

# CHAPTER - III

## Financial Reporting





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### Financial Reporting

A sound internal financial reporting with relevant and reliable information significantly contributes to the efficient and effective governance by the State Government. The 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 to meet its basic stewardship responsibilities, including strategic planning and decision making. This Chapter provides an overview and status of the State Government on the compliance with various financial rules, procedures and directives during the current year.

#### 3.1 Delay in furnishing utilisation certificates

Sikkim Financial Rules (Rule 116 (1)) states that every grant made for a specific object is subject to the implied conditions such as; (i) that the grant shall be spent upon the object within a reasonable time (which should ordinarily be interpreted to mean one year from the date of issue of the letter sanctioning the grant as per note below Rule 116), if no time limit has been fixed by the sanctioning authority; and (ii) that any portion of the amount which is not ultimately required for expenditure upon that object shall be duly surrendered to Government. However, of the 984 utilisation certificates (UCs) due in respect of grants-in-aids aggregating ₹ 22.02 crore paid up to 2009-10, 362 UCs (36.79 per cent) for an aggregate amount of ₹12.01 crore were in arrears as of October 2010. While the department-wise break-up of outstanding UCs are given in **Appendix-3.1**, the age-wise delay in submission of UCs are summarised in the **Table 3.1**.

**Table 3.1: Age-wise arrears of utilisation certificates**

(Amount ₹ in crore)

Sl. No.	Range of Delay in Number of Years	Total grants paid		Utilization Certificates Outstanding	
		Number	Amount	Number	Amount
1	0 - 1	150	8.86	130	6.96
2	1 - 3	411	11.54	163	4.85
3	3 - 5	371	0.95	62	0.17
4	5 - 7	20	0.15	2	0.01
5	7 - 9	27	0.49	4	0.01
6	9 & above	5	0.03	1	0.01
<b>TOTAL</b>		<b>984</b>	<b>22.02</b>	<b>362</b>	<b>12.01</b>

Source: Information furnished by the State Government Departments

Out of 362 UCs worth ₹ 12 crore pending as of March 2010, seven UCs involving ₹ 0.03 crore were pending for more than five years. Pendency of UCs mainly pertained to Co-

operation Department (174 UCs: ₹ 4.65 crore), Forest, Environment and Wildlife Management Department (41 UCs: ₹ 3.19 crore), Cultural Affairs and Heritage Department (39 UCs: ₹ 0.33 crore), Irrigation and Flood Control Department (32 UCs: ₹ 1.05 crore), Social Justice, Empowerment and Welfare Department (31 UCs: ₹ 1.61 crore), and Food Security and Agriculture Development Department (23 UCs: ₹ 0.80 crore).

In the absence of the UCs, it could not be ascertained as to whether the recipients had utilised the grants for the purposes for which these were given.

### 3.1.1 Review of grant

A detailed review on utilisation of grants in Co-operation Department revealed the following:

- Out of 644 utilisation certificates (UCs) involving ₹ 9.74 crore due in respect of grants-in-aid paid up to 2009-10, 174 UCs (27 per cent) involving ₹ 4.65 crore were in arrears.
- During 2008-09, an amount of ₹ 8 lakh each were paid to Chuba Multi Purpose Co-operative Society (MPCS) and Chungthang MPCS under Tribal Sub-Plan for construction of multipurpose co-operative society buildings. Out of ₹ 16 lakh, ₹ 10.30 lakh was utilised by the MPCSs. However, UCs for the entire amount of ₹ 16 lakh were submitted by the MPCSs to Co-operation Department. In turn, without verifying the actual utilisation of the fund, Co-operation Department furnished UCs amounting to ₹ 16 lakh to Social Justice, Empowerment and Welfare Department which is the Nodal Department for implementing of Tribal Sub Plan Scheme.
- During 2005-06 to 2009-10, in five cases (amounting to ₹ 14.79 lakh) grants were released without obtaining preceding years' UCs.

### 3.2 Non-submission/delay in submission of accounts

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 to Audit every year detailed information about the financial assistances given to various institutions, the purpose of assistance granted and the total expenditure of the institutions. The accounts of only one body were received for the year 2009-10, which attracted Audit by Comptroller and Auditor General of India. The nine Bodies/Authorities, accounts of which were received for previous years, were audited during 2008-09 and 2009-10.

The 68 annual accounts of 25 Autonomous Bodies/Authorities due up to 2009-10 had not been received as of September 2010 by the Accountant General (Audit). The details of these accounts are given in **Appendix-3.2** and their age-wise pendency is presented in **Table 3.2**.

**Table 3.2: Age-wise arrears of annual accounts due from the Government Bodies**

Sl. No.	Delay in number of years	No. of Bodies/ Authorities	No. of Annual Accounts	Grants received (₹ in lakhs)
1	0 - 1	6	6	Not furnished
2	1 - 3	14	42	Not furnished
3	3 - 5	4	16	Not furnished
4	5 - 7	--		NA
5	7 - 9	1	9	Not furnished
6	9 & above	--		NA

In the absence of annual accounts and subsequent Audit of these 25 bodies and authorities involving 73 annual accounts, the proper accountal/ utilisation of the grants and loans disbursed to these bodies/ authorities remained unverified. The reasons for non-preparation of the accounts were, however, not intimated.

### 3.3 Delay in submission of accounts/Audit Reports of Autonomous Bodies

Several Autonomous Bodies have been set up by the State Government in the field of Rural Development, Urban Development, Khadi and Village Industries, State Health and Family Welfare, Science and Technology, etc. A large number of these bodies are audited by the Comptroller and Auditor General with regard to the verification of their transactions, operational activities and accounts, conducting regulatory compliance audit of all transactions scrutinised in Audit, review of internal management and financial control, review of system and procedures, etc. The Audit of accounts of eight 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-3.3**. The frequency distribution of Autonomous Bodies according to the delay in submission of accounts to Audit and placement of Separate Audit Report in the legislature after the entrustment of Audit to Comptroller and Auditor General is summarised in **Table 3.3**.

**Table 3.3: Delay in submission of accounts and placement of Separate Audit Report**

Delay in submission of Accounts (In Months)	Autonomous Bodies		Reasons for the delay	Delay in submission of SARs in Legislature (in Years)	Number of Autonomous Bodies	Reasons for the delay
	No.	A/Cs				
0-1	1	1	Not furnished	0-1	Nil	Not furnished
1-6	2	2		1-2	Nil	
6-12	3	3		2-3	Nil	
12-18	-	-		3-4	Nil	
18-24	1	1		4-5	1	
24 & above	1	1		5 & above	3	
<b>Total</b>	<b>8</b>	<b>8</b>			<b>4</b>	

Seven accounts of seven Autonomous Bodies were in arrears for periods ranging from 4 to 31 months as of November 2010. The State Government disbursed regular funds to these Autonomous Bodies. In the absence of accounts and subsequent Audit, it could not be verified as to whether the funds received and expenditure incurred had been properly accounted for and the purpose for which the funds were disbursed were achieved.



Besides, delay in finalisation of accounts carries the risk of financial irregularities going undetected apart from violation of the provision of the respective legislations under which the Bodies were constituted.

### 3.4 Departmental Commercial Undertakings

The departmental undertakings of certain Government departments performing activities of quasi-commercial nature are required to prepare proforma accounts in the prescribed format annually showing 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 finalisation of accounts, the investment of the Government remains outside the scrutiny of the Audit/State Legislature. Consequently, corrective measures, if any required, for ensuring accountability and improving efficiency cannot be taken up in time. Besides, the delay in all likelihood may also open the system to risk of fraud and leakage of public money.

The Heads of Department in the Government are to ensure that the undertakings prepare such accounts and submit the same to Accountant General for audit within a specified time frame. As of November 2010, there were two such undertakings, out of which, one had not prepared accounts for 2007-08 and the other one had prepared accounts for 2008-09 which, however, remained to be audited. The department-wise position of finalisation of accounts and investment made by the Government are given in **Appendix-3.4**.

### 3.5 Misappropriation, losses, defalcation, etc.

State Government reported nine cases (in four Departments) of misappropriation, defalcation, etc. involving Government money amounting to ₹ 2.44 crore up to the period November 2010 on which final action was pending. The department-wise break up of pending cases alongwith age wise analysis is given in **Appendix-3.5** and nature of these cases is given in **Appendix-3.6**. 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 summarised in **Table 3.4**.

**Table 3.4: Profile of Misappropriation, losses, defalcation, etc.**

Age-profile of the pending cases			Nature of the pending cases
Range in years	Number of cases	Amount involved (₹ in lakhs)	
0-5	6	54.96*	Misappropriation/ Loss of material
5-10	2	176.63	
10-15	1	12.54	
<b>Total</b>	<b>9</b>	<b>244.13</b>	

Source: Information from State Government Department  
\* in one case of SNT, amount not ascertained

A further analysis indicates the reasons for which the cases were outstanding as shown in **Table 3.5**.

**Table 3.5: Reasons for Outstanding cases of Misappropriation, losses, defalcation, etc.**

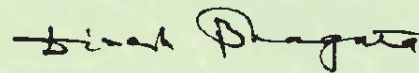
Reasons for the Delay/Outstanding Pending Cases		Number of Cases	Amount (₹ in lakh)
i)	Awaiting departmental and criminal investigation	2	34.48
ii)	Departmental action initiated but not finalised	2	5.10
iii)	Pending in the courts of law	5	204.55*
<b>Total</b>		<b>9</b>	<b>244.13</b>

\* in one case of SNT, amount not ascertained

An effective mechanism needs to be put in place to ensure speedy settlement of cases relating to misappropriation and losses.

### 3.6 Conclusion and Recommendation

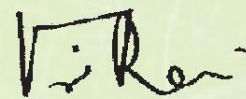
The foregoing discussion discloses deficiencies in not furnishing utilisation certificates in time against grants/loans received, non-furnishing of detailed information about financial assistance received by various Institutions and non-submission of accounts in time. There was delay in placement of Separate Audit Report to Legislature and huge arrears in finalisation of accounts by the Autonomous Bodies/Authorities. Besides, cases of misappropriation and losses indicated inadequacy of controls in the departments. An effective mechanism needs to be put in place to ensure timely placement of reports, finalisation of accounts and speedy settlement of cases relating to misappropriation and losses.



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