

## CHAPTER-III FINANCIAL REPORTING

A sound internal financial reporting with relevant and reliable information significantly contributes to efficient and effective governance by the State Government. Compliance with financial rules, procedures and directives as well as the timeliness and quality of reporting on the status of such compliances is thus one of the attributes of good governance. The reports on compliance and controls, if effective and operational, assist the State Government in meeting its 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 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 Accountant General (Accounts & Entitlement) within one year from the date of their sanction unless specified otherwise. However, of the 43,238 utilisation certificates (UC) due in respect of grants and loans aggregating ₹1257.75 crore up to 2009-10; 26,057 UCs (60 per cent) for an aggregate amount of ₹829.48 crore were pending as of March 2010 out of which 199 UCs involving ₹23.95 crore were pending for more than five years. The department-wise break-up of outstanding UCs is given in *Appendix 3.1* and age-wise delays in submission of UCs are summarised in Table 3.1.

**Table 3.1: Age-wise arrears of Utilisation Certificates**

(₹ in crore)

Sl. No.	Range of delay (In number of years)	Total grants paid		Utilisation Certificates outstanding	
		Number of Cases	Amount	Number	Amount
1.	0 – 1	21,543	582.25	18,823	462.71
2.	1 – 3	20,567	566.57	6,465	304.28
3.	3 – 5	822	77.63	570	38.54
4.	5 – 7	281	23.20	196	18.42
5.	7 – 9	22	6.44	2	4.16
6.	9 & above	3	1.66	1	1.37
	<b>Total</b>	<b>43,238</b>	<b>1257.75</b>	<b>26,057</b>	<b>829.48</b>

Source: Accountant General (Accounts & Entitlement) office

Pendency of UCs mainly pertained to Education Department (18,891 UCs: ₹161.86 crore), Rural Development Department (4,108 UCs: ₹470.16 crore), Industries Department (704 UCs: ₹2.47 crore), Art and Culture (859 UCs: ₹2.13 crore), Social Justice and Empowerment Department (1042 UCs: ₹54.27 crore), Urban Development Department (51 UCs: ₹62.52 crore), Sports and Youth (49 UCs: ₹6.35 crore), Tourism Department (3 UCs: ₹1.86 crore), Forest (9 UCs: ₹3.61 crore) and Secretariat and Social Service (10 UCs: ₹3.70 crore).

In the absence of the UCs, it could not be ascertained whether the recipients had utilized the grants for the purpose for which these were given.

### 3.2 Delay in submission of Accounts/Audit Reports of Autonomous Bodies

Several autonomous bodies have been set up by the State Government. A large number of these bodies are audited by the Comptroller and Auditor General of India for verification of their transactions, operational activities and accounts, regulatory compliance audit, review of internal management, financial control and review of systems and procedures, etc. The audit of accounts of 13 bodies in the State has been entrusted to the Comptroller and Auditor General of India. The status of entrustment of audit, rendering of accounts to audit, issuance of Separate Audit Report and its placement in the Legislature are indicated in *Appendix-3.2*. The frequency distribution of autonomous bodies on the delays in submission of accounts to Audit and placement of Separate Audit Reports in the legislature after the entrustment of Audit to Comptroller and Auditor General of India is summarized in Table 3.2.

**Table 3.2: Delays in Submission of Accounts and tabling of Separate Audit Reports**

Delays in submission of Accounts (In Months)	Number of Autonomous Bodies	Reasons for the Delay	Delays in submission of SARs in Legislature (in Years)	Number of Autonomous Bodies	Reasons for the Delay
0 – 1	--	--	0 – 1	12	Not furnished
1 – 6	1	Not furnished	1 – 2	--	--
6 – 12	--	--	More than three years	--	--
<b>Total</b>	<b>1</b>	--	--	<b>12</b>	--

The accounts of Himachal Pradesh State Veterinary Council, Shimla was outstanding for two months as of August 2010. Delay in finalisation of accounts carries the risk of financial irregularities going undetected and therefore, the accounts need be finalized and submitted to audit at the earliest.

12 SARs of the 12 Autonomous Bodies are yet to be placed before the legislature. These need to be placed at the earliest as non-placement violates the statutory responsibility of keeping the State legislature informed about the financial status of the bodies.

### 3.3 Misappropriation, loss, defalcation, etc.

As per the provisions of Himachal Pradesh financial rules, State Government reported 50 cases of misappropriation, defalcation, etc. involving Government money amounting to ₹76.92 lakh up to the period June 2010 on which final action was pending. 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 the pending cases and the number of cases pending in each category – theft and misappropriation/loss as emerged from these appendices are summarized in Table 3.3.

**Table 3.3: Profile of Misappropriations, losses, defalcations, etc.**

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	5	12.54	Theft	8	6.65
5 – 10	11	11.97			
10 – 15	13	44.06	Misappropriation/Loss of material	42	70.27
15 – 20	2	2.35			
20 – 25	8	1.93	<b>Total</b>	<b>50</b>	<b>76.92</b>
25 & above	11	4.07	Cases of Losses Written off during the Year	Nil	Nil
<b>Total</b>	<b>50</b>	<b>76.92</b>	<b>Total Pending cases</b>	<b>50</b>	<b>76.92</b>

A further analysis indicates that the reasons for which the cases were outstanding could be classified in the categories listed in Table-3.4.

**Table 3.4: Reasons for Outstanding cases of Misappropriations, losses, defalcations, etc.**

Reasons for the Delay/Outstanding Pending Cases		Number of Cases	Amount (₹ in lakh)
i)	Awaiting departmental and criminal investigation	23	49.20
ii)	Departmental action initiated but not finalized	1	2.57
iii)	Awaiting orders for recovery or write off	23	23.62
iv)	Pending in the courts of law	2	1.51
v)	Orders issued but recovery pending	1	0.02
<b>Total</b>		<b>50</b>	<b>76.92</b>

An effective mechanism needs to be put in place to ensure speedy settlement of cases relating to misappropriations and losses as also place systems in order.

### 3.4 Audit Effectiveness-Erosion of accountability

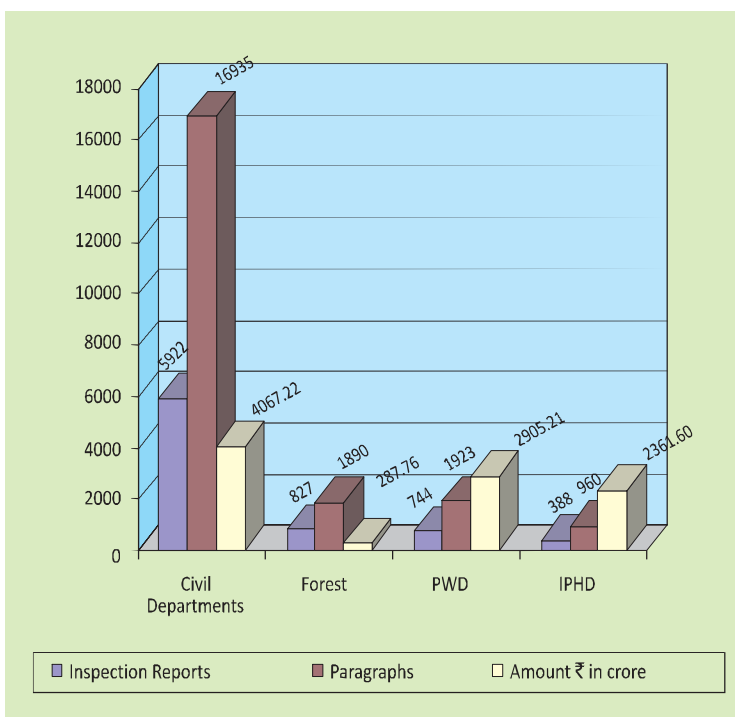
#### Inadequate response to Audit findings and observations resulted in erosion of accountability

Principal Accountant General (Audit) arranges to conduct periodical inspection of Government Departments to test-check the transactions and verify the maintenance of important accounting and other records as per the prescribed rules and procedures. These inspections are followed by issue of Inspection Reports (IRs). When important irregularities, etc., detected during inspection are not settled on the spot, these IRs are issued to the heads of offices inspected, with a copy to the next higher authorities.

The heads of offices and next higher authorities are required to comply with the observations contained in the IRs and rectify the defects and omissions within four weeks and report their compliance to the Principal Accountant General. Serious irregularities are also brought to the notice of the heads of Departments by the office of the Principal Accountant General through a half yearly report of pending IRs sent to the State Principal Secretary (Finance).

Based on the result of test audit, 21,708 audit observations amounting to ₹9621.79 crore, contained in 7,881 IRs outstanding as on 31<sup>st</sup> March 2010<sup>1</sup> are indicated in the chart below:

Chart 3.1



During 2009-10, 43 Adhoc Committee (Audit Committee) meetings were held in which 219 IRs and 1528 paragraphs were settled.

It is recommended that the Government look into the matter and ensure that (a) action is taken against the officials who fail to send replies to IRs/paragraphs as per the prescribed time schedule, (b) action to recover losses/outstanding advances/overpayments is taken in a time bound manner and (c) the system is streamlined to ensure proper response to audit observations.

### 3.5 Conclusion and Recommendations

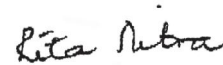
Utilisation Certificates (60 per cent) for an aggregate amount of ₹829.48 crore in 26,057 cases were not furnished to the Accountant General (Accounts & Entitlement) as per provision of financial rules which has increased year after year and needs urgent attention of the Government. Out of 50 outstanding cases of misappropriation, loss, defalcation, etc., involving ₹76.92 lakh

<sup>1</sup> Including IRs and paragraphs issued upto 30 September 2009 and outstanding as on 31 March 2010.

during last more than 25 years, departmental proceedings and criminal investigation were not initiated in 23 cases involving ₹49.20 lakh (64 per cent), indicating lack of initiative on the part of the Government to fix accountability. 21,708 number of audit observations amounting to ₹9621.79 crore contained in 7,881 Inspection Reports were outstanding as on 31 March 2010 resulting in erosion of accountability.

Departmental enquiries in fraud and misappropriation cases should be expedited to bring the defaulters to book. Internal controls in all the organisations should be strengthened to prevent such cases.

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