

A sound financial reporting system based on compliance with financial rules is one of the attributes of good governance. This Chapter provides an overview and status of the Government's compliance with various financial rules during the current year.

► 3.1 Delay in furnishing utilisation certificates

Paragraph 369-H of the Financial Rules provides that the departmental officers should obtain utilization certificates from the grantees in respect of the grants provided for specific purposes and forward these to the Accountant General not later than 18 months from the date of sanction of the grant.

However, utilizations certificates for an aggregate amount of ₹ 1,049 crore (paid up to 2008-09) were in arrears as of September 2010. The department-wise break-up of the outstanding utilizations certificates is given in *Appendix 3.1* and the age-wise delay in their submission is 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		UCs outstanding	
		Number	Amount	Number	Amount
1	0 - 1	1,448	2,461.75	906	900.70
2	1 - 3	467	329.85	751	66.23
3	3 - 5	1,308	194.09	101	75.26
4	7 - 9	NA	6.79	89	6.79
5	9 & above	NA	0.49	1	0.48
Total		-	2,992.97	1,848	1,049.46

Source: Concerned departments

Sugar Commissioner, Uttar Pradesh, Lucknow paid grants aggregating ₹ 6.79 crore to the Sugar Mills during 2001-02. However, utilization certificates were in arrears even after seven years. Utilization certificate for ₹ 60 crore which was transferred to the *Shakkar Vishesh Nidhi* in 2005-06 under Sugar Industries Promotion Policy was outstanding even after three years.

Transport Department paid a grant of ₹ 49 lakh to the Uttar Pradesh State Road Transport Corporation for construction of Nanakmatta Bus Depot (now in Uttaranchal) in 1998-99. However, utilization certificate was awaited even after eleven years.

Other major departments in default were Urban Development (₹ 317.72 crore), Social Welfare (₹ 283.58 crore), Secondary Education (₹ 117.51 crore), Technical Education (₹ 58.90 crore), Higher Education (₹ 56.26 crore) and Milk Development (₹ 55.75 crore).

► 3.2 Pendency in submission of DC bills against AC bills

Drawing and disbursing officers are authorized to draw sums of money through Abstract Contingent Bills by debiting service heads. They are also required to present detailed bills (vouchers in support of final expenditure) for all contingent charges within one month from the dated drawal, in terms of UP Government Order No. A-1-3 (1) Ten-10820/2001 dated 24 January 2006, to the respective controlling officers for countersignature and transmission to the Accountant General.

However, 15,233 Abstract Contingent Bills involving ₹ 122.14 crore were outstanding at the end of March 2010, indicating financial mismanagement and lack of internal control. The age wise details are given in **Table 3.2**.

Table 3.2: Outstanding Abstract Contingent bills

(₹ in crore)

Year	AC Bills drawn		DC Bills Received		Outstanding AC Bills	
	Number	Amount	Number	Amount	Number	Amount
Upto 2004-05	13,103	69.16	7,440	36.32	5,663	32.84
2005-06	5,709	23.88	3,767	14.75	1,942	9.13
2006-07	2,826	45.68	760	36.28	2,066	9.40
2007-08	2,498	93.51	766	77.91	1,732	15.60
2008-09	2,524	43.42	743	32.45	1,781	10.97
2009-10	2,624	2,18.02	575	173.82	2,049	44.20
Total	29,284	4,93.67	14,051	371.53	15,233	1,22.14

Source: Finance Accounts

► 3.3 Personal Deposit Accounts

Transfer to Personal Deposit accounts is booked as expenditure in the Consolidated Fund (service major head) of the State. While the Government is authorized to open Personal Deposit accounts in order to deposit funds for specific purposes, the Administrators are required to close such accounts at the last working day of the year and transfer the unspent balances to the Government accounts. However, the same was not done in respect of balances amounting to ₹ 31.17 crore by the holders during the year. Non-transfer of these balances to the Consolidated Fund overstated the expenditure to that extent. Besides, accumulation of huge amount in the PLAs was against the principle of the Legislative Financial Control under which appropriations passed in the Legislatures were valid only for one financial year.

Scrutiny (August 2010) of records of the Medical Department revealed:

Kings George Medical College, Lucknow¹ is an autonomous body and maintains its PLA under the MH 8448-110 for which no authority for its yearly renewal from the AG (A&E) is required. On the other hand, Director General, Medical Education and Training, Director Homeopathy and Director Ayurveda and Unani are the civil departments and maintain their PLAs under MH 8443-106 and could transfer funds from the Consolidated Fund but their balances were to lapse at the end of each financial year so as to obviate any misuse. Such PLAs required fresh authority from the Accountant General to operate at the beginning of the next financial year. However, Directors/Director General scrupulously avoided opening of the PLAs in their favour and transferred funds to the PLA of Kings George Medical College to facilitate withdrawals in the subsequent financial years without Accountant General's authority as given in **Table 3.3**.

Table 3.3: Deposits and withdrawals

(₹ in crore)

Year	Opening balance	Deposits	Amounts withdrawn	Closing balance	Remarks
	1	2	3	4	
Director, Medical Education and Training					
2009-10	8.52	Nil	7.50	1.02	The amount was deposited in September/October 2009 and pertained to the construction of Heart Diseases Institute, Kanpur.
Director, Homeopathy					
2009-10	3.75	Nil	3.22	0.53	The amount was deposited in March 2008 and pertained to the construction of incomplete hospitals in rural areas.
Director, Ayurvedic and Unani					
2009-10	4.99	Nil	4.43	0.56	The amount was deposited in March 2008 and pertained to the construction of Ayurvedic and Unani hospitals and grants received from the GOI.
Total	17.26	Nil	15.15	2.11	

Source: Director, Medical Education and Training, Director, Homeopathy and Director Ayurvedic and Unani

▶ 3.4 Delays in submission of Accounts by the autonomous bodies

The audit of accounts of eight autonomous bodies² has been entrusted to the C&AG. The status of entrustment of audit, rendering of accounts to audit, issuance of Separate Audit Reports (SARs) and its placement in the Legislature are given in *Appendix 3.2*. The delay in submission of accounts to Audit is summarised in **Table 3.4**.

Table 3.4: Delays in submission of accounts

Delays in submission of accounts (In months)	No. of autonomous bodies	Reasons for the delay
1 - 6	7	Jal Sansthans at Jhansi, Allahabad, Lucknow, Varanasi, Agra, Kanpur and Chittrakoot have not submitted their accounts for 2009-10 despite reminders.
12 - 18	1	Khadi and Gramudyog Board, Lucknow has not submitted its accounts for 2008-09 and 2009-10 despite reminders.
Total	8	

¹ Chhatrapati Sahuji Maharaj Medical University.

² Jal Sansthan at Jhansi, Allahabad, Agra, Varanasi, Kanpur, Chittrakoot Dham Banda, Lucknow and Khadi Gramodyog Board, Lucknow

Delayed submission of accounts is fraught with risk of fraud and leakage of funds. Further, placement of SAR in respect of Khadi and Gramoudyog Board, Lucknow for the years ending 2004-05 and 2005-06 was in progress. The SARs of seven Jal Santhans were Non-Parliamentary.

▶ 3.5 Departmental commercial/quasi commercial undertakings

Departmental commercial undertakings prepare *pro forma* accounts in prescribed format annually showing the working results of financial operations and efficiency in their business. The accounts should be submitted to the Accountant General for audit within three months from the month of closure of accounts.

As of March 2010, there were ten such undertakings in the State. Four of these had not prepared their upto date *pro forma* accounts. The department-wise position of arrears of accounts is given in *Appendix 3.3*. The State Pharmacy of Ayurvedic and Unani Medicine and Criminal Tribes Settlement Tailoring Factory with a Government investment of ₹ 13 lakh (as per their latest accounts), had not prepared their accounts since 1988-89 and 1980-81 respectively. Similarly, *pro forma* accounts of the Public Distribution System of Foodgrain with a Government investment of ₹ 348.60 crore were not prepared for 2008-09 and 2009-10. As a result, Government investments remained beyond the scrutiny of Audit/State Legislature. Non-preparation of accounts also exposed the system to risk of fraud and leakage of funds.

▶ 3.6 Misappropriations, losses, defalcations, etc.

As per Paragraph 82 of the Financial Rules, defalcation or loss should be immediately reported to the Accountant General even though made good by the person responsible for it.

As of 2009-10, 157 such cases involving ₹ 7.89 crore were pending for settlement. The department-wise break up of pending cases and their age wise analysis is given in *Appendix 3.4*. The nature of these cases is given in *Appendix 3.5*. The age-profile of the pending cases under each category i.e theft and misappropriation/loss emerging from these appendices are summarised in *Table 3.5*.

Table 3.5: Profile of misappropriations, losses and defalcations, etc.

Age-profile of the pending cases			Nature of the pending cases		
Range in years	Number of cases	Amount involved (₹ in lakhs)	Nature/Characteristics of the cases	Number of cases	Amount involved (₹ in lakhs)
0 - 5	31	293.84	Theft	87	37.39
5 - 10	18	29.98			
10 - 15	34	66.24	Misappropriation/ Loss of material	74	757.21
15 - 20	24	18.82			
20 - 25	33	38.04	Total	161	794.60
25 & above	17	342.02	Cases settled/written off during the year	4	5.66
Total	157	788.94	Total pending cases	157	788.94

Source: Concerned departments

Out of 161 cases involving ₹ 7.95 crore, four cases (*Appendix 3.6*) involving ₹ 5.66 lakh were settled /written off during 2008-09 and remaining 157 cases involving ₹ 7.89 crore were pending as of March 2010 for various reasons as listed in *Table 3.6*.

Table 3.6: Reasons for pending cases of misappropriations, losses, defalcations, etc.

Reasons for the delay/outstanding cases		Number of cases	Amount (₹ in lakh)
i	Awaiting departmental and criminal investigation	15	142.20
ii	Departmental action initiated but not finalised	98	135.85
iii	Criminal proceedings finalised but execution of cases for the recovery of the amount pending	1	0.67
iv	Awaiting orders for recovery or write off	8	6.04
v	Pending in the courts of law	35	504.18
Total		157	788.94

► 3.7 Booking under Minor Head 800- Other receipts and Other expenditure

A huge receipt of ₹ 12,241.36 crore against total receipts of ₹ 96,421 crore was classified under Minor Head '800- Other receipts' in accounts. Similarly, ₹ 13,150.51 crore against the expenditure of ₹ 1,14,465 crore (Revenue: ₹ 89,374 crore, Capital: ₹ 25,091 crore and loans and advances ₹ 942 crore) was also classified under Minor Head '800-Other expenditure'. As a result, expenditure incurred under various programmes /activities of the Government and classified under Minor Head '800-Other expenditure' could not be depicted distinctly in the Finance Accounts thereby affecting the transparency in the accounts.

► 3.8 Periodical adjustments and book adjustments

In accounts, there are certain transactions which are in the nature of Book Adjustment and as such do not represent actual cash transactions. Specific details, where funds were transferred from the Consolidated Fund to Public Account through book transfer, are given in **Annexure III** of Volume 1 of the Finance Accounts. Some of these are discussed below:

- Ministry of Finance, Government of India waived off debt amounting to ₹ 1,063.82 crore during 2008-09. The amount was, however, written back during 2009-10. Accordingly, the amount was adjusted through book adjustment by Deduct-Recoveries of Debt Written off under Major Head '0075- Miscellaneous General Services-Other Receipts-Adjustment on debt waiver of accounts in terms of recommendation of the Twelfth Finance Commission' and by per contra entry under Major Head '6004- Loans and Advances from Central Government'. This reduced the revenue receipts of the Government and increased the public debt to that extent.
- The Government maintains the General Provident Accounts of its Class IV employees. During 2009-10, ₹ 1,829.39 crore were adjusted on account of interest on the State Provident Accounts. Of this, ₹ 539.95 crore were adjusted on *ad hoc* basis as the amount of interest actually credited to the Class IV employees was not intimated by the State Government (August 2010).

► 3.9 Non-transfer of amount to the Central Road Fund

Government of India releases funds for Central Road Fund as grants-in-aid and accounted for under Major Head 1601-Grants-in-aid. The amounts so released are required to be transferred to Major Head 8449-Other Deposits-103-Subventions from Central Road Fund after a provision in the budget is made by the State Government.

Government of India transferred ₹ 161.07 crore during 2009-10. However, as no budget provision was made during 2009-10, the amount could not be transferred to the Major Head 8449-Other Deposits-103-Subventions from Central Road Fund. The amount remained in the Consolidated Fund of the State at the end of March 2010.

▶ 3.10 Balances lying unspent in bank accounts

The Government provides State's share to State/ district level autonomous bodies/ authorities, societies, non-governmental organizations, etc., for implementation of Centrally sponsored/ State schemes. These bodies/authorities retain such funds, outside the Government account, in their bank accounts. As the funds are generally not spent fully by the implementing agencies in the financial year of their receipt, there remain unspent balances in bank accounts. However, the amount of the balances lying unspent in the bank accounts is not readily ascertainable. Therefore, the expenditure reflected in accounts is not final to that extent.

▶ 3.11 Variations in cash balances

Cash Balances with Reserve Bank of India as worked out by the Principal Accountant General (A&E) was ₹ 184.04 crore (debit) and the Cash Balance reported by Reserve Bank of India was ₹ 56.93 crore (credit) as on 31st March 2010 leading to a difference of ₹ 127.11 crore (debit). This was mainly due to incorrect reporting of transactions by the Agency Banks to the Reserve Bank of India and the Treasury Officers. The discrepancies amounting to ₹ 49.57 crore (credit) have been identified and intimated (June 2010) to the Manager, State Bank of India, Fund Settlement Link Office, Kanpur for settlement but the report from Reserve Bank of India, Nagpur was awaited (August 2010). Remaining amount of ₹ 77.54 crore was under reconciliation.

▶ 3.12 Non-apportionment of balances

A new State of Uttarakhand was carved out of the composite State of Uttar Pradesh under Uttar Pradesh Reorganisation Act, 2000. With a view to achieving just, reasonable and equitable apportionment of assets and liabilities amongst the successor States, the Act, *ibid*, provided for the apportionment of assets and liabilities amongst the successor States. However, the actual progress achieved in this direction was dismal even after ten years of the reorganization, as is evident from the **Table 3.7**.

Table 3.7: Apportionment of assets and liabilities

(₹ in crore)

Sl. no.	Particulars	Balances to be allocated	
		In the year 2000	At the end of 2009-10
1	Capital outlays	Dr 25,451.80	Dr 25,451.80
2	Loans and Advances	Dr 17,593.10	Dr 17,593.10
3	Contingency Fund	Dr 721.54	Dr 721.54
4	Small Savings	Cr 945.86	Cr 872.82
5	Reserve Funds	Cr 7941.44	Cr 7941.44
6	Deposits and Advances	Cr 8,684.32	Cr 8,757.37
7	Suspense and Miscellaneous	Cr 773.67	Cr 773.67
8	Remittances	Dr 618.36	Dr 618.36

Non-apportionment of these balances impacted the status of the assets and liabilities of the Government.

▶ 3.13 Conclusion and recommendations


The Government's compliance with various financial rules and procedures was deficient. Utilization certificates in respect of huge amounts were not obtained from the grantees. A large number of cases of misappropriations, etc., were pending either for recovery or write off. Detailed bills against abstract bills were awaited since long and amount was retained in the Personal Deposits against the principle of legislative financial control. Expenditure was not classified programme/activity-wise. Amount of interest credited to the GPF accounts of the Class IV employees was not intimated.

Assets and liabilities have not been apportioned amongst the successor States of Uttar Pradesh and Uttarakhand even after ten years of the reorganization of the State.

Recommendations

- The departmental enquiries in all the cases of misappropriations, losses, defalcations, etc., should be conducted expeditiously to bring the defaulters to book. For this purpose, the internal controls in the various departments should be strengthened to prevent recurrence of such cases.
- The Government should ensure timely submission of accounts by autonomous bodies, detailed contingent bills from the departments and utilisation certificates by the grantees.
- A rigorous monitoring mechanism should be put in place in the departments to adjust the advances drawn on Abstract Contingent Bills within the stipulated period, as required under the extant rules.
- The issue of apportionment of assets and liabilities between Uttarakhand and Uttar Pradesh needs to be settled expeditiously.

ALLAHABAD,
The



(MUKESH P SINGH)
Principal Accountant General (Civil Audit),
Uttar Pradesh

Countersigned

NEW DELHI,
The



(VINOD RAI)
Comptroller and Auditor General of India