

A sound internal financial reporting system 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. Reports on compliance and controls, if effective and operational, assist the 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

Rule 8.14 of Punjab Financial Rules, as applicable to Haryana, provides that utilisation certificates (UCs), for the grants provided for specific purposes, should be obtained by the departmental officers from the grantees. After verification, these should be forwarded to the Principal Accountant General within a reasonable time, unless a specific time limit is fixed by the sanctioning authority. However, of the 2,376 UCs due for submission in respect of grants and loans aggregating to ₹ 2,951.01 crore, 1,253 UCs for an aggregate amount of ₹ 1,148.60 crore were in arrears for the grants released during 2008-09 to 2010-11. The department-wise break-up of UCs due, received and outstanding as on 31 March 2012 is given in *Appendix 3.1*.

Analysis Appendix 3.1 shows that out of 1,253 outstanding UCs, 598 UCs (48 per cent) were outstanding from Rural Development department and 379 (30 per cent) were outstanding from Education department. Further 207 UCs for ₹ 264.48 crore were outstanding for the grants released in 2008-09, 264 UCs for ₹ 287.87 crore for the grants released in 2009-10 and 782 UCs for ₹ 596.26 crore for grants released in 2010-11. This not only indicates lack of internal control of administrative departments but also indicates the tendency on the part of the Government to go on disbursing the fresh grants without satisfying themselves about proper utilisation of grants sanctioned earlier.

▶ 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 (CAG's Act-1971), the Government/heads of the departments are required to

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furnish to audit every year detailed information about the financial assistance given to various institutions, the purpose of assistance granted and total expenditure of the institutions. On the basis of information received, 207 bodies/ authorities, attracted audit under Section 14 of the Act *ibid.* Audit of 39 bodies/ authorities was conducted during 2011-12.

533 Annual accounts from 187 autonomous bodies/ authorities due up to 2011-12 had not been received in the office of Principal Accountant General (Audit) as of July 2012. The details of these accounts are given in *Appendix 3.2* and their age-wise pendency is presented in *Table 3.1*.

Table 3.1: Age-wise arrears of annual accounts due from bodies/authorities

Sr. No.	Delay in number of years	Number of accounts	Grants received (₹ in crore)
1.	0-1	166	1,096.10
2.	1-3	261	785.87
3.	3-5	26	35.21
4.	5-7	29	27.99
5.	7-9	14	13.53
6.	9 and above	37	46.70
	Total	533	2,005.40

Table 3.1 shows that 80 annual accounts (15 per cent) involving grants of ₹ 88.22 crore were in arrear for more than five years. Further scrutiny revealed that 291 annual accounts¹ (57 per cent) from 80 Municipal Committees, for grants amounting to ₹ 1,426.25 crore released from 1982-83 to 2011-12, were not received. In the absence of annual accounts, it could not be ascertained whether these bodies/authorities attract the provision of Section 14 of the CAG's Act 1971.

3.3 Delays in submission of accounts of autonomous bodies for certification

Several autonomous bodies have been set up by the Government in the field of Urban Development, Housing, Labour Welfare, Agriculture, etc. The audit of accounts of 29 bodies in the State has been entrusted to the CAG. The status of entrustment of audit, rendering of accounts to audit, issuance of Separate Audit Reports (SARs) and its placement in the Legislature is indicated in *Appendix 3.3*. The frequency distribution of autonomous bodies according to the delays in submission of accounts to audit and placement of SARs in the Legislature is summarised in **Table 3.2**.

¹ Sr. No. 1 to 80 of Appendix 3.2.

Table 3.2: Delays in submission of accounts and tabling of Separate Audit Reports

Delays in submission of accounts (in months)	Number of autonomous bodies	Reasons for delay	Delays in submission of SARs in Legislature	Number of autonomous bodies (in years)	Reasons for delay
0 - 1	-	Accounts had not been prepared by autonomous bodies.	0 - 1	1	Reasons for delay not intimated by departments.
1 - 6	11		1 - 2	-	
6 - 12	-		2 - 3	3	
12 - 18	2		3 - 4	1	
18 - 24	-		4 - 5	6	
24 and above	14		5 and above	2	
Total	27			13	

It was further observed that 8² autonomous bodies had not submitted their annual accounts for the last 15 years (1996-97 and onwards).

3.4 Departmentally managed commercial undertakings

The departmental undertakings of certain Government departments performing activities of quasi-commercial nature are required to prepare proforma accounts annually in the prescribed format showing the working results of financial operations so that the Government can assess their working. The final accounts 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 in time. Besides, the delay is open to risk of fraud and leakage of public money.

Heads of departments in the Government have to ensure that the undertakings prepare such accounts and submit the same to Principal Accountant General for audit within a specified timeframe. As of June 2012, four out of five such undertakings had not prepared their accounts from 2008-09 and onwards. Government funds amounting to ₹ 4,269.96 crore stood invested in these undertakings at the end of 2007-08. The proforma accounts of Haryana Roadways with Government investment of ₹ 522.74 crore as on 31 March 2008 were in arrears from 2008-09. Though the arrears in preparation of accounts have been repeatedly commented no vital improvement has taken place in this regard. The department-wise position of arrears in preparation of proforma accounts and investment made by the Government are given in *Appendix 3.4*.

3.5 Misappropriations, losses, defalcations, etc.

Rule 2.33 of the Punjab Financial Rules, as applicable to Haryana, stipulates that every Government employee would be held personally responsible for any loss sustained by

² District Legal Services Authority: Bhiwani, Gurgaon, Jhajjar, Panchkula, Rewari, Rohtak, Sonapat and Yamunanagar.

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Government through fraud or negligence on his part or any loss arising from fraud or negligence on the part of any other Government employee to the extent that he contributed to the loss by his own action or negligence. Further, as per rule 2.34 *ibid*, the cases of defalcations and losses are required to be reported to the Principal Accountant General.

State Government reported 142 cases of misappropriation, defalcation, etc. involving Government money amounting to ₹ 1.46 crore on which final action was pending as of June 2012. The department-wise break up of pending cases and 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 is summarised in **Table 3.3**.

Table 3.3: 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	23	25.11	Theft	104	82.56
5 - 10	45	53.09			
10 - 15	22	41.63	Misappropriation/ loss of material	54	78.83
15 - 20	15	7.91			
20 - 25	22	16.23	Total	158	161.39
25 and above	15	2.49	Cases of losses written off during the year	16	14.93
Total	142	146.46	Total pending cases	142	146.46

Reasons for pendency of cases are listed in **Table 3.4**.

Table 3.4: 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	2	8.05
i)	Departmental action initiated but not finalised	70	53.73
iii)	Criminal proceedings finalised but execution of certificate case for the recovery of amount pending	14	8.85
iv)	Awaiting orders for recovery or write off	41	36.88
v)	Pending in the courts of law	15	38.95
Total		142	146.46

Out of the total loss cases, 73 *per cent* cases related to theft of Government money/store which indicates that appropriate steps for the safety of Government property/cash, etc., as prescribed in the rules, had not been taken by the departments. Further, in respect of 50 *per cent* cases of losses, departmental action had not been finalised and 29 *per cent* cases were outstanding simply for want of orders of the competent authority for recovery or write off of losses. It was further, noticed that out of 142 cases of losses due to theft/misappropriation etc., 119 cases were more than 5 years old and of which 15 cases were more than 25 years old. The lackadaisical approach of departments in finalisation of these cases had not only caused loss to the State exchequer but also failed to take timely action against the officers/officials at fault.

3.6 Mis-classification in accounts

Operation of omnibus Minor Head - 800

Booking under Minor Head '800 Other Receipts' and '800- Other Expenditure' is opaque as they do not disclose the schemes, programme, etc. to which they relate to. It accommodates the expenditure which could not be classified under the available programme minor heads.

During 2010-11, expenditure aggregating ₹ 5,661.35 crore (15 *per cent* of total expenditure) was classified under Major Head 800 against 10 Major Heads in both revenue and capital sections. Total/major expenditure on power subsidy, urban development, major and medium irrigation, tourism and other social services was classified under omnibus Minor Head 800 instead of depicting distinctly in the Finance Accounts.

Similarly, revenue receipts aggregating ₹ 4,521.59 crore (15 *per cent* of total revenue receipts) was classified under omnibus minor head '800-Other Receipts' under 22 major heads. Major amount of State excise, grant-in-aid and non-tax revenue under urban development, animal husbandry, major irrigation, police, other administrative services, etc. was classified under this minor head.

Classification of large amounts under the omnibus minor head '800-Other Expenditure/Receipts' affects the transparency in financial reporting.

Other cases of mis-classification

Non-tax revenue of Animal Husbandry department increased from ₹ 1.32 crore in 2010-11 to ₹ 407.42 crore in 2011-12 due to sale of land to HUDA. The funds generated through sale of Government land were misclassified under Revenue Receipts instead of Capital Receipts.

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Indian Government Accounting Standards prescribe that Grants-in-aid were required to be classified and accounted for as revenue expenditure of the State Government, irrespective of purpose for which the grants were disbursed. During 2011-12, ₹ 1.23 crore disbursed as GIA to Palika Bhawan, Ambala were classified under the Capital head instead of Revenue head.

▶ 3.7 **Transfer of funds to Personal Deposit Account**

Transfer to Personal Deposit Accounts is booked as expenditure in the Consolidated Fund (service major heads) of the State. While Government is authorised to open Personal Deposit Accounts (PDA) in order to deposit money for specific purposes, the Administrators are required to close such accounts on the last working day of the year and transfer the unspent balances back to the Government Accounts. At the close of the year, there were 229 PDA's with a balance of ₹ 263.49 crore which were not credited back to the Consolidated Fund of the State

▶ 3.8 **Conclusion**

Internal financial reporting was not effective as there were non-compliance of financial rules, procedures and directives on several aspects. Substantial delays in submission of utilisation certificates occurred and as a result proper utilisation of grants could not be ensured. Non-submission/delay in submission of accounts by grantee institutions subverted the process of identification of institutions attracting audit by CAG. A large number of autonomous bodies, and departmentally run commercial undertakings did not prepare their final accounts for long periods, as a result their strength of financial position could not be assessed. Further, there were a large number of cases of theft of Government money, misappropriation, loss of Government material, defalcation, etc. for which departmental action was pending for long period. Fifteen *per cent* of total receipts and expenditures were classified under omnibus minor head '800-Other Receipts/Expenditure' during 2011-12.

▶ 3.9 **Recommendations**

- The internal control mechanism of the Government departments needs to be strengthened to watch the timely submission of UCs. The Govt may consider the mechanism of releasing further grants only after receipt of utilization certificate of earlier grants.
- Govt may consider appropriate measures to ensure receipt of accounts from the grantee institutions at the end of every year in order to enable identification of institutions attracting audit by CAG of India under Sec 14 of the CAG's (DPC) ACT,1972.

- A system needs to be put in place for expediting the process of compilation and submission of annual accounts by autonomous bodies and departmentally run undertakings in order to assess their financial position.
- A time bound framework should be prepared for taking prompt action in cases of theft, misappropriation, etc.
- In order to ensure greater transparency in financial reporting, large amounts received or expended under various schemes should be depicted in Accounts distinctly, instead of clubbing the same under the Minor head '800-Other expenditure' and '800-Other receipts'.

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