

CHAPTER-III
FINANCIAL REPORTING

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A sound financial reporting system with relevant and reliable information significantly contributes to efficient and effective governance. Compliance with financial rules, procedures and directives; and timeliness and quality of reporting on the status of such compliance, are important aspects of good governance, enabling the State Government to discharge its basic duties including strategic planning and decision-making. This Chapter provides an overview and status in respect of the State Government's compliance with various financial rules, procedures and directives; and timeliness and quality of reporting on the status of such compliance, during the current year.

3.1 Delay in furnishing Utilisation Certificates

Financial Rules provide that utilisation certificates (UCs) should be obtained for specific purpose grants by the departmental officers from the grantees and after verification, these should be forwarded to the Principal Accountant General (Accounts and Entitlements), Himachal Pradesh within the dates specified in the sanction. However, out of 5,758 UCs due in respect of grants aggregating ₹ 5,128.42 crore, 2,407 UCs (42 per cent) aggregating ₹ 1,898.80 crore (37 per cent) were pending as of March 2019. The department-wise break-up of pending UCs is given in **Appendix 3.1**; age-wise delays in submission of UCs are summarised in **Table 3.1**.

Table 3.1: Age-wise arrears of Utilisation Certificates as on 31 March 2019

Sr. No.	Year*	Total grants paid		Utilisation certificates outstanding	
		Number of cases	Amount (₹ in crore)	Number of cases	Amount (₹ in crore)
1.	Upto 2016-17	1,151	1,001.81	669	368.35
2.	2017-18	1,559	1,797.95	450	408.73
3.	2018-19	3,048	2,328.66	1,288	1,121.72
	Total	5,758	5,128.42	2,407	1,898.80

(* The year mentioned above relates to "Due year" i.e., after 12 months' of actual drawal)

77 per cent of pending UCs pertained to four heads of account viz. Panchayati Raj (1,165 UCs: ₹ 990 crore), Social Security and Welfare (390 UCs: ₹ 20 crore), Industries (156 UCs: ₹ 59 crore) and Rural Development (152 UCs: ₹ 281 crore).

During the year 2018-19, 1,288 UCs amounting to ₹ 1,121.72 crore, which had become due were not submitted by the bodies and authorities of the State against the grants-in-aid provided by 23 departments. In addition to this, 1,119 UCs amounting to ₹ 777.08 crore due for submission up to 2017-18 were also outstanding as on 31 March 2019. Thus, a total of 2,407 UCs amounting to ₹ 1,898.80 crore were due for submission as on 31 March 2019. Therefore, there is no assurance that the amount

of ₹ 1,898.80 crore has actually been incurred for the purpose for which it was sanctioned/authorized by the Legislature. High pendency of UCs is fraught with risk of misappropriation of fund and fraud.

The State Government may ensure timely submission of utilisation certificates in respect of the grants released to grantee institutions, and may also review whether grants should continue to be given to a grantee with high pendency in submission of UCs.

3.2 Non-submission of Accounts/Separate Audit Reports (SARs) of Autonomous Bodies and placement of SARs before the State Legislature

Several Autonomous Bodies have been set up by the State Government in the fields of Education, Urban Development, Welfare, Health, etc. Audit of accounts in respect of 14 Autonomous Bodies in the State has been entrusted to the Comptroller and Auditor General of India. Out of 14 Autonomous Bodies, only three - Himachal Pradesh Legal Services Authority, Shimla; District Legal Services Authority, Shimla; and District Legal Services Authority, Solan had submitted their accounts for 2018-19. The remaining 11 entities had not submitted their accounts despite delay of one year as of September 2019. Details of the period upto which accounts were rendered, issuance of Separate Audit Reports and their placement in the Legislature are given in **Appendix 3.2**.

Non-submission of accounts indicates weak financial controls and entails the risk of financial irregularities going undetected. The accounts may be finalised and submitted at the earliest.

3.3 Non-submission of details of grants/loans extended to bodies/authorities

In order to identify bodies/authorities that are to be audited as per Sections 14 and 15 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) (CAG's (DPC)) Act, 1971, the State Government/heads of departments are to furnish every year to Audit detailed information about grants and loans given to various bodies/authorities, purpose for which such grants and loans were extended, and total expenditure of such bodies/authorities.

However, detailed information had not been submitted in respect of any body/authority. In the absence of such information, the bodies/authorities to be audited as per Sections 14 and 15 of the C&AG (DPC) Act could not be identified. Correspondingly, the correctness and regularity/propriety of expenditure from the grants and loans given out of the Consolidated Fund of the State could not be examined in audit.

The State Government may ensure submission of detailed information and accounts in respect of bodies/authorities substantially financed through grants and loans within the

prescribed timeframe in order to safeguard against the risk of financial irregularities in such bodies/authorities.

3.4 Misappropriation/loss, theft, etc.

Cases of misappropriation, losses, theft, etc. were reported in previous years' Audit Reports.

State Government reported 44 cases of misappropriation/loss, theft, etc. involving government money amounting to ₹ 93.79 lakh upto March 2019 on which final action was pending. In all these cases, First Information Report (FIR) had been filed by the departments concerned. Forty one out of 44 cases were more than five years old. The department-wise break up of pending cases and age-wise analysis is given in **Appendix 3.3** and nature of these cases is given in **Appendix 3.4**. The age-profile of pending cases and the number of cases pending in each category is summarised in **Table 3.2**.

Table 3.2: Profile of misappropriations/losses and theft

Age-Profile of the Pending Cases			Nature of the Pending Cases		
Range in years	Number of cases	Amount involved (₹ in lakh)	Nature/characteristics of the cases	Number of cases	Amount involved (₹ in lakh)
0 – 5	03	4.81	Theft	09	8.48
5 – 10	08	12.51			
10 – 15	05	12.03			
15 – 20	12	41.39	Misappropriation/loss of material	35	85.31
20 – 25	03	4.91			
25 and above	13	18.14			
Total	44	93.79	Total	44	93.79

Reasons for pendency of action in these cases of misappropriation/loss, theft, etc., are summarised in **Table 3.3**.

Table 3.3: Reasons for pendency of action in cases of misappropriation/loss, theft, etc.

Reasons for the delay/outstanding cases		Number of cases	Amount (₹ in lakh)
(i)	Awaiting departmental and criminal investigation	26	31.38
(ii)	Awaiting orders for recovery or write off	12	35.23
(iii)	Pending in the courts of law	04	26.36
(iv)	Others	02	0.82
	Total	44	93.79

The State Government may devise an effective mechanism to ensure speedy and time-bound settlement of cases relating to misappropriation/loss, theft, etc.

3.5 Non-adjustment/irregular drawal of advances on abstract contingent bills

Advances for countersigned contingencies are required to be drawn on Abstract Contingent Bills (AC Bills) by the Drawing and Disbursing Officers (DDOs) subject to presentation of Detailed Contingent Bills (DC Bills) to the Controlling Officers (COs) for countersignature and onward transmission to the Accountant General (A&E). State Government instructed (June 2017) that all advances shall be authorized by the Treasuries through AC bills only. Further, second AC Bill shall be allowed only if DC Bill for the first AC Bill has been submitted. Drawals through AC Bills shall be monitored by the Accountant General (A&E) separately.

Notwithstanding the above rules and instructions, the State Government (Finance Department) had not developed any mechanism to distinguish and monitor withdrawals on account of AC Bills and subsequent adjustment of such expenditure against DC Bills. In the Integrated Financial Management System (IFMS) used by Treasuries and DDOs, advances on account of AC Bills were being drawn in Form HPTR-5 which was the same Form used for drawal of ordinary bills. Therefore, neither the State Government (Finance Department) nor the Principal Accountant General (A&E) could distinguish AC Bills and monitor their adjustment through DC Bills.

Test-check of records of DDOs of five departments (Ayurveda, Health and Family Welfare, Youth Services and Sports, Horticulture and Agriculture) revealed that an amount of ₹ 32.03 crore was drawn as advances through 306 AC bills during 2014-19. Out of this, 75 AC bills amounting to ₹ 28.68 crore (Ayurveda: 62: ₹ 14.70 crore, Health and Family Welfare: 13: ₹ 13.98 crore) were still pending for adjustment as of August 2019 as detailed in **Appendix 3.5**.

This drawing of advances through AC Bills without a mechanism for their identification / distinction and subsequent lack of monitoring entails risk of misappropriation/ malfeasance, and parking of funds in bank accounts outside the Consolidated Fund of the State with the resultant effect of overstatement of expenditure. The State Government may conduct a review of all departments to ascertain the number and amount of AC bills pending for adjustment.

3.6 Important factors affecting accuracy of accounts

3.6.1 Outstanding balances under major suspense accounts

The accounts of the Government are kept on cash basis. Certain transactions that arise in Government Accounts, the receipts and payments of which cannot at once be taken to a final head of receipt or expenditure owing to lack of information as to the nature or for any other reasons, are to be booked temporarily under the 'Suspense Head'. Upon receipt of relevant details/information, these heads of accounts are finally cleared by minus debit or minus credit and the amounts under them are booked to their respective final heads of accounts. If these amounts remain un-cleared, balances

under suspense heads would accumulate and would not reflect Government's receipts and expenditures accurately. Debt, Deposit and Remittances heads account for such transactions where the Government, as a custodian of public money, receives and holds such money in trust.

The accuracy of the Finance Accounts 2018-19 of the State Government was adversely affected by a large number of transactions under suspense heads awaiting final classification. The balances under certain significant suspense heads of accounts, as recorded in the ledger maintained by Principal Accountant General (A&E), are indicated in **Table 3.4**.

Table 3.4: Suspense Head (8658 – Suspense Accounts)

(₹ in crore)

Name of Minor Head	2016-17		2017-18		2018-19	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
101-Pay and Accounts Office-Suspense	77.13	29.96	86.03	36.55	96.21	35.55
Net	47.17 Dr.		49.48 Dr.		60.66 Dr.	
102-Suspense Account (Civil)	275.05	275.24	171.47	164.12	149.77	131.53
Net	0.19 Cr.		7.35 Dr.		18.24 Dr.	
129-Material Purchase Settlement Suspense Account	175.64	399.29	270.59	347.59	164.43	305.64
Net	223.65 Cr.		77.00 Cr.		141.21 Cr.	

The Finance Accounts reflect the net balances under these heads. The outstanding balances are worked out by aggregating the outstanding debit and credit separately. The implications of the balances under these heads are discussed in the succeeding paragraphs:

➤ **Pay and Accounts Office (PAO) Suspense– (Minor Head 101)**

This head is intended for settlement of transactions between the Accountant General (AG) and the various separate Pay and Accounts Officers (PAOs). The transactions initially recorded under this head in the books of the AG are cleared on receipt of the Cheques/Demand Drafts from the PAO and on the issue of Cheque/Demand Draft in respect of amounts received in the State Treasuries on behalf of the PAO. Outstanding debit balance under this head would mean that payments have been made by the AG on behalf of a PAO which are yet to be recovered. Outstanding credit balance would mean that payments have been received by the AG on behalf of a PAO which are yet to be paid. The net debit balance under this head showed increasing trend during 2016-19 - from ₹ 47.17 crore in 2016-17 to ₹ 60.66 crore in 2018-19. On clearance/settlement of this, the cash balance of the State Government will increase.

➤ **Suspense Account – Civil (Minor Head 102)**

This Minor Head is operated by the Accountants General to accommodate provisionally the differences noticed in the transactions which cannot be taken to the final head of expenditure/receipt accounts for want of certain information/documents

viz., challans, vouchers, etc. Receipts are credited and expenditure is debited to this account and cleared on receipt of required information by minus credit and minus debit respectively. Outstanding debit balance under this head implies 'payment made' but could not be debited to the final head of expenditure for want of certain particulars and outstanding credit balance represents the 'receipts' which could not be credited to final receipt head of account for want of details. There was outstanding debit balance of ₹ 18.24 crore under this head as of 31 March 2019.

➤ Similarly, under Minor Head 129 – Material Purchase Settlement Suspense Account, there was outstanding credit balance of ₹ 141.21 crore as of 31 March 2019.

3.7 Compliance with Accounting Standards

As per Article 150 of the Constitution of India, the President of India may, on the advice of the Comptroller and Auditor General of India, prescribe the form of accounts of the Union and of the States. In accordance with this provision, the President of India has so far notified three Indian Government Accounting Standards (IGAS). Status of compliance with these Accounting Standards by Government of Himachal Pradesh in 2018-19 and deficiencies therein is detailed in **Table 3.5**:

Table 3.5: Compliance to Accounting Standards

Sr. No.	Accounting Standard	Compliance by State Government	Deficiencies noticed in compliance
1	IGAS 1: Guarantees given by the Government	Not complied (Statements 9 and 20 of Finance Accounts)	Due to non-reconciliation of figures between State Government and PSUs, there was a difference of ₹ 9.24 crore in the Finance Account.
2	IGAS 2: Accounting and classification of grants-in-aid	Not complied (Statement 10 of Finance Accounts)	Grants-in-aid amounting to ₹ 0.49 crore were booked by State Government under capital expenditure heads which is in contravention of IGAS 2.
3	IGAS 3: Loans and advances made by Governments	Complied (Statement 18 of Finance Accounts)	--

Source: Indian Government Accounting Standards and Finance Accounts

3.8 Conclusion

Non-submission of Utilisation Certificates indicated lack of monitoring as regards utilisation of grants released by the departments to the grantees, and entailed risk of non-utilisation, misutilisation or diversion of funds released for various works/schemes/programmes. Non-submission of accounts by autonomous bodies and non-providing of detailed information as regards bodies/authorities substantially financed through grants and loans entailed risk of financial irregularities in such autonomous bodies/bodies/authorities going undetected. The drawing of advances

through Abstract Contingent Bills without a mechanism for their identification / distinction and subsequent lack of monitoring entailed risk of misappropriation/malfeasance, and parking of funds in bank accounts outside the Consolidated Fund of the State with the resultant effect of overstatement of expenditure. Further, there were cases of theft, misappropriation/loss of Government material and defalcation, in respect of which departmental action was pending for long periods.

The above issues of non-compliance with financial rules, procedures and directives; and timeliness and reporting requirements compromised the robustness of the financial reporting system.

Shimla
The 30 July 2020


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Countersigned

New Delhi
The 31 July 2020


(RAJIV MEHRISHI)
Comptroller and Auditor General of India

