

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 compliance 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 for the grants provided for specific purposes, Utilization Certificates (UCs) should be obtained by the departmental officers from the grantees and after verification, these should be forwarded to the Accountant General (Accounts & Entitlement) within 12 months from the date of their sanction unless specified otherwise. However, of the 1036 utilization certificates (UC) due in respect of eight departments aggregating ₹ 18.95 crore paid up to 2009-10, 548 UCs (52.90 per cent) for an aggregate amount of ₹ 3.94 crore were in arrears. The department-wise break-up of outstanding UCs is given in **Appendix 3.1**, the age-wise delay in submission of UCs is summarized in **Table 3.1**.

Table3.1: Age-wise arrears of utilization certificates

Sl. No.	Range of delay in number of years	Total grants paid		Utilization certificates outstanding	
		Number of cases	Amount	Number of cases	Amount
1	0 - 1	184	8.07	100	1.97
2	1 - 3	494	7.64	275	1.28
3	3 - 5	358	3.24	173	0.69
	Total	1036	18.95	548	3.94

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

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/Head of the Departments are required to furnish to Audit every year detailed information about the financial assistance given to various Institutions, the purpose of assistance granted and the total expenditure of the Institutions.

60 annual accounts of 16 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 Government Bodies

Sl. No.	Delay in number of years	No. of the Bodies/ Authorities	Grants received (Rupees in Lakhs)
1	1 – 3	8	Not Available
2	3 – 5	8	Not Available

It is seen from the above table that delay in submission of accounts ranged between one and three years in respect of eight Bodies/Authorities and between three and five years in respect of eight Bodies/Authorities.

Due to the absence of annual accounts and subsequent audit of these 16 Bodies and Authorities involving 60 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 development of Khadi and Village Industries, State Legal activities, Power and pollution regulations etc. Of these, the audit of accounts of the Nagaland Khadi and Village Industries Board (NKVIB) up to 2009-10 was entrusted to the Comptroller and Auditor General of India under Section 19(3) of the DPC Act. However, the annual account of the NKVIB for the year 2008-09, due for submission by June 2009 had been furnished in July, 2010 and is under process of issue of Separate Audit Report (SAR). The annual account of the board for the year 2009-10 had not been furnished (October, 2010). The status of entrustment of audit, issuance of SAR and its placement in the Legislature are indicated in **Table 3.3**

Table 3.3: Delay in submission of Accounts and tabling of Separate Audit Reports

Year of SAR	Period of entrustment	Date of issue of SAR	Date of placement in the Legislature	Delay in placement in the Legislature (Years)
2000-01 to 2003-04	2000-01 to 2004-05	25.09.08	25.11.09	1
2004-05 to 2005-06	2005-06 to 2007-08	23.09.09	Not Available	-
2006-07 to 2007-08		18.12.09	Not Available	-
2008-09	2008-09 to 2009-10	Under progress (2008-09)	-	-

The Nagaland Legal Service Authority, Nagaland Electricity Regulatory Commission and Nagaland State Pollution Control Board was established under the State Legislative Act¹ and the audit of accounts entrusted to the Comptroller and Auditor General of India under Section (18) of the Legal Services Authority Act 1987, Section 104 and 105 of Central Electricity Act 2003 and Section 40 of the Water (Prevention and Control of Pollution Act.1974 respectively. However, though the annual accounts of these Authorities/Bodies were due for submission to the Accountant General (Audit) every year since their inception they had not been furnished despite vigorous pursuance.

3.4 Departmental Commercial Undertakings

Activities of quasi-commercial nature are also performed by the departmental undertakings of certain Government departments. The department-wise position of the year up to which proforma accounts have been finalized in these undertakings are given in **Appendix 3.3**. It was noticed that:

As on 31 March 2010, there were eight departmentally managed Government commercial undertakings.

A mention was made in the Report of the Comptroller and Auditor General of India on State Finances for the year 2008-09 about delay in preparation of Proforma accounts of these undertakings. Despite this, accounts were in arrears for periods ranging from one to 25 years as on 30 September 2010.

The finalized accounts of departmentally managed commercial undertakings reflect their overall financial health and efficiency in conducting their business. In the absence of timely finalization of accounts, Government's investment remains outside the scrutiny of the Audit/State Legislature. Consequently corrective measures, if any, required could not be taken in time. Besides, the delay also opens the system to risk of fraud and leakage of public money.

3.5 Misappropriation, loss, defalcation, etc.

Rule 20 of General Financial and Accounts Rules Part-I provides that any loss of public money, departmental revenue or receipts, stamps, stores or other property held by or on behalf of Government caused by misappropriation, fraudulent drawal/payment or otherwise discovered in a treasury, any other office/department shall be reported immediately by the office concerned to the next higher authority as well as to the Accountant General. An attempt was made to collect the information regarding misappropriation, loss, defalcation etc. in all the departments of the State Government. But no department could furnish the said information. However, on further pursuance, State Vigilance Commission reported 25 cases of misappropriation, defalcation, etc. involving Government money amounting to ₹ 68.20 crore and 1 theft case amounting to ₹ 1.20 lakh up to the period March 2010 on which final action was pending. The department-wise break

¹ Nagaland Electricity Regulatory commission (04.03.08) Nagaland Legal Service Authority (19.06.1998) and Nagaland State Pollution control Board (19.02.1991)

up of pending cases and age wise analysis is given in **Appendix 3.4** and nature of these cases is given in **Appendix 3.5** 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 3.4**

Table 3.4: Profile of Misappropriations, losses, defalcation, 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	24	6811.93	Theft	1	1.20
5 - 10	1	1.92			
10 - 15			Misappropriation/Loss of material	25	6819.83
15 - 20	1	7.18			
Total	26	6821.03	Total Pending cases	26	6821.03

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

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

Reasons for the Delay/Outstanding Pending Cases		Number of Cases	Amount (₹ in lakh)
i)	Awaiting departmental and criminal investigation	12	4145.78
ii)	Departmental action initiated but not finalised	8	1138.05
iii)	Criminal proceedings finalised but execution of certificate cases for the recovery of the amount pending	1	1.20
iv)	Awaiting orders for recovery or write off	1	450.54
v)	Pending in the courts of law	4	1085.46
Total		26	6821.03

Out of ₹ 68.21 crore, the highest amount of misappropriation and loss was ₹ 29.60 crore in Education Department involving 6 cases, where final action is yet to be taken by the State Government.

3.6 Conclusion and Recommendations

Timely submission of utilization certificates is a major area of concern. Out of a total of 548 UCs amounting to ₹ 3.94 crore awaited from various departments at the end of March 2010, 275 certificates amounting to ₹ 1.28 crore were still pending even after a lapse of one to three years.

Internal control in all the organizations needs to be strengthened to avoid delay in submission of utilization certificates.

Despite mention in the Report of the Comptroller and Auditor General of India on State Finances for the year 2008-09, there were delays in preparation of Proforma Accounts of eight departmentally managed Government commercial undertakings at the end of March 2010 also. The arrears in accounts ranged from one to 25 years as on 30 September 2010. The finalised accounts of departmentally managed commercial undertakings reflect their overall financial health and efficiency in conducting their business. In the absence of timely finalization of accounts, Government's investment remains outside the scrutiny of the Audit/State Legislature. Consequently, corrective measures if any, required could not be taken in time. Besides, the delay also opens the system to risk of fraud and leakage of public money.

Departmental enquiries in all fraud and misappropriation cases should be expedited to bring the defaulters to book.

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