

CHAPTER-3

FINANCIAL REPORTING

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 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, decision making and accountability of the stakeholders. 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 Utilization 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 Principal Accountant General (Accounts and Entitlements) within 18 months from the date of their sanction unless specified otherwise. Five hundred and twenty five UCs amounting to ₹ 496.34 crore were pending as of August 2012. Of these, 385 UCs (73.33 per cent) involving ₹ 417.84 crore were pending for periods up to three years and 140 UCs involving ₹ 78.50 crore were pending for more than three years. The age-wise delays in submission of UCs have been summarized in **Table 3.1**.

Table-3.1
Age-wise arrears of Utilization Certificates as on August 2012

(₹ in crore)

Sl. No.	Range of delay in number of years	Utilisation Certificates Outstanding	
		Number	Amount
1	0-1	139	131.19
2	1-3	246	286.65
3	3-5	140	78.50
Total		525	496.34

In the absence of UCs, it could not be ascertained whether the recipients had utilized the grants for the intended purpose for which these were sanctioned. Thus, efforts may be made by the departments for expeditious submission of UCs by the recipients.

3.2 Delay in submission of Accounts in respect of Departmental 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 annual accounts of departmentally managed commercial and quasi-commercial undertakings reflect their overall financial health and efficiency in conducting their business. In the absence of timely finalization of annual accounts, the investment of the Government remains outside the scrutiny of the Audit/ State Legislature. Consequently, corrective measures, if required, for ensuring accountability and improving efficiency cannot be taken in time. Besides, the delay in all likelihood may also open the system to risk of fraud and leakage of public money.

The Heads of Department in the Government are to ensure that the undertakings prepare such accounts and submit the same to Principal Accountant General (Audit) for audit within a specified time frame. As of September 2012, out of three such undertakings two had not prepared accounts and their accounts were in arrears from the year 2003-04 and onwards. The department-wise position of arrears in preparation of *pro forma* accounts and investment made by the Government are given in **Appendix-3.1**.

Delay in finalization of accounts carries the risk of financial irregularities going undetected and therefore, the accounts need to be finalized and submitted to audit at the earliest.

3.3 Misappropriations, losses, defalcations etc.

Audit observed 17 cases of misappropriation, defalcation and theft *etc.*, involving Government money amounting to ₹ 3.93 crore up to the period March 2012 on which final action was pending. The department-wise break-up of pending cases

showing age wise analysis and nature of these cases is given in **Appendix-3.2** and **Appendix-3.3** respectively. The age-profile of the pending cases and the number of cases pending in each category; theft and misappropriation/ loss are summarized in **Table 3.2**.

Table-3.2
Profile of cases of misappropriations, losses, defalcations, etc.,
as on 31 March 2012

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	17	392.79	Theft	02	4.13
5 - 10	---	---			
10 - 15	---	---	Misappropriation/Loss of material	15	388.66
15 - 20	---	---			
20 - 25	---	---	Total	17	392.79
25 & above	---	---	Cases of Loss Written off during the Year	--	--
Total	17	392.79	Total Pending cases	17	392.79

Of these four cases of theft, misappropriation/ loss amounting to ₹ 50.55 lakh were pending for final action by the department of 'Education' whereas six cases involving substantial amount of ₹ 301.49 lakh were awaiting finalization by the department of Social Welfare, Animal Husbandry and Forest.

Thus, an effective mechanism needs to be put in place to ensure speedy settlement of cases relating to misappropriation, loss and theft and in order to avoid recurrence of such cases in future.

3.4 Bookings under Minor Head 800-'Other Receipts' and 'Other Expenditure'

During 2011-12, ₹ 3,438.94 crore under 50 Major Heads of account (representing functions of the Government) was classified under the Minor Head 'Other Expenditure' in the revenue account constituting 26.50 *per cent* of the total revenue expenditure recorded under the respective Major Heads. Similarly, a total sum of ₹ 1,266.23 crore under 37 Major Heads of account (representing functions of the Government) was classified under the Minor Head 'Other Receipts' in the accounts constituting 9.25 *per cent* of the total receipts recorded under the respective Major Heads. In five Major Heads of accounts, substantial amount of expenditure was

booked under 'Other Expenditure' and in fifteen Major Heads of accounts substantial amount of receipts was booked under 'Other Receipts'. The major schemes are not depicted distinctly in the Finance Accounts, though the details of these expenditures are depicted in the sub-head (scheme) level or below in the Detailed demands for Grants and corresponding head-wise Appropriation Accounts forming part of the State Government Accounts.

Classification of large amounts booked under the minor head '800'-Other receipts/ expenditure affects the transparency/ fair picture in financial reporting.

3.5 Conclusion

Internal control system within the Government departments is not functioning as envisaged with regard to compliance with various rules, procedures and directives formulated by the Government. In absence of compliance with the basic requirement of the preparation of annual pro forma accounts by the Departmentally Managed Government Undertakings and non-adjustment of large amounts drawn on AC bills by the departmental authorities, financial reporting may not be accurate and reliable. Delay in submission of Utilization Certificates to the Principal Accountant General (Accounts & Entitlements) against the loans and grants given to various grantee institutions indicates the need of strengthening the monitoring system of the Government as 525 number of UCs amounting to ₹ 496.34 crore which were due for submission were not furnished to the Principal Accountant General (Accounts & Entitlements) for reconciliation of accounts and keeping a watch on the proper utilization of funds.

Departmental enquiries in the cases of loss/ misappropriation and theft should be expedited to bring the defaulters to book. Internal Controls in all the organizations should be strengthened to prevent occurrence of such cases in future.

3.6 Recommendations

The Government may consider to ensure:

- timely submission of utilization certificates in respect of the grants released for specific purposes to the grantee institutions.

- expediting departmental enquiries in respect of all fraud and misappropriation cases and strengthening internal controls in all the organizations 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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