

CHAPTER III

FINANCIAL REPORTING

A sound internal financial reporting system with relevant and reliable information significantly contributes to efficient and effective governance by a State Government. Compliance with financial rules, procedures and directives as well as timeliness and quality of reporting on the status of such compliances are some of the attributes of good governance. Reports on compliance and controls, if effective and operational, assist a 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 rules³⁷ of the Government require that the authority sanctioning grant-in-aid is to stipulate, in every order sanctioning the grant, a time limit for utilisation of the grant not exceeding one year from the date of sanction. The utilisation certificate for grants-in-aid exceeding ₹10,000 is to be forwarded to the Principal Accountant General (Accounts and Entitlement), Kerala. In the case of sanction not exceeding ₹10,000, the utilisation certificate is to be watched by the Head of Department who is required to send a statement to the Principal Accountant General (Accounts and Entitlement), Kerala indicating the number and date of sanction, authority issuing sanction, name of grantee institution, etc., not later than 30 June. It was observed that 222 utilisation certificates for ₹487.18 crore were yet to be received as of June 2013 in respect of grants paid during the period 2009-10 to 2012-13. Details of department-wise breakup of outstanding utilisation certificates are given in **Appendix 3.1**. The age-wise position of delays in submission of utilisation certificates is summarised in **Table 3.1**.

Table 3.1: Age-wise arrears of utilisation certificates

(₹ in crore)

Range of delay in number of years	Total grants paid		Utilisation Certificates outstanding	
	Number	Amount	Number	Amount
Less than one year	193	584.24	156	341.70
Above one year	292	257.96	66	145.48
Total	485	842.20	222	487.18

Source: Details furnished by Principal Accountant General (A&E)

³⁷ Article 210 of the Kerala Financial Code (Vol. I)

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/Heads of Department are required to furnish to Audit every year, detailed information about the financial assistance provided to various institutions, the purpose of assistance granted and the total expenditure of the institutions.

As of March 2013, annual accounts of 10 autonomous bodies/authorities due up to 2011-12 had not been received by the Principal Accountant General (Social and General Sector Audit)/Accountant General (Economic and Revenue Sector Audit), Kerala. The details of these accounts are given in **Appendix 3.2**

3.3 Delay in submission of accounts/Audit Reports of Autonomous Bodies

There are 23 autonomous bodies in the field of legal aid, human rights, development of khadi, etc. The audit of accounts of these bodies in the State has been entrusted to the Comptroller and Auditor General of India under Sections 19(2), 19(3) and 20 (1) of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. The status of entrustment of audit, rendering of accounts to audit, issuance of Separate Audit Reports and their placement in the Legislature are indicated in **Appendix 3.3**.

3.4 Departmentally managed Commercial Undertakings

The departmental undertakings of certain Government departments performing activities of quasi-commercial nature are required to prepare *pro forma* accounts in the prescribed format annually, showing the working results of financial operations so that the Government can assess their working. The finalised 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 Audit. Consequently, corrective measures cannot be taken in time and the delay may also open the system to the risk of fraud and leakage of public money.

Heads of Department in the Government are required to ensure that the undertakings prepare such accounts and submit the same to the Principal Accountant General (General and Social Sector Audit)/Accountant General (Economic and Revenue Sector Audit), Kerala within a specified timeframe.

The department-wise position of arrears in preparation of *pro forma* accounts and investments made by the Government in respect of three³⁸ such undertakings, is given in **Appendix 3.4**.

³⁸ Kerala State Insurance Department, State Water Transport Department and Text Book Office

3.5 Misappropriations, losses, defalcations, etc.

Article 297 of the Kerala Financial Code provides that cases of defalcation or loss of public money, stamps, stores or other property should be reported to the Principal Accountant General (Social and General Sector Audit)/Accountant General (Economic and Revenue Sector Audit), Kerala as well as to the Heads of Department.

The State Government reported 123 cases of misappropriation, defalcation, etc., involving Government money amounting to ₹7.76 crore up to the period June 2013 on which final action was pending. The department-wise break up of pending cases and age-wise analysis are given in **Appendix 3.5** and the nature of these cases is given in **Appendix 3.6**. The pending cases in each category 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)
Less than 5 years	19	86.93	Theft	14	4.24
5 - 10	35	345.71	Misappropriation/loss of material	109	772.10
10 - 15	33	254.67	Total	123	776.34
15 - 20	17	71.96	Cases of losses written off during the year	Nil	Nil
20 - 25	8	3.31	Total pending cases	123	776.34
25 and above	11	13.76			
Total	123	776.34			

Source: Cases reported by departments of the State Government

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

Table 3.3: Reasons for outstanding cases of misappropriations, losses, defalcations, etc.

Sl. No.	Reasons for the delay/outstanding pending cases	Number of cases	Amount (₹ in lakh)
1.	Awaiting departmental and criminal investigation	Nil	Nil
2.	Departmental action initiated but not finalised	62	611.83
3.	Awaiting orders for recovery or write off	43	56.05
4.	Pending in the courts of law	18	108.46
Total		123	776.34

Source: Information received from Departments of the State Government

3.6 Operation of Minor Head - 800

Bookings of receipts and expenditure under Minor Head '800 – Other Receipts' and '800-Other Expenditure' is considered opaque classification of receipts and expenditure as these heads do not disclose the schemes, programmes, etc, to

which the amount relate. These heads accommodate expenditure/receipts which cannot be classified under the available programme minor heads.

During 2012-13, expenditure aggregating ₹4,321.11 crore was classified under the Minor Head '800 Other Expenditure' in the accounts under 71 Major Heads of Accounts which constituted more than seven *per cent* of the total expenditure recorded under these Major Heads. Some significant expenditure on schemes such as 'Land acquisition for Government purposes' (₹294.01 crore), 'Metro Rail System in Kochi city' (₹289.68 crore), 'Rashtriya Krishi Vikas Yojana' (₹252.55 crore), Land to agricultural labourers and land for construction of houses' (₹168.74 crore), 'Special Development Fund for MLAs' (₹141 crore), 'Medical Allowance to Pensioners' (₹117.53 crore), 'Pooled Fund for SCP' (₹114.79 crore), 'Small scale-nominal farmers pension' (₹101.06 crore), 'Kerala Sustainable Urban Development Project' (₹100.00 crore), etc. are not depicted distinctly in the Finance Accounts, but are classified under the minor head '800-Other Expenditure'.

Similarly, Revenue Receipts aggregating ₹715.78 crore were classified under the Minor Head '800-Other Receipts' under 51 Major Head of accounts which represents 1.62 *per cent* of the total receipts under these Major Heads. Major amounts of Tax Revenue under Taxes on Sales, Trade, etc., Land Revenue, etc. and Non-tax Revenue under Co-operation, Other Administrative Services, Ports and Light Houses, Roads and Bridges, etc. were classified under this Minor Head.

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

3.7 Transfer of funds to Personal Deposit Accounts

Transfer to Personal Deposit Accounts (PD Accounts) is booked as expenditure in the Consolidated Fund (service major heads) of the State. Article 282 (d) of the Kerala Financial Code stipulates that the PD Accounts administered by Government officers, which are created by transferring money from the Consolidated Fund of the State should be closed at the end of the financial year and the balance credited back to the Consolidated Fund unless such PD Accounts were created by law or Rules having the force of law. The aggregate balance in the PD Accounts as on 31 March 2012 was ₹83.26 crore. During 2012-13, an amount of ₹1,147.95 crore was credited to PD Accounts and ₹1,129.22 crore was debited to these accounts. The aggregate balance in the PD Accounts as on 31 March 2013 was ₹101.99 crore.

3.8 Conclusion

As of June 2013, 222 utilisation certificates for ₹487.18 crore were to be received in respect of grants paid during 2009-10 to 2012-13. Annual accounts of ten autonomous bodies/authorities due upto 2011-12 had not been received as of March 2013. The departmental compliance towards disposal of cases of losses, misappropriation, etc., was deficient and 123 cases involving ₹7.76 crore were

pending final action as on June 2013. Significant amount of expenditure and receipts under Central and State schemes, booked under Minor head ‘800-Other Expenditure’ and ‘800-Other receipts’ were not distinctly depicted in the State Finance Accounts 2012-13 affecting the correctness of financial reporting.

3.9 Recommendations

- As the number of utilisation certificate due from departmental officers are increasing and utilisation certificates from 2009-10 onwards are also pending, Government should issue necessary directions to departmental officers for timely submission of Utilisation Certificate to Principal Accountant General (A&E).
- Departmental enquiry procedures in respect of defalcation, misappropriation, etc cases and revenue recovery procedures in respect of revenue realization cases should be expedited to bring defaulters to book and also have a deterrent effect on others.
- Major Central sector/State schemes so far classified under minor head ‘800-Other Expenditure’ may be classified under relevant functional minor heads to ensure correctness in financial reporting.

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