86 lakh (deposited in Council's Fund in July 2003) expenditure of ₹ 53.04 lakh was incurred up to December 2003 on implementation of schemes, leaving a balance of ₹ 44.82 lakh. Similarly, ₹ 61.89 lakh drawn by the Council in December 2003 out of the grants of ₹ 66 lakh sanctioned (November 2003) by the State Government for financing Council's own plan schemes during 2003-04, remained unutilised as of March 2004. Drawal of funds in advance of actual requirement was contrary to Rule 31 of the Jowai Autonomous District Fund Rules,

¹ Mookyndur, etc.: ₹ 57.17 lakh – ₹ 45 lakh = ₹ 12.17 lakh
 Ratacherra: ₹ 55.52 lakh – ₹ 25 lakh = ₹ 30.52 lakh
 ₹ **42.69 lakh**

1967, which prohibits withdrawal of funds unless required for immediate disbursement.

Although there was an unspent balance of ₹ 44.82 lakh out of ₹ 97.86 lakh sanctioned under the award of EFC, the Council furnished (December 2003) certificates in support of utilisation of the entire amount to the Accountant General and the State Government. Thus, the reports on utilisation of ₹ 44.82 lakh furnished by the Council did not exhibit the actual state of affairs.

The SEC stated (May 2010) that the utilisation certificates were submitted within the stipulated time as required by the Government considering the work orders were issued and the works were in progress and the amount were for the committed expenditure. As regards drawal of funds in advance, the SEC stated (My 2010) that on receipt of Government moneys, the same are drawn in tact and kept in a saving account as personal ledger account in the name of the executing officer for implementation of the schemes. The reply is not acceptable because fictitious utilisation certificates were furnished by the Council thereby giving wrong information to the State Government about the funds released for upgradation of the standard of administration. Further, retention of funds outside the PLA of the Council maintained with the Treasury was contrary to Rule 14(1) of the JADF Rules, 1967.

3.4 Non-maintenance of record

Mention was made in Paragraph 3.4 of the Draft Report of the Comptroller and Auditor General of India for the year ended 31 March 2003 in respect of the Council regarding payment for execution of work without recording measurement.

During 2003-04 also the Council incurred expenditure of ₹ 1.77 crore on payment for execution of various works like construction of roads, footpaths, play grounds, school buildings, etc. under Normal Development Schemes (₹ 1.17 crore) and Members of

District Council Scheme (₹ 0.60 crore) 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. Payment for execution of work without recorded measurement was contrary to the Rule 84 of the JADF Rules, 1967, which provides for payment for works done on the basis of measurements recorded in Measurement Books. In the absence of recorded measurement of works, actual execution of works as per required specification could not be ascertained in audit.

The SEC stated (May 2010) that no measurement book had been maintained as the Executive Committee of the Council felt that it was not necessary. The reply is not acceptable since according to Rule *ibid* it is mandatory on the part of the Council to make payment for all works done on the basis of measurement recorded in the measurement book.

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 admitted the fact and stated (May 2010) that the Internal Audit Manual was under preparation for establishment of an internal audit wing and for the purpose, post of auditors had been provided in the current financial year budget.

3.6 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 2004 containing five paragraphs are yet to be settled (September 2010).

The SEC of the Council stated (May 2010) that steps had been taken for early disposal of the outstanding Inspection Reports. But not such step had been taken even after four months.

3.7 Follow up action on Audit Reports

According to the Jowai Autonomous District Council Fund 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 11 FEB 2011

Countersigned



(VINOD RAI)

New Delhi

The 21 FEB 2011 Comptroller and Auditor General of India

