



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

**For the year ended 31 March 2007**

**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 issues 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 2006-07.

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 2006-07.

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## **OVERVIEW**

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## OVERVIEW

The significant audit findings are given below:

- The Council furnished fictitious utilisation certificates to the State Government for ₹ 4.20 crore released by the State Government as grants for upgradation of the standard of administration.

**(Paragraph 3.1)**

- The Council incurred unproductive expenditure of ₹ 11.08 lakh on payment of pay and allowances to the drivers/mechanics who were without any work.

**(Paragraph 3.3)**

- There was extra expenditure of ₹ 10.21 lakh on payment of electricity bills without utilisation of power.

**(Paragraph 3.4)**

- Non-deduction of sales tax and value added tax resulted in loss of revenue of ₹ 20.03 lakh.

**(Paragraph 3.5)**

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## 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 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 (August 2010). 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 2006-07 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, receipts and expenditure of the Council for the year 2006-07 and the resultant revenue deficit were as under:

**Table 2.1**

(Rupees in lakh)

Receipts	2006-07	Disbursements	2006-07
<b>Part – I DISTRICT FUND</b>			
<b>1 Revenue Receipts</b>		<b>1. Revenue Expenditure</b>	
(i) Taxes on Professions, Trades and Employments	345.80	(i) District Council & Executive Members	132.69
(ii) Land Revenue	2.62	(ii) Administration of Justice	71.00
(iii) Taxes on Vehicles	48.00	(iii) Land revenue	22.91
(iv) Other Administrative Services	7.78	(iv) Secretariat General Services	471.72
(v) Other General Economic Services	134.69	(v) Public works	162.92
(vi) Forests	115.52	(vi) Pension and other retirement benefits	87.63
(vii) Mines & Minerals	596.19	(vii) Education	19.19
(viii) Stationery and Printing	0.69	(viii) Social Security & Welfare	36.26
(ix) Public Works	80.78	(ix) Other General Economic Services	23.20
(x) Grants-in-aid from State Government	517.50	(x) Forests	186.39
		(xi) Roads and Bridges	114.26
		(xii) Public Health & Sanitation	14.96
		(xiii) Fisheries	0.25
		(xiv) Relief on account of natural calamities	0.30
<b>Total Revenue Receipts</b>	<b>1849.57</b>	<b>Total Revenue expenditure</b>	<b>1343.68</b>
<i>Revenue Deficit</i>	<i>505.89</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>11.95</b>	<b>4. Disbursement of loans and advances</b>	<b>11.94</b>
<b>Total of Part-I</b>	<b>1861.52</b>	<b>Total of Part-I</b>	<b>1355.62</b>

Receipts	2006-07	Disbursements	2006-07
<b>PART – II DEPOSIT FUND</b>			
A. Deposits not bearing interest –		A. Deposits not bearing interest –	
(a) Security Deposit	3.58	(a) Security Deposit	3.54
(b) Term Deposit	4.65	(b) Term Deposit	100.00
B. Civil Advances - Departmental Advances	8.00	B. Civil Advances - Departmental Advances	8.00
<b>Total of Part-II Deposit Fund</b>	<b>16.23</b>	<b>Total of Part-II Deposit Fund</b>	<b>111.54</b>
<b>Total Receipts (Part I+II)</b>	<b>1877.75</b>	<b>Total Disbursements (Part I+II)</b>	<b>1467.16</b>
Opening Balance	712.17	Closing Balance <sup>1</sup>	1122.76
<b>Grand Total</b>	<b>2589.92</b>	<b>Grand Total</b>	<b>2589.92</b>

*Source: Revised Annual Accounts of the Council.*

## **2.2 Comments on Accounts**

**2.2.1** Interest of ₹ 4.65 lakh earned on investment of ₹ 2 crore in ‘Term deposit’ was accounted for in Statements 1 and 7 of the Annual Accounts for the year 2006-07 under the head ‘Deposit not bearing Interest’ instead of revenue head ‘Interest Receipts’ resulting in understatement of revenue receipts and overstatement of receipts under ‘Deposit not bearing Interest’ by ₹ 4.65 lakh.

The SEC stated (June 2010) that the interest earned on investment in term deposit was accounted for under ‘Term Deposit’ because the prescribed format of accounts does not provide the head ‘Interest Receipts’. The reply is not acceptable because the heads of accounts prescribed for the District Councils specifically provide the major head ‘Interest Receipts’.

<sup>1</sup> Cash: ₹ 8.92 lakh; Personal Ledger Account: ₹ 713.92 lakh; Bank: ₹ 399.92 lakh.



**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 shall be held in the treasury. Scrutiny (November-December 2009) of records of the Council revealed that contrary to the Rule, Council's funds were credited outside the Treasury. The details are as under:

- The Council invested ₹ 1.16 crore in term deposit with the Bank Nongkyndong Ri-Khasi Jaintia, Shillong.
- The Council had been maintaining a savings bank account with Meghalaya Rural Bank, Shillong. The closing balance as on 31 March 2007 in the account was ₹ 2.84 crore.

The SEC stated (June 2010) that to mitigate the sufferings of the tax-payers in getting the *challans* passed by the Treasury before deposit in the State Bank of India, the Council instructed to deposit their dues directly to the Meghalaya Rural Bank and the Council in turn withdraws the amount from the Bank from time to time and deposit the amount in PL account maintained by the Treasury. As regards investment in term deposit with the Bank Nongkyndong Ri-Khasi Jaintia the SEC stated (July 2010) that since this bank had been granting house building advances , *etc.* to the employees of the Council in very soft term, the Council invested the amount with this bank on the request of the bank. The reply is not acceptable because such action of the Council was contrary to the Rule 14(1) *ibid*.



## SECTION III

### **3.1 Non-utilisation of grants and submission of fictitious utilisation certificates**

Under the award of the Twelfth Finance Commission, the State Government sanctioned (November 2006 and March 2007) grants-in-aid of ₹ 4.20 crore<sup>2</sup> to the Council for implementation of 1,201 schemes (drains, drinking well, dust bin, dumping ground, public latrine and one truck) 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 (November-December 2009) of records revealed that out of 1,201 sanctioned schemes, 1,128 Schemes (drain: 412, drinking well: 291, dustbin: 127, dumping ground: 146, public latrine: 151 and Truck: 1) were completed up to December 2009 at a cost of ₹ 3.89 crore and the balance amount of ₹ 31.41 lakh was lying unutilized till the date of audit (December 2009) thereby blocking up of ₹ 31.41 lakh for about two years beyond the schedule date of utilisation (March 2008). But certificate in support of utilization of the entire grant of ₹ 4.20 crore were furnished by the State Government during September 2007 to January 2009. Thus, the reports on utilization of ₹ 4.20 crore furnished by the Council did not exhibit the actual state of affairs; as only work worth ₹ 3.89 crore was executed.

The SEC stated (June 2010) that utilisation certificates for ₹ 3.69 crore were furnished. The reply is contradictory to the position of utilization certificates furnished during audit.

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<sup>2</sup> Excluding ₹ 30 lakh sanctioned for database and maintenance of accounts.

### **3.2 Irregular payment of mileage allowance**

During 2006-07, the Council incurred expenditure of ₹ 8.44 lakh on payment of mileage allowance to the executive members of the Council. Scrutiny (December 2009) of records, however, revealed that during the same year the Council spent ₹ 27.72 lakh on hiring of vehicles which were allotted to these executive members. Besides, ₹ 19.41 lakh was spent during the year on reimbursement of the cost of POL to the executive members. Since the vehicles were allotted to the executive members and the members were also claiming reimbursement for the POL of these vehicles, payment of mileage allowance to these members was not justified, which resulted in extension of double benefit involving expenditure of ₹ 8.44 lakh.

The SEC stated (June 2010) that the observations had been noted for future guidance, but did not give any reason for allowing double benefit.

### **3.3 Unproductive expenditure**

During 2006-07, against three vehicles, the Council had been entertaining 22 regular drivers, 15 casual drivers and one mechanic. As per information furnished by the Council, out of 22 regular drivers, three were attached with the Chairman and Deputy Chairman, Legislative and Secretary, Executive Committee and 16 were deputed as peon in various branches. The remaining three regular drivers, all the 15 casual drivers and the lone mechanic were idle. During 2006-07, the Council incurred expenditure of ₹ 11.08 lakh on payment of pay and allowances to these 19 drivers/ mechanic. Since no work was allotted to these drivers/mechanic according to their skill, the expenditure of ₹ 11.08 lakh was unproductive.

The SEC stated (June 2010) that the drivers who were working in the Council for a long time cannot be thrown out of employment without any fault, the casual drivers were placed at the disposal of



the members of the Executive Committee, Chairman, Deputy Chairman and leader of opposition and that the mechanic is absolutely necessary for the existing vehicles of the Council. The reply is not acceptable because utilization of the services of casual drivers for the members, etc. of the Council instead of 16 regular drivers, who were engaged as peon instead of their normal duties, was not justified.

### **3.4 Extra expenditure**

As per Meghalaya State Electricity Board Schedule of Rates and Charges notified in October 2005, the demand charge for high voltage (general bulk supply under BS category) power supply is ₹ 227 per KVA per month. Clauses 3 and 4 of the notification of October 2005 further provide that the contract demand should not be less than 80 *per cent* of connected load subject to the minimum of 60 KVA and billing demand should be 75 *per cent* of contract demand.

During March 2005, the Council had entered into an agreement in respect of supply of electricity on contract demand of 500 KVA with Meghalaya State Electricity Board (MeSEB). Scrutiny (November –December 2009) of electricity bills paid by the council during 2006-07 (except for the months of October & November 2006 which were not produced to audit) revealed that against the contract demand of 500 KVA, the Council had been availing on an average 0.163 KVA per month, the energy charges for which should have been a maximum of ₹ 444 per month. Against this, the Council paid ₹ 85,125 per month to the MeSEB as minimum energy charges (75 *per cent* of contract demand of 500 KVA i.e. 375 KVA x ₹ 227 per KVA) and the total amount paid to MeSEB during 2006-07 was ₹ 10.21 lakh. Since, requirement of power was minimal, continuation of 500 KVA contract demand was not a prudent exercise.

The SEC stated (June 2010) that the matter was being examined in consultation with the MeSEB.

### 3.5 Loss of revenue due to non-deduction of Sales Tax and Value Added Tax

According to the Government Notification of October 1991<sup>3</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*. Further, as per Section 5(2) (c) of the Meghalaya Value Added Tax (VAT) Act, 2005, with effect from May 2005, VAT at the rate of 12.5 *per cent* is to be deducted for civil works like construction of building, *etc.* after allowing 25 *per cent*.

Scrutiny (December 2009) of records revealed that the Council constructed a building for the District Council's Court through a contractor. The construction work of the building, which commenced in September 2002, was completed in February 2008 at a cost of ₹ 1.93 crore. But sales tax/ VAT amounting to ₹ 14.61 lakh<sup>4</sup> was not deducted from the bills of the contractor thereby giving undue benefit of ₹ 14.61 lakh to the contractor at the cost of the State Exchequer. Similarly, VAT of ₹ 5.42 lakh, required to be deducted from 72 bills of the contractors engaged for implementation of various developmental works during 2006-07, was not deducted by the Council. Thus, the total loss of revenue of the State during 2006-07 was ₹ 20.03 lakh.

The SEC stated (June 2010) that the sales tax was not deducted from the contractor's bills because the contractor purchased the building material after payment of required taxes. The reply is not acceptable

<sup>3</sup> Notification No.ERTS (T) 134/90/62 dated 30 October 1991 issued by the Government of Meghalaya, Excise, Registration, Taxation and Stamps Department.

<sup>4</sup> Up to April 2005 – Sales tax 8 *per cent* of ₹ 76.38 lakh = ₹ 6.11 lakh  
(Value of work done: ₹ 101.84 lakh less 25 *per cent*)

From May 2005 – Sales tax 8 *per cent* of ₹ 68.03 lakh = ₹ 8.50 lakh  
(Value of work done: ₹ 90.70 lakh less 25 *per cent*) = ₹ 14.61 lakh



because no document in support of payment of sales tax/VAT was produced by the Council.

### **3.6 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 shall be liable to pay a fine extending up to ₹ 1,000.

Test-check (November-December 2009) of trading licence register maintained by the Council revealed that ₹ 7.11 lakh being the licence fee for the year 2006-07 was not realised from non-tribal traders. Reasons for non-realization of license fee as well as action taken to realise the same with or without fine were not on record.

The SEC stated (June 2010) that some of the business houses transferred their business to other parties and fresh licences would be issued on receipt of required 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.

### **3.7 Entertainment of large staff without norms**

Scrutiny (November-December 2009) of records revealed that the Council had been entertaining large number of officers and staff (707 in 2006-07) without any norm. The total expenditure on salaries and traveling expenses (₹ 7.49 crore) during 2006-07 in respect of the officers/staff constituted around 56 per cent of the total revenue expenditure during the year leaving only 44 per cent for development and other activities.

The SEC stated (June 2010) that apart from staff engaged in 16 departments/wings of the Council, large field staff were also required for protection of forest land, plantation, checking of trading license, collection of professional tax, *etc.* which were strictly on absolute requirement and the norms for engagement of staff would be finalised. The fact remains that major share of expenditure of the Council was on salary components which is not encouraging and thus, the expenditure pattern of the Council needs correction in the ensuing years.

### **3.8 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 (June 2010) that two persons had been discharging duties as internal auditors and internal audit manual would be introduced at the earliest. The reply of the Council is not tenable since no records in support of the functioning of the internal audit wing were produced to audit.

### **3.9 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).



Five IRs relating to the Council issued between November 2001 and March 2007 containing 11 paragraphs are yet to be settled (August 2010).

The SEC stated (June 2010) that the Council had already submitted the reply to all paragraphs of Inspection Report during November 2001 to March 2007. The reply is not acceptable because the Council did not furnish para-wise specific replies, due to which the outstanding paras could not be settled.



**(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





