

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

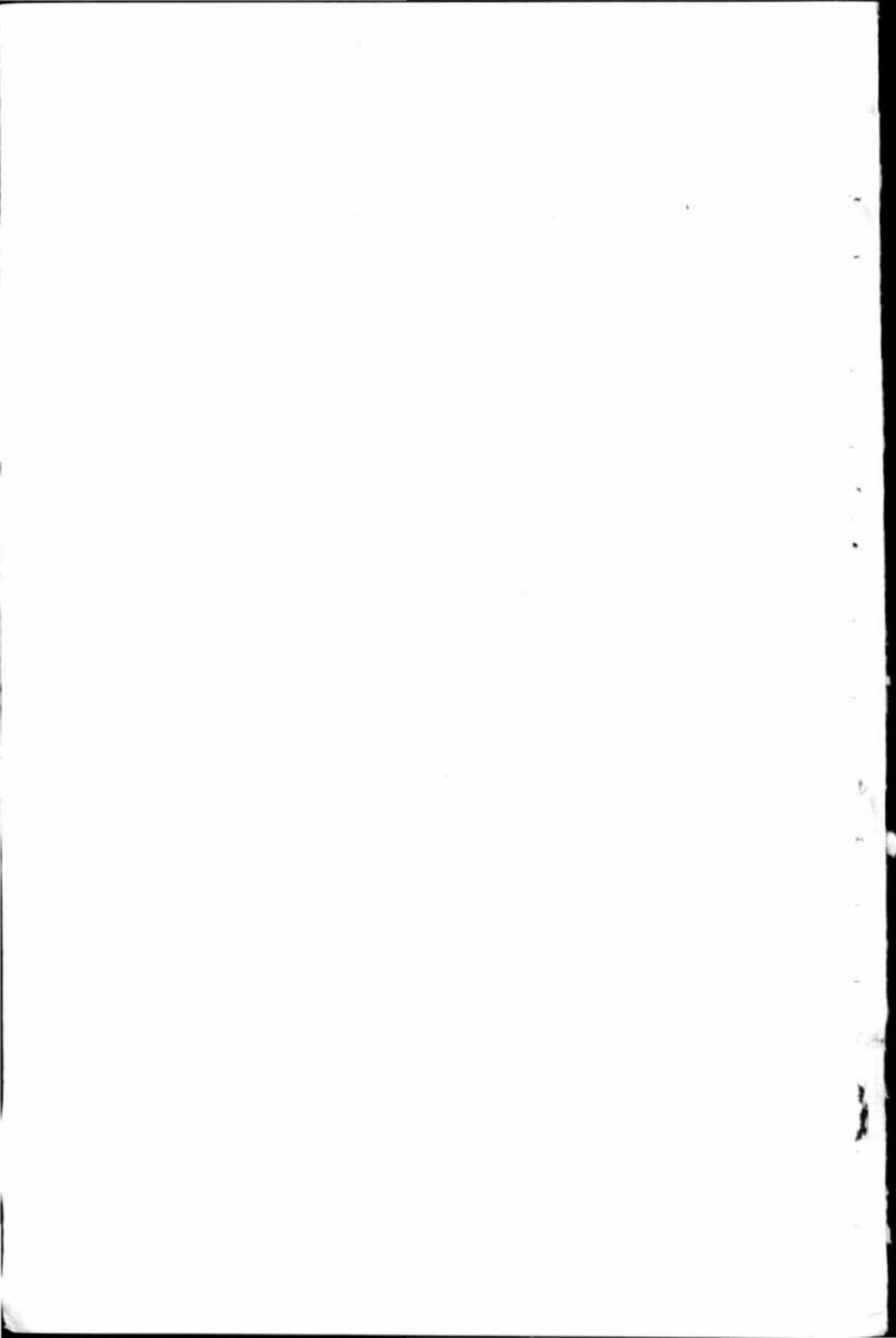
**For the year ended 31 March 2004**

**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 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 2003-04.

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 of transactions relating to the year 2003-04

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## OVERVIEW

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## OVERVIEW

*The significant audit finding is given below:*

- Due to reduction of agreed amount of lease money at toll gates, the Council sustained loss of revenue of Rs.50.16 lakh.

**(Paragraph 3.1)**

## 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'<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, 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.

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



## **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 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. Instead, 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 and communicated to the Khasi Hills District Council in June 1977.

Results of the test check of Annual Accounts of the Council for the year 2003-04 are given in the succeeding paragraphs.

## SECTION – II

### 2.1 Receipts and expenditure

As per the Annual Accounts, the receipts and expenditure of the Council for the year 2003-04 and the resultant revenue surplus were as under:

**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 Professions, Trade and Employment	252.39	(i) District Council & Executive Members	106.46
(ii) Land revenue	5.75	(ii) Administration of Justice	57.45
(iii) Taxes on vehicles	29.36	(iii) Land revenue	19.69
(iv) Other Administrative Services	3.63	(iv) Secretariat General Services	370.23
(v) Other General Economic Services	168.47	(v) Public Works	106.27
(vi) Forest	75.34	(vi) Pension and other Retirement Benefits	64.77
(vii) Mines & Minerals	213.10	(vii) Education	7.68
(viii) Grants-in-aid from State Government	645.00	(viii) Social Security & Welfare	80.00
(ix) Stationery and Printing	1.14	(ix) Other General Economic Services	12.04
(x) Public Works	0.81	(x) Forest	129.41
		(xi) Roads and Bridges	116.03
<b>Total Revenue Receipts</b>	<b>1394.99</b>	<b>Total Revenue expenditure</b>	<b>1070.03</b>
Revenue Deficit	-	Revenue surplus	324.96
<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>
(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	6.61	Disbursement of loans and advances	5.55
<b>Total of Part-I District Fund</b>	<b>1401.60</b>	<b>Total of Part-I District Fund</b>	<b>1075.58</b>
PART-II - DEPOSIT FUND			
(i) Deposit not bearing interest Security Deposit	4.56	(i) Deposit not bearing interest Security Deposit	10.06
(ii) Civil advances -Departmental advances	5.39	(ii) Civil advances -Departmental advances	5.38
<b>Total of Part-II Deposit Fund</b>	<b>9.95</b>	<b>Total of Part-II Deposit Fund</b>	<b>15.44</b>
<b>Total receipts (Part I+II)</b>	<b>1411.55</b>	<b>Total Disbursement (Part I+II)</b>	<b>1091.02</b>
Opening balance	289.37	Closing balance	609.90
<b>Grand Total</b>	<b>1700.92</b>	<b>Grand Total</b>	<b>1700.92</b>

Source: Annual Accounts of the Council

## **2.2 Variation in receipts and expenditure between the current year and previous year**

There was significant variation in receipts and expenditure between current year and previous year. These are indicated in **Appendix I**. The variation ranged between (+) 46 and (+) 226 *per cent* in respect of receipts and (-) 27 and (+) 647 *per cent* in respect of expenditure compared to previous year. Reasons for such huge variation have not been intimated by the Council.

## **2.3 Personal Ledger Account**

Test-check (December 2006) of Personal Ledger Accounts (PLA) of the Council revealed the following:

### ***2.3.1 Non maintenance of Pass Book***

Rule 19 of the United Khasi Jaintia Hills District Fund Rules 1952 provides that all moneys paid into the Treasury to the credit of the District Fund shall be accompanied by a Pass Book. The Council did not have a Pass Book since April 1994, as it was not provided by the Treasury to the Council despite repeated reminders from the latter. The correctness of the balances in the account of the Council with the Treasury could not therefore, be verified in audit.

### ***2.3.2 Non-reconciliation of PLA balances***

The council had not reconciled the PLA balances in its record with those maintained by the Treasury Officer. In the absence of reconciliation, the closing PLA balance at the end of the year 2003-04 could not be vouchsafed in audit.

The Secretary, Executive Committee of the Council (SEC) stated (January 2008) that reconciliation of balances between the Council's record and the PLA maintained by the Treasury was duly conducted. The reply is not tenable as no reconciliation statement was produced by the Council during audit.

### ***2.3.3 Understatement of expenditure***

The total expenditure of the Council during 2003-04 as per treasury schedules was Rs.1,079.27 lakh while the total expenditure as per Annual Accounts was Rs.1,070.03 lakh. This resulted in understatement of expenditure by Rs.9.24 lakh.

The SEC of the Council stated (January 2008) that the discrepancy was due to encashment of cheques for Rs.9.24 lakh by the suppliers/contractors during 2003-04 which were issued by the Council at the fag end of the year 2002-03.

## SECTION – III

### 3.1 Loss of revenue due to reduction of agreed amount of lease money at toll gates

For collection of entry tax on goods at the toll gates for the year 2002-03, the Council invited (March 2002) tenders and 22 bids were received. The highest bid was Rs.71 lakh. The Council, however, selected the second highest bid of Rs.61.08 lakh and entered into an agreement with the bidder in March 2002. The SEC stated (January 2008) that the tender was withdrawn by the highest bidder when he came to know that 50 *per cent* of the bid money was to be paid in advance.

In April 2002, on the request of the lessee the Council entered into a fresh agreement with him and reduced the agreed lease amount from Rs.61.08 lakh to Rs.36 lakh. In March 2003 the Council again entered into an agreement with the same lessee to operate the toll gates at the same rate of Rs.36 lakh for a period of five years from 2003-04 to 2007-08. The Council, however, cancelled the agreement in March 2004, effective from 2004-05.

Thus, due to the subsequent reduction of agreed lease amount, the Council sustained a loss of Rs.50.16 lakh<sup>1</sup>.

The SEC of the Council stated (January 2008) that the lessee submitted a representation for reduction of the lease amount on the ground that certain goods such as agricultural produce, sand, stones, chips, minor forest produce and animals were exempted from collection of entry tax and that the lessee was facing tremendous harassment from the truck drivers and truck owners association against the toll collection. The reply of the Council is not tenable because cancellation of agreement already entered into and entering into a fresh agreement

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<sup>1</sup> Rs.61.08 lakh – Rs.36 lakh = Rs.25.08 lakh x 2 years = Rs.50.16 lakh.

with the same lessee at a reduced value was not justified and amounted to extension of undue financial benefit to the contractor at the cost of the Council. Besides, it was the responsibility of the tenderer to consider all these aspects before offering the bid.

### **3.2 Loss of revenue**

According to the Government Notification of October 1991<sup>2</sup> (modified and revised in December 1999), sales tax at the prescribed rate of 8 *per cent* was to be deducted at source from the bills of contractors for civil works like construction of buildings, bridges and roads after allowing deduction of 25 *per cent* on account of labour component.

During 2003-04, five contractors' bills for a total amount of Rs.40.93 lakh were paid by the Council for construction of buildings. No deduction of the required sales tax of Rs.2.46 lakh was, however, made from their bills resulting in a loss of revenue to the Council.

Further, as per the same Notification, sales tax at the rate of 8 *per cent* was also to be deducted from the Contractors'/Suppliers' bills for repairs and purchase of spare parts of vehicles.

Scrutiny revealed that sales tax was realised at different rates instead of at the prescribed rate of 8 *per cent* for repairs and purchase of spare parts *etc.* Between July 2003 and February 2004, the Council paid Rs.29.13 lakh to suppliers/firms for repairs and purchase of vehicle spare parts. Against the realisable sales tax of Rs.2.33 lakh (8 *per cent* of Rs.29.13 lakh), the Council realised only Rs.1.87 lakh resulting in a loss of revenue of Rs.0.46 lakh.

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<sup>2</sup> Notification No.ERTS (T) 134/90/62 dated 30 October 1991 issued by the Government of Meghalaya, Excise Registration, Taxation and Stamps Department.

The SEC of the Council stated (January 2008) that the sales tax was not deducted from the contractors'/suppliers' bills because they purchased the building material/spare parts after payment of required taxes. Basis on which the Council was satisfied about payment of required taxes by the contractors/suppliers had not been stated.

### **3.3 Un-economical maintenance of vehicles**

During 2003-04 the Council spent Rs.33.85 lakh on repair of 13 vehicles. Of this, Rs.12.62 lakh was spent on repair of four vehicles against their cost price of Rs.8.96 lakh and Rs.6.61 lakh on one vehicle against its cost price of Rs.3.19 lakh - the percentage of expenditure on repair of these five vehicles with reference to their original cost ranged between 103 and 207 *per cent*.

The SEC of the Council stated (January 2008) that the Council had 13 vehicles against the requirement of at least 24 vehicles and as such, vehicles were running frequently in rural areas even in rainy season where condition of roads was very poor and that the old and uneconomical vehicles could not be replaced during 2003-04 due to paucity of funds. It was further stated that these vehicles were condemned and disposed off during 2004-05. The reply is not tenable because the Council should not have spent such a huge amount on repairs of vehicles in 2003-04 if it has decided to dispose them. Also, the amount included Rs.2.23 lakh on repairs of a vehicle which was procured in February 2003 at a cost of Rs.5.14 lakh indicating that the Council had not fixed any expenditure ceiling on repairs and maintenance of vehicles nor has it been reviewing the state of their maintenance at periodical intervals.

### **3.4 Double payment**

Scrutiny of vouchers and other relevant records revealed that the Council paid Rs.85,236 to a firm (voucher No 4286 (a) of February 2004) for repair and purchase of spare parts of a vehicle against a work order of 5 June 2003 and firm's bill numbers 411 to 415 dated Nil.

It was, however, noticed that another amount of Rs.85,236 was again paid to the firm for the same purpose against the same work order and under the same voucher number of February 2004. Bills against which the payment was made the second time were duplicate copies of the original bills which were manually re-numbered from 522 to 526 by striking off the machine numbers (411 to 415) of the original bills. This indicated that the Council had no control mechanism for verification and payment of bills. Action needs to be taken to recover the amount of Rs.85,236 and to fix responsibility for such a serious lapse.

The SEC of the Council stated (January 2008) that the Executive Committee of the Council decided (May 2007) that the amount of Rs.85,236 was to be refunded by the contractor or to be adjusted/deducted from his other bills. The Secretary, however, did not furnish any record in support of actual recovery/adjustment of the amount. The reply was also silent about action taken by the Council to fix responsibility on the delinquent official.

### **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 heads of the offices and to the next higher authorities through the Inspection Reports (IRs).



Five IRs relating to the Council containing 58 paragraphs issued between November 2000 and June 2006 still contained 24 unsettled paragraphs.

### **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. It was noticed that the Council had never undertaken any steps to analyse or evaluate the efficacy of its internal control system.

Internal audit is an important component of an internal control system. The Council was yet to establish an internal audit wing.

The SEC of the Council stated (January 2008) that two internal auditors had joined the Council on 2<sup>nd</sup> April 2007.



**(RAJIB SHARMA)**

Principal Accountant General (Audit)  
Meghalaya and Arunachal Pradesh

Shillong  
The

25 APR 2008

Countersigned



**(VINOD RAI)**

Comptroller and Auditor General of India

New Delhi  
The

02 MAY 2008

THE JOURNAL OF THE AMERICAN MEDICAL ASSOCIATION  
PUBLISHED WEEKLY  
CHICAGO, ILL., MAY 1, 1919  
Vol. 27, No. 18

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## *APPENDIX*

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**APPENDIX – I**  
**Comparative position of receipts and expenditure between**  
**current year and previous year (20 per cent or more)**

(Reference : Paragraph 2.2; Page 4)

(Rupees in lakh)

Sl. No.	Heads of Account	2002-03	2003-04	Increase (+)/ decrease (-) and its percentage in brackets
<b>Receipts</b>				
1.	Taxes on vehicles	9.00	29.36	(+) 20.36 (226)
2.	Other General Economic Services	89.73	168.47	(+) 78.74 (88)
3.	Stationery and Printing	0.78	1.14	(+) 0.36 (46)
4.	Other Administrative Services	2.25	3.63	(+) 1.38 (61)
<b>Expenditure</b>				
1.	Public Works	83.04	106.27	(+) 23.23 (28)
2.	Other General Economic Services	24.27	12.04	(-) 12.23 (50)
3.	Roads and Bridges	83.75	116.03	(+) 32.28 (39)
4.	District Council	83.58	60.70	(-) 22.88 (27)
5.	Social Security & Welfare	10.71	80.00	(+) 69.29 (647)