

CHAPTER - 3

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) Himachal Pradesh within one year from the date of their sanction unless specified otherwise. However, of the 25,837 utilisation certificates (UCs) due in respect of grants and loans aggregating ₹1,757.07 crore upto March 2012; 9,625 UCs (37 per cent) for an aggregate amount of ₹924.60 crore were pending as of March 2012 out of which one UC involving ₹1.37 crore was pending for more than nine 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** below:

Table-3.1
Age-wise arrears of Utilisation Certificates as on 31 March, 2012

(₹ in crore)

Sl. No.	Range of delay (in number of years)	Total grants paid		Utilisation certificates outstanding	
		Number of Cases	Amount	Number of Cases	Amount
1.	0 – 1	16,290	849.40	6,528	477.12
2.	1 – 3	7,683	787.73	2,407	439.13
3.	3 – 5	1,393	74.33	689	6.98
4.	5 – 7	282	26.79	--	--
5.	7 – 9	37	11.18	--	--
6.	9 & above	152	7.64	1	1.37
	Total	25,837	1,757.07	9,625	924.60

Source: Accountant General (Accounts & Entitlement) office

Pendency of UCs mainly pertained to the Department of Education (5,221 UCs: ₹1.77 crore), Rural Development (1,776 UCs: ₹423.45 crore), Industries (785 UCs: ₹21.61 crore), Art and Culture (862 UCs: ₹5.09 crore), Social Justice and Empowerment (703 UCs: ₹98.45 crore), Urban Development (94 UCs: ₹146.01 crore), Sports and Youth Services (6 UCs: ₹ 2.81 crore), Tourism (8 UCs: ₹2.12 crore), Secretariat and Social Services (9 UCs: ₹ 2.64 crore), Medical and Public Health (24 UCs: ₹30.87 crore) and Animal Husbandry (27 UCs: ₹3.60 crore).

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

Thus, efforts should be made by the departments for expeditious submission of UCs by the recipients.

3.2 Misappropriation, loss, defalcation, etc.

As per the provisions of Himachal Pradesh financial rules, State Government reported 49 cases of misappropriation, defalcation, etc., involving Government money amounting to ₹ 78.26 lakh upto June 2012 on which final action was pending. The department-wise break up of pending cases and age-wise analysis is given in *Appendix-3.2* and nature of these cases is given in *Appendix-3.3*. 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 3.2**.

Table-3.2
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	6	7.63	Theft	11	12.11
5 – 10	14	20.67			
10 – 15	9	40.49	Misappropriation/Loss of material	38	66.15
15 – 20	2	3.62			
20 – 25	5	1.28	Total	49	78.26
25 & above	13	4.57	Cases of Losses Written off during the Year	2	0.62
Total	49	78.26			

A further analysis indicates that the reasons for which the cases were outstanding could be classified in the categories listed in **Table 3.3**.

Table-3.3

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	15	17.86
ii)	Awaiting orders for recovery or write off	24	28.72
iii)	Pending in the courts of law	4	26.61
iv)	Recovery made/written off but awaiting final disposal from PAC	6	5.07
Total		49	78.26

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

3.3 Outstanding balances under major Suspense heads

Certain intermediary/adjusting heads of accounts known as ‘suspense heads’ are operated in Government accounts to reflect transactions of receipts and payments which cannot be booked to a final head of account due to lack of information as to their nature or for other reasons. These heads of accounts are finally cleared by minus debit or minus credit when the amount under them is booked to their respective final heads of accounts.

The position of Suspense Balances under major suspense heads for the last three years is given in **Appendix-3.4**. There is net increase of ₹3.51 crore (debit) under 101-Pay and Accounts office-Suspense and ₹20.21 crore (debit) under 102-Suspense Account (Civil) as compared to 2010-11. The net balances under Minor Head (MH) 109-Reserve Bank Suspense-Headquarters increased by ₹0.65 crore (credit) and 110-Reserve Bank Suspense-Central Accounts Office ₹6.86 crore (credit) over the previous year.

If these amounts remain uncleared, the balances under the suspense heads would accumulate and would not reflect Government’s receipts and expenditure accurately. Thus, clearance of outstanding balances under Suspense Heads would require to be pursued vigorously.

3.4 Operation of Omnibus Minor Head-800

The range and diversity of government activity has increased manifold thereby heavily outpacing the number of available programme minor heads. The omnibus Minor Head-800 accommodates the expenditure which could not be classified under the available programme minor heads.

During 2011-12, revenue receipts aggregating ₹3,610.57 crore (25 per cent of total receipts) having receipt of more than ₹five crore were classified under Omnibus minor head-800-other receipts under seven major heads (*Appendix-3.5*) ranging between 58 to 100 per cent of the total receipts under respective major head.

Similarly, expenditure aggregating ₹13.86 crore under one major head “2075-Misc. General Services” in an account having expenditure of more than ₹five crore (representing functions of the Government) was classified under Minor Head-800 consisting of more than 50 per cent of the total expenditure (₹14.14 crore) under respective major head.

Classification of large amounts under the Omnibus minor head-800-other expenditure/ receipts affects true and fair picture of the financial reporting.

3.5 Conclusion

It was observed that the compliance with various rules, procedures and directives by the Government was unsatisfactory as evident from delays in furnishing utilisation certificates to the Accountant General (Accounts & Entitlement) against the loans and grants given to various institutions. A total of 9,625 Utilisation Certificates involving an amount of ₹924.60 crore and due for submission were not furnished by the Government to the Accountant General (Accounts & Entitlements) for keeping track of the utilisation of funds.

Out of 49 outstanding cases of misappropriation, loss, defalcation, etc., involving ₹ 78.26 lakh pending final action, departmental proceedings and criminal investigations were not initiated in 15 cases involving ₹ 17.86 lakh, indicating lack of initiative on the part of the Government to fix accountability. Internal controls in all the organizations should be strengthened to prevent occurrence of such cases.

Substantial amounts of receipts (₹3,610.57 crore) and expenditure (₹13.86 crore) were classified under the Omnibus minor head 800-Other receipts/expenditure during 2011-12. In order to ensure greater transparency in financial reporting, large amounts received or expenditure incurred under various schemes should be depicted in Accounts distinctly, instead of clubbing the same under Minor heads 800-other expenditure and other receipts.

3.6 Recommendations

The Government may consider to ensure:

- timely submission of utilisation certificates in respect of the grants released for specific purposes to the grantee institutions;
- expediting departmental enquiries in respect of all loss and misappropriation cases and strengthening internal controls in all the organisations to prevent such cases;
- correctness in financial reporting instead of clubbing the receipts and expenditure of major schemes under the Minor head '800-Other Expenditure' and '800-Other Receipts'.

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