

Chapter 3

Financial Reporting

Sound internal controls and compliance with rules and procedures contribute significantly to good governance. These also ensure relevant, reliable and timely financial reporting and thereby assist the State Government in meeting its basic stewardship responsibilities, including strategic planning and appropriate decision making. This Chapter provides an overview of the State Government's compliance with various financial rules, procedures and directives during the year 2010-11.

3.1 Utilization certificates

3.1.1 Delay in submission of utilization certificates

Rule 8.14 of the Punjab Financial Rules Volume I stipulate that every order sanctioning a grant should specify its object clearly and time limit within which the grant is to be spent. The departmental officer drawing the grant-in-aid should be primarily responsible for certifying to the Accountant General (AG) where necessary, the fulfilment of the conditions attaching to the grant and furnish the certificate (Utilization Certificate) in such form and at such interval as may be agreed between the Accountant General (Accounts & Entitlement) and the Head of the Department concerned.

It was noticed that out of the 464 Utilization Certificates (UCs) due in respect of grants amounting to ₹ 570.05 crore paid during 2001-02 to 2010-11, 174 UCs (37.50 per cent) amounting to ₹283.85 crore were not furnished to the AG (A&E) as on 31 March 2011. The department-wise break-up of the outstanding UCs is given in *Appendix 3.1*. The age-wise position of pendency in submission of UCs is summarized in **Table 3.1**.

Table 3.1: Age-wise pendency of utilization certificates

Range of delay in number of years	Total grants paid upto 31 March 2011		Utilization certificates pending as on 31 March 2011	
	Number of sanctions	Amount	Number of UCs	Amount
0-1	119	214.55	110	142.13
1-3	311	218.11	54	53.28
3-5	33	108.68	9	85.38
5-7	-	-	-	-
7-9	1	28.71	1	3.06
Total	464	570.05	174	283.85

(₹ in crore)

Source: Office of the AG (A&E), Punjab

Out of the 174 outstanding UCs, 63 UCs involving ₹ 138.66 crore (48.85 per cent) were pending for period ranging between one and five years and one UC involving ₹ 3.06 crore pertaining to the Rural Development and Panchayats Department was outstanding since 2001-02. In the absence of UCs, it could not be ascertained whether the grants had been spent for the purposes for which they were given. The matter was taken up with the Administrative Secretaries of Education Department, Rural Development and Panchayats Department and Social Welfare Department. The Education Department¹, Cultural Affairs, Archaeology and Museums Department and Social Security and Development of Women and Children Department stated that UCs could not be submitted due to non-receipt of the same from respective field offices/executive agencies. The other departments, however, did not furnish any reply which indicates inadequate financial control over field units/executive agencies.

Due to late submission of UCs for the previous assistance by the Director cum Joint Secretary, Department of Welfare Punjab the central assistance amounting to ₹ 63.20 crore for the year 2010-11 was released by the Government of India (GoI) in March 2011 which could not be utilized in 2010-11 and the beneficiaries remained deprived of the intended benefits.

3.1.2 Submission of incorrect UCs

General Financial Rules 212(1) provides that UCs in respect of grants released by the Government of India (GoI) to the States are to be sent in the prescribed Form GFR 19-A within a stipulated period of 12 months after the end of the financial year.

It was noticed that grants of ₹ 32.22 crore received (2009-10) from GoI were further disbursed to field units by the Department of Welfare of Scheduled Castes and Backward Classes. Of which, UCs for ₹ 30.66 crore were still awaited from the concerned field units (*Appendix 3.2*). However, the entire amount was shown as utilized and UCs thereof were submitted by the head of the department to the GoI.

On being pointed out, the department stated (August 2011) that the amount was released for payment on the basis of actual claims. The reply was not tenable because though the amounts were released to field units, the actual utilization of the same was not ascertained by the department before submitting UCs to the GoI.

3.2 Unadjusted Abstract Contingent Bills

Under Rule 262 of Punjab Treasury Rules (PTR), a Drawing and Disbursing Officer (DDO) may draw money from treasury for contingent expenses. Further, as per Rule 274 and Note 4 there under read with Rule 276 *ibid*, on producing an Abstract Contingent (AC) bill during the month, the DDO will

¹ **Director, Public Instructions (Colleges) Punjab, Chandigarh. Director Public Instructions (Elementary Education) Punjab, Chandigarh and Director General, School Education cum Project Director, National Middle Education Mission Punjab, Chandigarh**

have to certify that the Detailed Contingent (DC) bills have been submitted to the Controlling Officer (CO) in respect of AC bills drawn more than a month before the date of that bill. On no account may an AC bill be cashed by treasury officer without this certificate. The CO may send the countersigned DC bills to AG (A&E) for adjustment of corresponding AC bills. However, during 2010-11, 476 AC bills amounting to ₹ 449.32 crore were withdrawn by different departments from various treasuries of the State, but no adjustment bills (DC Bills) their against were sent to AG (A&E) Punjab, as required under the Rules *ibid*.

In the absence of timely submission of DC bills for corresponding AC bills, possibilities of irregular classification, mis-utilisation of funds etc. can not be ruled out.

3.3 Delay in submission of Accounts/Audit Reports of Autonomous bodies

Five Autonomous Bodies have been set up by the State Government in the field of Legal Services, Science, Human Rights, Labour Welfare and Industries. In order to identify the institutions which attract audit under section 14 and 15 of the Comptroller and Auditor General's (Duties, Powers and Conditions of service) Act, 1971, the Government/Head of the Department is required to furnish to audit every year, detailed information about the financial assistance given to various institutions, the purposes for which assistance was given, and the total expenditure of the institutions. The status of entrustment of audit, rendering of accounts to Audit, issuance of Separate Audit Reports (SARs) and their placement in the State Legislature is indicated in **Appendix 3.3**. The age-wise delays in submission of accounts by the Autonomous Bodies to Audit and placement of the SARs in the Legislature is given in **Table 3.2**.

Table 3.2: Detail of pending accounts/delays in submission of Accounts and tabling of SARs in the Legislature as on 31 March, 2011

Sr. No.	Name of the Autonomous body	Accounts received with delay	Extent of delay in submission of accounts (in Months)	Number of pending accounts	Pendency of submission of the SARs to the Legislature
1.	Punjab Legal Services Authority	-	-	1 (2009-10)	SARs for the years 2006-07 to 2008-09 were pending.
2.	Punjab Khadi and Village Industry Board	2007-08 2008-09	23 12	1 (2009-10)	SARs for the years 2008-09 was pending.
3.	Punjab State Human Rights Commission	2004-05 2005-06 2006-07 2007-08 2008-09	61 49 37 25 13	1 (2009-10)	SARs for the years 2001-02 and 2004-05 to 2008-09 were pending.
4.	Punjab Labour Welfare Board	-	-	8 (2002-03 to 2009-10)	SARs for the years 2000-01 and 2001-02 were pending.
5.	Pushpa Gujral Science City	2008-09	11	1 (2009-10)	SAR is not required to be placed in the State Legislature.

Note :Reasons for delay in submission of accounts and placement of SARs in the Legislature are not available

The Accounts of all the autonomous bodies for the year 2009-10 were awaited as of 31 March 2011. The Punjab Labour Welfare Board had not rendered its accounts since the financial years 2002-03 despite repeated comments in the Report of the Comptroller and Auditor General of India (CAG). There were delays ranging between 11 months and 61 months in submission of accounts of three Autonomous bodies. 12 SARs in respect of four autonomous bodies issued between May 2008 and January 2011 were pending to be placed before the legislature.

3.4 Departmental commercial undertakings

The departmental undertakings performing activities of commercial/quasi-commercial nature are required to prepare proforma accounts in the prescribed format annually showing the working results of operations so that the Government can assess their working. In the absence of timely finalisation of accounts, the results of the investment of the Government remain outside the purview of State Legislature and scrutiny by the Audit. Consequently, corrective measures, if any, required for ensuring accountability and improving efficiency could not be taken in time. Besides, the delay in all likelihood may also open the system to the risk of fraud and leakage of public money.

The Heads of Departments in the Government are to ensure that the departmental undertakings prepare such accounts and submit the same to the Accountant General for Audit within a specified time frame. As of 31 March 2011, the Punjab Roadways (Transport Department) had not prepared its accounts since 2001-02. Despite repeated comments in the Reports of the CAG about the arrears in preparation of accounts, there is no improvement so far in preparation of the proforma accounts by this undertaking.

3.5 Creation of liability due to delay in transfer of funds

While implementing the recommendations of Twelfth Finance Commission (TFC), Thirteenth Finance Commission (ThFC) and the schemes under Backward Regions Grant Fund (BRGF) for supplementing the resources of Panchayati Raj Institutions (PRIs) and Urban Local Bodies (ULBs), the GoI directed the States to transfer the grants given by it for the PRIs and ULBs, within 15 days of the same being credited to the States' account. In case of delayed transfer, the State Government shall transfer to the PRIs/ULBs an amount of interest at the rate equal to the bank rate of Reserve Bank of India alongwith the delayed transfer of grants.

Scrutiny of record in the Department of Rural Development and Panchayats, Punjab, Chandigarh revealed that GoI released grants of ₹ 49.50 crore (₹ 17.10 crore + ₹ 32.40 crore) and ₹ 81.62 crore (₹ 52.38 crore + ₹ 29.24 crore) on the recommendations of TFC and ThFC, respectively, and ₹ 26.90 crore under BRGF (*Appendix 3.4*) to State Government during October 2009 to August 2010. The funds were transferred to PRIs/ULBs/ implementing agencies with delay ranging between eight and 247 days (*Appendix 3.4*). As a result thereof the State Government had created a liability of

₹ 3.80 crore as interest payable to PRIs/ULBs/implementing agencies out of its own resources.

The matter was referred to Department/Government (September 2011). The Controller, Panchayati Raj (Finance), Rural Development and Panchayats Department stated that the delay in releasing the grants amounting to ₹ 32.40 crore and ₹ 52.38 crore was due to bills not being passed in the Treasury. The reply was not tenable because despite clear guidelines and mention already made in paragraph 3.1.4 of the Comptroller and Auditor General's Audit Report (Civil)-Government of Punjab for the year ended 31 March 2010 regarding avoidable payment of interest due to delay in transfer of grants by the Rural Development and Panchayats Department, the department failed to ensure the release of grants to the PRIs/ULBs within stipulated period of 15 days and created an avoidable liability of ₹ 3.80 crore.

No reply in respect of other grants was received (December 2011).

3.6 Misappropriations, thefts, losses etc.

Rule 2.33 to 2.35 of the Punjab Financial Rules (PFR) lay down detailed instructions regarding responsibility for losses sustained through fraud or negligence of individuals, loss or destruction of Government property and report thereof to the Police/Accountant General.

Out of 119 cases of misappropriation, theft, loss of material etc. involving an amount of ₹ 1.38 crore, pending upto 31 March 2010 or reported during 2010-11, 37 cases (₹ 4.89 lakh) have been settled during the year 2010-11 leaving 82 cases (₹ 1.33 crore) pending as on 31 March 2011. Of these pending cases, 68 cases (₹ 1.23 crore) were pending for the period ranging for one year to more than 25 years. Department wise detail of outstanding cases prior to 2010-11 is given in **Table 3.3** and age-wise profile is given in **Appendix 3.5**.

Table 3.3: Pending cases of theft, misappropriations and losses

(₹ in lakh)

Name of Department	Cases of theft		Cases of Misappropriation/ Loss of Government		Total	
	Number of cases	Amount	Number of cases	Amount	Number of cases	Amount
Education	3	4.26	6	12.39	9	16.65
Elections	2	0.21	-	-	2	0.21
Home Affairs and Justice	1	6.00	53	9.21	54	15.21
Health and Family Welfare	1	0.41	-	-	1	0.41
Printing and Stationery	-	-	1	80.30	1	80.30
General Administration	-	-	1	10.00	1	10.00
Total	7	10.88	61	111.90	68	122.78

Source: Information provided by the departments

Out of 68 cases, four cases involving amount of ₹ 0.62 lakh were sub-judice. The reasons for the delay in finalisation of pending cases of thefts, misappropriations, losses etc. are given in **Table 3.4**.

Table 3.4: Reasons for the delay in finalisation of pending cases of misappropriations, thefts and losses etc.

(₹ in lakh)

Reasons	Number of cases	Amount
Awaiting departmental and criminal investigation	6	10.58
Departmental action initiated but not finalised	9	101.94
Awaiting orders for recovery or write off	48	8.53
Pending in the courts of law	4	0.62
Criminal proceeding finalized but execution of certificated cases for the recovery of the amount pending	1	1.11
Total	68	122.78

Source: Information as provided by the departments

3.7 Non-release/delayed release of Government of India funds

The Government of India provides funds in the shape of central assistance to the State Government for implementing various schemes through different departments to facilitate the beneficiaries of the schemes. The main thrust of the schemes is to implement the schemes at grass root level and funds provided for are to be utilized for targeted beneficiaries. These grants are subject to certain conditions and State Government is responsible for releasing the funds provided by GoI and transferring the same to the implementing agencies within specified time in accordance with these conditions.

Test check of records of four departments as detailed in **Table 3.5** revealed that out of ₹ 166.16 crore (including ₹ 73.67 crore in March 2011) released by GoI during 2010-11, ₹ 105.50 crore (63.50 per cent) were not released by the concerned departments to field units/implementing agencies. Out of ₹ 60.66 crore, released by the departments with the delays ranging between one and six months only ₹ 38.73 crore were utilized resulting in non-utilization of GoI funds to the tune of ₹ 21.93 crore as indicated in **Table 3.5**.

Table 3.5 Statement showing distribution/status of Government of India funds during the year 2010-11

(₹ in lakh)

Sr. No	Name of the Department	Amount released by G.O.I	Amount released by the Deptt.	Range of delay (in months)	Amount utilized	Unspent balances	Amount not released by the Deptt.
1	Animal Husbandry	1083.25	808.89	1-6	528.43	280.46	274.36
2	Agriculture	1348.27	1232.44	3-6	1146.32	86.12	115.83
3	Sports	2160.33	1154.22	1-6	1140.91	13.31	1006.11
4	Social Welfare	12023.83	2870.51	---	1057.13	1813.38	9153.32
	Total	16615.68	6066.06	1-6	3872.79	2193.27	10549.62

Source: Information supplied by concerned Departments.

Non-release/delayed release of funds adversely affected the very purpose of schemes and deprived of intended benefits to the beneficiaries.

On being pointed out (September 2011), Director-cum-Joint Secretary, Department of Welfare replied that amount remained unspent due to late release of grant by GoI which was due to late submission of UCs by the State Government to GoI. No reply was received from other Departments (December 2011).

3.8 Opaqueness in Government Accounts

Scrutiny of Finance Accounts of the State Government for 2010-11 revealed that expenditure and receipts of ₹ 5,406.85 crore (15 *per cent* of the total expenditure) and ₹ 1,431.95 crore (five *per cent* of the total Revenue Receipts) respectively were classified under Minor Head-800- Other Expenditure/ Receipts under 62 Major expenditure heads and 47 Major receipt heads. An illustrative statement in respect of 20 Major Heads (expenditure) and nine Major Heads (receipts) with substantial amounts of ₹ 5,008.59 crore and ₹ 254.06 crore respectively classified under Minor Head-800 is given in *Appendix 3.6*.

It indicates that there was a high degree of opaqueness in the accounts. No proposals for restructuring of the accounts to reflect the current activities of the Government by way of opening of new minor heads/sub-heads of accounts have been taken up by the Government to address the problem on permanent basis.

3.9 Non-deposit of revenue receipts into the Consolidated Fund of the State

Article 266(1) of the Constitution of India provides that all revenues received by the State Government, all loans raised by the Government by the issue of treasury bills, loans or ways and means advances and all moneys received by the Government in repayment of loans shall form one Consolidated Fund to be entitled “the Consolidated Fund of the State”.

The Government of Punjab established some Funds through enactment of various Acts/issuance of ordinances and revenue receipts amounting to ₹ 7,667.13 crore (*Appendix 3.7*) collected during the period 2006-11 by various departments under such Acts were credited to these Funds in violation of the aforesaid constitutional provisions. Since these funds are neither part of annual budget proposals nor are expenditure under such funds reported to Accountant General (A&E) the legislature has no opportunity to exercise its oversight over such funds.

3.10 Irregular retention of Government receipts

Rule 2.4 of PFR Volume-I lays down that departmental receipts are to be credited in the Government accounts and utilization of these receipts towards expenditure is strictly prohibited.

Scrutiny of records (December 2010) in the office of the Chief Town Planner, Punjab, Chandigarh (CTP), revealed that an amount of ₹ 119.33 crore was received on account of Change of Land Use (CLU) charges levied under Punjab Regional and Town Planning Act, 1995 for the development of any land (residential, commercial, institutional and industrial etc.) for the purpose of construction of buildings during the period September 2007 to December 2010 which was not deposited into treasury as revenue receipts as required under the rules.

The CTP stated (January 2011) that the State Government had decided (February 2009) that CLU charges may be retained by GMADA to recoup the amount given by it to the State Government for the acquisition of land for Knowledge City, in Sector-81, SAS Nagar. The reply was not acceptable as the CLU charges are revenue receipts of the Government and to be deposited in the treasury.

Thus, imprudent decision of the State Government to allow GMADA to retain the total receipts on account of CLU charges amounting to ₹ 119.33 crore had resulted in keeping the revenue receipts outside the control of the Legislature in violation of the Article 266 of the Constitution of India as well as Punjab Financial Rules.

The matter was referred to the Government (May 2011), reply has not been received (December 2011).

3.11 Conclusion and Recommendations

Conclusion

Internal controls within the State Government Departments are not functioning as envisaged with regard to compliance with various rules and procedures instituted by the Government. In the absence of compliance with the basic requirement of compilation of accounts by the Government undertakings and bodies and non-accountal/adjustment of large amounts drawn on abstract contingent bills by the departmental authorities financial reporting cannot be accurate and reliable. Accounting various important items of expenditure relating to various sectors, revenue receipts etc. under omnibus Minor Head – 800 had rendered accounts of the State Government partially opaque. Delays in submission of UCs and submission of incorrect UCs, indicate the need of strengthening monitoring system of the State Accounts.

Recommendations

- *The State Government needs to strengthen control mechanism in the Government departments to ensure compliance with various rules and procedures.*
- *Watch timely submission of Utilization Certificates.*
- *Ensure timely submission of DC bills by the Controlling Officers.*
- *Expedite submission of the pending accounts by the autonomous bodies and the Punjab Roadways.*
- *Departmental enquiries in cases of mis-appropriation, theft etc. need to be expedited and the control system should be strengthened to prevent recurrence of such cases.*
- *Ensure timely transfer of GoI funds to PRIs/ULBs and other implementing agencies and booking of receipts and expenditure under appropriate heads of account.*

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