

CHAPTER III

FINANCIAL REPORTING



Mahabodhi Temple Bodhgaya

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A sound internal financial reporting system which is backed by relevant and reliable data and information, significantly contributes to the efficient and effective governance by a State Government. Compliance with financial rules, procedures and directives, their timeliness and ensuring the quality of the reports on the status of such compliances are some of the important attributes of good governance. The reports on compliance and controls, if effective and operational, assist the State Governments in meeting their basic stewardship responsibilities including strategic planning and decision making. This Chapter provides an overview and status of the State Government's compliance with various financial rules, procedures and directives during the current year.

3.1 Outstanding Detailed Contingent Bills

The Bihar Treasury Code (Note below Rule 322 [2]) provides that advances drawn on Abstract Contingent (AC) Bills should be settled by submitting Detailed Contingent (DC) Bills to the Accountant General (A&E) not later than the 25th of the sixth month from the date of drawal of advance from the treasury.

As indicated in **Table 3.1**, out of ₹ 14272.48 crore drawn on 58423 AC bills, only 7435 DC bills for ₹ 2418.40 crore were submitted to Accountant General (A&E), Bihar. DC bills in respect of 50988 AC bills for ₹11854.08 crore drawn during the year from 2002-03 to 2008-09 were not submitted, despite repeated audit objections.

Table 3.1: Outstanding Detailed Contingent Bills

(₹ in crore)

| Year | AC Bills | | DC Bills | | Amount of DC Bills as Percentage of AC Bills | Outstanding DC Bills | |
|--------------|--------------|-----------------|-------------|----------------|--|----------------------|-----------------|
| | Number | Amount | Number | Amount | | Number | Amount |
| 2002-03 | 6988 | 332.22 | 513 | 80.21 | 24.14 | 6475 | 252.01 |
| 2003-04 | 12570 | 548.41 | 736 | 76.48 | 13.94 | 11834 | 471.93 |
| 2004-05 | 10701 | 957.72 | 1112 | 252.38 | 26.35 | 9589 | 705.34 |
| 2005-06 | 6064 | 2376.31 | 1092 | 398.67 | 16.78 | 4972 | 1977.64 |
| 2006-07 | 6980 | 3849.31 | 1173 | 613.13 | 15.93 | 5807 | 3236.18 |
| 2007-08 | 7081 | 3860.47 | 1749 | 832.48 | 21.56 | 5332 | 3027.99 |
| 2008-09 | 8039 | 2348.04 | 1060 | 165.05 | 7.03 | 6979 | 2182.99 |
| Total | 58423 | 14272.48 | 7435 | 2418.40 | | 50988 | 11854.08 |

{Source: Statement received from AG (A&E), Bihar}

3.2 Delays in furnishing Utilization Certificates

Rule 342 of the Bihar Financial Rules read with State Government decision (2a) appended to it provides that in cases of grants-in-aid, which are sanctioned in quarterly or half yearly installments, the amount of grants for the first two quarterly instalments or the first half yearly instalment may be sanctioned without insisting upon the production of utilization certificates (UC) in respect of the last grant. However, for sanctioning the remaining amount of the grant, UCs on the basis of the audited accounts of the previous grants should be insisted upon by the administrative departments. UCs should be obtained for grants provided for specific purposes by the departmental officers from the grantees and after verification, these should be forwarded to the Accountant General (A&E). However, it was observed that 21114 UCs aggregating ₹ 4527.77 crore were due from various administrative departments in respect of grants and loans paid up to October 2007. Details of grants paid on or after October 2007 were not intimated by the State Government and hence, UCs amounting to ₹ 196.39 crore received in the office of Accountant General (A&E) for the period 2007-09 have not been taken into account as no details of grants-in-aid released were available. Details of outstanding UCs are given in **Appendix 3.1**.

3.3 Delayed/non-submission of accounts by bodies/ authorities

In order to identify the institutions which attract audit under Sections 14 and 15 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act 1971, the Government/Heads of the department are required to furnish detailed information to audit every year about the financial assistance given to various institutions indicating therein, the purpose for which the assistance was granted and the total expenditure of these institutions. However, it was observed that nine annual accounts of four autonomous bodies/authorities involving ₹ 145.72 crore due up to 2009-10 had not been received (September 2010) by the Principal Accountant General (Audit) as shown in **Table 3.2**.

Table 3.2: Bodies/authorities, the accounts of which had not been received

(₹ in crore)

| Sl. No. | Name of the Bodies/Authorities | Year up to which accounts had been received | Grants paid by State Government includes opening balance |
|---------|---|---|--|
| 1. | Sone Command Area Development Agency, Patna | 2007-08 | 46.25 |
| 2. | Gandak Command Area Development Agency, Muzaffarpur | 2008-09 | 36.99 |
| 3. | Koshi Command Area Development Agency, Saharsa | 2008-09 | 18.03 |
| 4. | Kiul Badwa Chandan Command Area Development Agency, Bhagalpur | 2004-05 | 44.45 |
| | Total | | 145.72 |

(Source: Departmental figure)

3.4 Delays in submission of Accounts/Audit Reports of Autonomous bodies

Audit of the accounts of any body or authority as provided in Section 20(i) of the Comptroller and Auditor General's (Duties, Power and Conditions of Service) Act, 1971, if entrusted to the Comptroller and Auditor General (C&AG) by any law or if requested to do so by the Governor of a State having a Legislative Assembly, may be undertaken on such terms and conditions as may be agreed upon between him and the concerned Government. Audit of four autonomous bodies set up by the State Government in the field of housing, khadi and village industries, legal services and education have been entrusted to the C&AG. The focus of these audits is on verification of their operational transactions, accounts, compliance to rules and regulations, review of internal controls, systems and procedures.

The audit of accounts of the Bihar State Khadi & Village Industries Board (BSKVIB), the Bihar State Housing Board (BSHB) and the Rajendra Agricultural University (RAU), Pusa, Samastipur was entrusted to the C&AG up to 2002-03, 2003-04 and 2010-11 respectively. Audit of accounts of the Bihar State Legal Services Authority (BSLSA) has been entrusted to C&AG permanently. Even after repeated pursuance, the entrustment of audits of BSKVIB and BSHB for the succeeding years is pending till date. The submission of accounts by these bodies, issuance of Separate Audit Reports (SARs) and their placement in the Legislature are detailed in **Appendix 3.2**.

3.5 Departmental Commercial Undertakings

Under Section 13(c) of the C&AG's Duties, Power & Conditions of Service (DPC) Act, 1971 it is the duty of the C&AG to audit all trading, manufacturing, profit and loss accounts and balance sheets and other subsidiary accounts kept in any department of the State. Departmental undertakings performing activities of a quasi-commercial nature are required to prepare proforma accounts in the prescribed format annually, showing therein the working results of financial operations so that the Government can assess their working. The finalised accounts of departmentally managed commercial and quasi-commercial undertakings reflect their overall financial health and efficiency in conducting their business. In the absence of timely finalization of accounts, the investment of the Government remains outside the scrutiny of audit and the State Legislature. Consequently, corrective measures, if any, required for ensuring accountability and improving efficiency cannot be taken in time. Besides, the delay in submission of accounts may also open the system to the risk of fraud and leakage of public money.

Heads of departments in the Government have to ensure that the undertakings prepare such accounts and submit the same to the Principal Accountant General for audit within the specified time frame. As of March 2010, seven departmental commercial undertakings of the State had not prepared their accounts up to 2009-10 as indicated in **Table 3.3**.

Table 3.3: Details of Departmentally Managed Commercial/Quasi Commercial Undertakings

| Sl. No. | Name of Department | Name of the Undertakings | No. of Units |
|---------|--|--|--------------|
| 1 | Industries | (i) Adarsh Iron Workshop | 06 |
| | | (ii) Adarsh Wood Workshop | 06 |
| 2 | | Hasthkargha Weaver's Training Centres | 06 |
| 3 | | Salt Petre Refinery Centre, Maheshi, East Champaran | 01 |
| 4 | | Handicrafts Complex, Madhubani | 01 |
| 5 | | Polyester Weavers Training Centre, Barari, | 01 |
| 6 | | Upendra Maharashi Crafts Investigation Institute, Digha, Patna | 01 |
| 7 | Central Design Centre, Rajendra Nagar, Patna | 01 | |
| | | Total | 23 |

(Source: Compiled figure)

Though the C&AG of India has repeatedly commented about the arrears in preparation of annual accounts in State Reports (Civil and State Finances), there has been no improvement as far as the preparation of proforma accounts by these departmental undertakings are concerned.

3.6 Operation of omnibus Minor Head-800

Receipts/expenditure in Government Accounts are required to be booked under the respective Major Heads, but in cases where classification of any expenditure/receipts does not fall under the classified Minor Heads, expenditure is booked under Minor Head ‘800-Other Expenditure’/ ‘800-Other Receipts’ as the case may be. Scrutiny of the Finance Accounts for the year 2009-10 revealed that in case of 53 Major Heads of accounts, 16.56 *per cent* of the total expenditure was booked under this omnibus Minor Head. Further, in the case of 14 out of 53 such Major Heads, against the total expenditure of ₹ 5293.76 crore, ₹ 4040.64 crore (more than 50 *per cent* of the respective total expenditure) were booked under the omnibus Minor Head as detailed in **Appendix 3.3**.

Similarly, in the case of 40 Major Heads representing the receipt side, 3.62 *per cent* of the total receipts were booked under the omnibus Minor Head. Of this, in the case of 13 Major Heads, against the total receipts of ₹ 881.32 crore, ₹ 875.90 crore (90 *per cent* or more of the respective total receipts) were booked under the omnibus Minor Head as detailed in **Appendix 3.4**.

3.7 Misappropriations, losses, defalcations, etc.

Rules 31 and 32 of the Bihar Financial Rules provide that any loss or suspicion thereof, of public money held by or on behalf of the Government caused by defalcation or otherwise should be immediately reported by the officer concerned to his immediate superior official and the Finance Department as well as to the Accountant General even when such loss has been made good by the party responsible. Subsequent to investigation, a complete report should be submitted regarding the nature, extent and reasons leading to such loss and the prospects of affecting its recovery. The officers receiving these reports must forward it forthwith to the Government along with a detailed report, after completing such departmental investigations as may be necessary or expedient, on the causes or circumstances which led to the misappropriation, loss or defalcation and mentioning the disciplinary action proposed against the responsible person. No such report was, however, made available to the Accountant General by the heads of the offices.

Altogether, 1021 cases of defalcation, misappropriation, loss and theft involving ₹ 407.97 crore had been pending with the concerned departments as of March 2010. The age-wise/category-wise profile of the pending cases is detailed in **Appendix 3.5** and **3.6** summarised in **Table 3.4** and **3.5**. Cases of losses written off during the period, were not intimated by the Government.

Table 3.4: Age-wise profile of the pending cases

(Amount: ₹ in crore)

| Range in years | Number of cases | Amount involved |
|----------------|-----------------|-----------------|
| Up to 5 | 935 | 273.88 |
| 5 - 10 | 86 | 134.09 |
| Total | 1021 | 407.97 |

(Source: Audit findings)

The number of cases pending in each category of defalcation, misappropriation, loss and theft detailed in **Appendix 3.6** are summarised in **Table 3.5**.

Table 3.5: Nature of the pending cases

(Amount: ₹ in crore)

| Nature/Characteristics of the Cases | Number of Cases | Amount involved |
|---|-----------------|-----------------|
| Loss | 583 | 112.38 |
| Misappropriation | 255 | 247.86 |
| Theft | 01 | 0.02 |
| Defalcation | 182 | 47.71 |
| Cases of Losses Written off during the Year | - | - |
| Total pending cases | 1021 | 407.97 |

(Source: Audit findings)

The amounts relating to the abovementioned cases of misappropriation, loss, defalcations were pending settlement, but no follow-up action had been taken to fix responsibility.

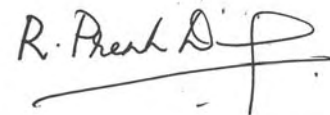
3.8 Conclusion

Submission of utilisation certificates, annual accounts, proforma accounts etc. by State institutions and undertakings are the basic inputs of financial reporting. Qualitative reporting with timeliness is a necessary condition for effective and good governance which can help the Government in taking appropriate steps for ensuring accountability and improving efficiency. DC bills are required to be submitted within six months from the drawal of AC bills but a total of 50988 DC bills amounting to ₹ 11854 crore up to March 2009 were pending up to July 2010. As regards furnishing of utilization certificates (UCs), 21114 UCs aggregating ₹ 4527.77 crore were due for submission as of October 2007. No mechanism was developed to intimate the amounts paid as grants and loans by the Government. Departmental commercial undertakings of the State were not preparing/furnishing their accounts. Huge amounts under receipt/expenditure heads were being classified under the Minor Head '800-Other Expenditure/Receipt'. A number of cases of misappropriation, loss, defalcation, theft etc. remained unsettled for long periods. Autonomous bodies of the government had not submitted SARs to the legislature in time.

3.9 Recommendation

- Government should ensure effective implementation of the provisions contained in Rule 322 of the Bihar Treasury Code so that DC bills are submitted to the Accountant General (A&E) within the stipulated time frame.
- Government should take effective measures to ensure submission of the long outstanding utilization certificates and develop mechanisms to intimate the Accountant General about the details of grants and loans paid by them.
- Departmental commercial undertakings should prepare proforma accounts and submit them within the prescribed timeframe.
- The internal control mechanism should be strengthened to minimize cases of misappropriation, loss, defalcation, theft etc. and the departments should ensure issuance of orders relating to recoveries/write offs in respect of such cases.
- Government should ensure that Separate Audit Reports are placed before the legislature in time.

Patna
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