

CHAPTER III

FINANCIAL REPORTING

A sound internal financial reporting system based on compliance with financial rules is one of the attributes of good governance. This chapter provides an overview and status of compliance of the departments of the State Government with various financial rules, procedures and directives during the current year.

3.1 Non-submission of utilisation certificates

Sikkim Financial Rules (SFR) (Rule 116 (1)) states that every grant made for a specific object is subject to the implied conditions, (i) that the grant shall be spent upon the object within a reasonable time (which should ordinarily be interpreted to mean one year from the date of issue of the letter sanctioning the grant as per note below Rule 116), if no time limit has been fixed by the sanctioning authority; and (ii) that any portion of the amount which is not ultimately required for expenditure upon that object shall be duly surrendered to Government. However, 423 utilisation certificates (UCs) aggregating to ₹ 20.15 crore in respect of grants-in-aid paid up to 2012-13¹, were in arrears as of March 2013 as detailed in **Appendix 3.1**.

The age-wise arrears of UCs is summarised in **Table 3.1**.

Table - 3.1: Age-wise arrears of utilisation certificates

(₹ in lakh)

Sl. No.	Range of Delay in Number of years	Total grants released		Utilisation Certificates in arrears	
		Number	Amount	Number	Amount
1	9 & above	41	107.46	14	56.91
2	7-9	10	29.24	6	18.24
3	5-7	563	548.81	12	279.85
4	3-5	63	744.00	6	209.17
5	1-3	1	16.00	1	10.00
6	0-1	513	2,444.46	384	1,440.90
Total		1,191	3,889.97	423	2,015.07

Source: Information furnished by the State Government departments

Major cases of non-submission of UCs related to Health Care, Human Services and Family Welfare Department (28 per cent) and Ecclesiastical Department (22 per cent). Non-submission of UCs defeats the very purpose of release of the money to the beneficiary organisations and also gives rise to possibility of misuse/ diversions.

¹ Grants-in-aids paid during 2012-13, although not due for submission of UCs within 2012-13, were in arrears.

3.1.1 Review of grants

A detailed review on utilisation of grants in Animal Husbandry, Livestock, Fisheries and Veterinary Services Department (AHLFVSD) revealed the following:

➤ According to Sikkim Financial Rules (SFR), Institutions or Bodies receiving grants exceeding ₹ 1 lakh per annum recurring or ₹ 5 lakh non-recurring should be required to maintain subsidiary accounts of the Government grants and to furnish to the Principal Accountant General:

- A copy of the audited statement of its accounts; and
- A copy of their constitution.

Test check revealed (June 2013) that the AHLFVSD released ₹ 17.44 crore in the form of grants to various bodies² during the year 2008-09 to 2012-13. However, 52 UCs involving ₹ 4.38 crore were not received till June 2013 as detailed in **Appendix 3.2**. Similarly, annual accounts since 2008-09 had not been received from various grantee units as detailed in **Appendix 3.3**.

Audit scrutiny on release of grants to those various bodies revealed (June 2013) the following:

➤ Sachiva, ZPs and DDOs were released grants of ₹ 191.27 lakh (Sachiva, ZPs: ₹ 99.02 lakh³ and DDOs: ₹ 92.25 lakh⁴) mainly for conducting of awareness camps, establishment of piggery breeding farms, distribution of equipment related to poultry farming and construction of veterinary dispensaries in East, North, West and South districts. However, those Sachivas, ZPs and DDOs concerned had neither submitted the UCs and annual accounts for the grants received, nor had the AHLFVSD insisted upon the same. Under the circumstances, audit could not vouchsafe as to whether the funds had been utilised and objectives of grants achieved. It may also be mentioned that the release of grants in subsequent years without the receipt of UCs of earlier grants was in violation of Rule 116 of SFR.

➤ Managing Director, Sikkim Poultry Development Corporation (SPDC) and Sikkim Hatcheries Limited (SHL) released grants of ₹ 668.67 lakh⁵ for implementation of poultry mission, tribal sub-plan etc. However, the SPDC and SHL had not submitted the UCs and the annual accounts on the grants for the year 2008-09 for which the scrutiny on grant of ₹ 15 lakh could not be exercised. Similarly, for 2009-10, although the annual accounts was submitted, the UCs were submitted for only ₹ 95 lakh against the grants of ₹ 375 lakh. The SHL on its own had submitted only the annual accounts from 2010-11 to

² Sachiva; ZP of four districts; DDOs of four districts; SPDC & SHL; SCMPUL; NDMPUL; SARAH and Others.

³ 2008-09: ₹ 13 lakh; 2009-10: ₹ 16.02 lakh and 2011-12: ₹ 70 lakh.

⁴ 2008-09: ₹ 57.25 lakh and 2009-10: ₹ 35 lakh.

⁵ 2008-09: ₹ 15 lakh; 2009-10: ₹ 375 lakh; 2010-11: ₹ 168.67 lakh; 2011-12: ₹ 100 lakh and 2012-13: ₹ 10 lakh.

2011-12 without any UC. Further, scrutiny on annual accounts as compared with the grants released as per Cash Book revealed that there were differences in accounting the grants in the annual accounts as shown below:

Table-3.2: Differences between Cash Book and Annual Accounts

(₹ in lakh)

Year	Figures as per Cash Book	Figures as per Annual Accounts	Differences (+) Excess and (-) Short
2009-10	375.00	225.00	(-) 150.00
2010-11	168.67	319.92 ⁶	(+) 151.25

The inconsistencies in the figures were not reconciled.

Scrutiny of UCs along with annual accounts of SPDC for the year 2011-12 revealed that ₹ 10 lakh was shown as utilised for monitoring and evaluation on Poultry Mission Phase II. However, the expenditure figures in annual accounts did not show any expenditure against the same. Further, no report/document of having conducted the monitoring and evaluation of Poultry Mission Phase II could be shown to Audit.

Scrutiny of annual accounts of SPDC and SHL for the year 2011-12 revealed that the revenue of ₹ 12.82 lakh (₹ 9.51 lakh by SPDC and ₹ 3.31 lakh by SHL) towards VAT, Cess, royalty and Income Tax payable to the Government was irregularly retained in violation of SFR. Those receipts were retained since December 2009.

It was also noticed that an advance of ₹ 35.32 lakh (₹ 11.90 lakh and ₹ 23.42 lakh) was rendered to various officers/officials. These advances remained outstanding with progressive accumulation since 2009 without any effective step to adjust the same.

➤ Managing Director, Sikkim Co-operative Milk Producers' Union Limited (SCMPUL) released grants of ₹ 571.24 lakh for conducting of various activities under Intensive Dairy Development Programme (IDDP), Clean Milk Production (CMP), Rashtriya Krishi Vikas Yosana, etc. However, against the grants of ₹ 571.24 lakh, SCMPUL submitted UCs for ₹ 391.30 lakh leaving a balance of ₹ 179.94 lakh, for the year 2012-13.

Scrutiny of annual reports for the years 2009-10 to 2011-12 revealed that although the number of Dairy Co-operative Societies (DCS) increased from 287 to 303, the functional DCS decreased from 179 to 168 and non-functional DCS increased from 108 to 135. It indicated that the SCMPUL was primarily concerned with the increase in the number of Societies irrespective of the programme objective of increasing the milk production. This had led to formation of such DCS which were unviable as was evident from the increase in the number of non-functional DCS. It was also noticed that against the projection of 303 number of DCS involving 9,758 number of producer members, the SCMPUL had

⁶ Includes: ₹ 5 lakh received by SHL

approved sanction (2011-12) to impart training to 8,000 farmers at a cost of ₹ 20 lakh under CMP, but the SCMPUL could impart training to only 228 number of farmers by spending ₹ 0.57 lakh, leading to non imparting of training to 7,772 number of farmers and non utilisation of funds to the extent of ₹ 19.43 lakh.

Scrutiny further revealed that the sundry debtors (unsecured) had increased from ₹ 33.90 lakh in 2008-09 to ₹ 67.52 lakh in 2011-12 and similarly, the unsecured loans and advances remained static at ₹ 18.45 lakh in 2009-10 to ₹ 18.47 lakh in 2011-12. The details of those sundry debtors and loans and advances had not been appended to the annual accounts, and hence analysis for ageing could not be done. Reasons for increase in sundry debtors (unsecured) and unsecured loans & advances and initiative not taken to contain those items could not be stated to Audit.

➤ Managing Director, North Dairy Milk Producers' Union Limited (NDMPUL) released grants of ₹ 160.35 lakh for conducting various activities under CMP, Border Area Development Programme etc. However, scrutiny revealed (June 2013) that although the NDMPUL submitted the UCs for complete grants of ₹ 160.35 lakh, UCs of ₹ 36.67 lakh submitted for the year 2011-12 was not supported by annual accounts, for which the details of expenditure could not be analysed. It was also observed that the grants of ₹ 80.20 lakh released from SCP to SC and TSP during 2009-10 had not been reflected in the annual accounts. ₹ 0.84 lakh advanced to Joint Director as plant expenses also remained outstanding during March 2009 to March 2011. The position ending March 2013 could not be examined as the NDMPUL was yet to prepare the annual accounts of 2011-12 and 2012-13.

➤ Chairman, Sikkim Anti-Rabies and Animal Health (SARAH) released grants of ₹ 152.58 lakh for conducting of anti-rabies and animal health camps in the State. However, against the grants of ₹ 152.58 lakh, SARAH submitted the UCs for ₹ 100.58 lakh leaving the balance of ₹ 52 lakh. It was also noticed that AHLFVSD irregularly diverted ₹ 8 lakh during 2010-11 from the State Plan Scheme 'Poultry Mission', and released this as grants to SARAH. SARAH also retained the revenue of ₹ 0.34 lakh (VAT: ₹ 29,686, Cess: ₹ 2,546 and professional tax: ₹1,500) payable to the Government, in violation of SFR.

➤ The AHLFVSD released grants of ₹ 0.15 lakh (₹ 0.10 lakh to President, Sikkim Amateur Swimming Association during 2008-09 and ₹ 0.05 lakh to President, All Sikkim SC Welfare Association, Gangtok during 2011-12) by diverting provision, under 'office expenses' and 'poultry mission'. However, neither any UC was submitted by those grantee units, nor was it insisted upon by the AHLFVSD.

➤ The Watch Register is an important document to keep a watch over the utilisation of grants. It was however noticed that the Department had not maintained the said register

for which it could not keep proper watch on the utilisation of 52 grants involving ₹ 4.38 crore released during the years 2008-09 to 2012-13.

During discussion, the Secretary, AHLFVSD assured (June 2013) that all the points as raised above would be attended to.

3.2 Non-submission/delay in submission of accounts

To identify the Institutions which attract Audit under Sections 14 and 15 of the CAG's (Duties, Powers and Conditions of Service) Act 1971, the Heads of the Government departments were required to furnish to Audit every year information about the Institutions to which financial assistance of ₹ 25 lakh or more, was given, the purpose for which assistance was granted and the total expenditure of the Institutions.

Departments did not furnish information in respect of 32 Bodies and Authorities pertaining to grants received, aggregating ₹ 25 lakh or more, for the period ranging from one year to more than five years, as detailed in **Appendix 3.4**.

3.3 Status of submission of accounts of Autonomous Bodies and placement of Audit Reports before the State Legislature

Several Autonomous Bodies had been set up by the State Government in the field of Rural Development, Urban Development, Khadi and Village Industries, State Health and Family Welfare, Science and Technology, etc. The audit of accounts of eight Bodies in the State have been entrusted to the CAG. Those are audited with regard to their transactions, operational activities and accounts, conducting regulatory/compliance audit, review of internal management and financial controls, review of systems and procedures, etc.

Separate Audit Reports of one Autonomous Body (SBS) for the year 2005-06, one Autonomous Body (STCS) for the years 2005-06 to 2007-08 and one Autonomous Body (SLSA) for the years 2006-07 to 2010-11 were yet to be placed before the State Legislature.

The status of entrustment of audit, rendering of accounts to Audit, issuing of Separate Audit Reports and their placement before the State Legislature are indicated in **Appendix 3.5**.

3.4 Departmental Commercial Undertakings

The departmental undertakings of certain Government departments performing activities of commercial and 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 of departmentally managed commercial and quasi-commercial undertakings 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 up 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 departments in the Government are to ensure that the undertakings prepare and submit such accounts to the Principal Accountant General for audit within a specified time frame. In respect of five undertakings⁷ which had been closed/transferred/converted into co-operative federation, *pro forma* accounts were due from 2006-07 onwards. The position of arrears in preparation of *pro forma* accounts by the undertakings is given in **Appendix 3.6**.

3.5 Misappropriation, losses, etc.

There were six cases of misappropriation, losses, etc., involving Government money amounting to ₹ 1.96 crore at the end of 2012-13 on which final action was pending. The department-wise break up of pending cases and age-wise analysis is given in **Appendix 3.7** and nature of those cases are given in **Appendix 3.8**. The age-profile of the pending cases with the number of cases pending in each category of theft, misappropriation/loss, etc. was as under:

Table - 3.3: Profile of pending cases of misappropriation, loss, defalcation, etc.

Age-profile of the pending cases			Nature of the pending cases	Number of cases	Amount involved
Range in years	Number of cases	Amount involved			
16-20	1	12.54	Misappropriation	6	196.28
11-15	0	0	Loss of material		
6-10	5	183.74			
0-05	0	0			

Source: Information from State Government Departments

Around 85.83 per cent of the amount involved pertained to the Transport Department.

3.6 Reconciliation of expenditure and receipts

To enable the controlling officers to exercise effective control over expenditure, to keep it within the budget grants and to ensure accuracy of their accounts, expenditure recorded in their books have to be reconciled by them every month during the financial year with those recorded in the books of the Senior Deputy Accountant General (Accounts & Entitlements), Sikkim.

All the 59 CCOs⁸ for Receipt Heads had fully reconciled their receipt accounts. Also in respect of 59 CCOs for Expenditure Heads, reconciliation had been completed in all cases during 2012-13.

⁷ Sikkim Jewels Limited; Sikkim Time Corporation Limited; Sikkim Precision Industries Limited; Sikkim Flours Mills Limited and Chandmari Workshop and Automobiles Limited.

⁸ Chief Controlling Officers

3.7 Comments on Accounts

Suspense and Remittances

The Finance Accounts reflect the net balances under Suspense and Remittance Heads. The outstanding balances under those heads are worked out by aggregating the outstanding debit and credit balances separately under various heads. The position of gross figures under major suspense heads for the last three years is given below:

Table - 3.4: Details of 8658-Suspense Accounts

Minor Head	2010-11		2011-12		2012-13	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
101-PAO - Suspense	453.16	0.11	763.17	468.14	813.19	469.45
Net	Dr 453.05		Dr 295.03		Dr 343.74	
102-Suspense Account (Civil)	90.64	(-)14.66	98.66	(-)13.15	30.33	(-)22.29
Net	Dr 105.30		Dr 111.81		Dr 52.62	
112 – Tax Deducted at Source	1,215.33	15,20.68	1,453.62	2,027.28	1,453.62	2,290.77
Net	Cr 305.35		Cr 573.66		Cr 837.15	
123-AIS Suspense	2.70	3.33	5.29	32.64	6.16	32.35
Net	Cr 0.63		Cr 27.35		Cr 26.19	
135-Cash Settlement between PAG, Sikkim and other States	21.68	...	75.43	12.34	79.24	12.34
Net	Dr 21.68		Dr 63.09		Dr 66.90	

Source: Finance Accounts

➤ Pay and Accounts Office (PAO) Suspense

In the absence of any entitlement functions with the office of the Senior Deputy Accountant General (Accounts & Entitlement), Sikkim, this minor head was directly operated by the State Government for settlement of the pension disbursed to the Central Government pensioners and pensioners of other States (other than West Bengal and North-Eastern States). The pension disbursed by the State Government were booked as debit balance and on receipt of the reimbursement claim raised by the State Government, the debit balance was adjusted. The net debit balances under this head had been showing a fluctuating trend from ₹ 453.05 lakh in 2010-11 to ₹ 295.03 lakh in 2011-12 and again to ₹ 343.74 lakh in 2012-13.

➤ Suspense Account (Civil)

This minor head was operated for accounting transactions due to absence of certain information/documents viz., voucher, challans, etc., as they cannot be taken to the final receipt or expenditure head. This minor head was credited for recording receipts and debited for expenditure incurred. On receipt of requisite information/documents etc., the minor head was cleared by minus debit or minus credit by per contra debit or credit to the concerned head of account. The net debit balances under this head decreased from ₹111.81 lakh during 2011-12 to ₹ 52.62 lakh during 2012-13 due to initiatives by the office of the Senior Deputy Accountant (Accounts & Entitlement), Sikkim in this regard.

➤ **Tax deducted at Source**

Consequent upon the implementation of the Central Income Tax in the State of Sikkim with effect from 16 June 2008, the tax deducted at source were credited under this minor head. The amount was directly remitted to the Government of India by the State Government giving per contra credit alongwith the necessary adjustment in the accounts. The net credit balance under this head was the amount to be remitted to the Government of India. The credit balance under this head was showing increasing trend from ₹ 305.35 lakh during 2010-11 to ₹ 837.15 lakh during 2012-13.

➤ **Accounts suspense (AIS Suspense)**

Contributions towards the Central Government Employees Group Insurance Scheme recovered from the salaries of the All India Service Officers who were serving in the State of Sikkim were credited under this minor head. As and when the contributed amount was transmitted by the State Government to the Government of India, the balance would be debited with necessary adjustment in the accounts. The credit balance under this head had been showing a fluctuating trend from ₹ 0.63 lakh in 2010-11 to ₹ 27.35 lakh in 2011-12 and again to ₹ 26.19 lakh in 2012-13.

➤ **Cash settlement between Principal Accountant General, Sikkim and other States**

This minor head was operated for the settlement of pension paid by the State Government in respect of the pensioners of West Bengal and North-Eastern States Government pensioners. On receipt of the claim alongwith the details of pension disbursed by the State Government, the claims were forwarded to the respective Accountants General and the amount was booked as debit balance under this minor head. On receipt of cheque/demand draft against the claim, the debit balance was to be reduced by giving per contra debit adjustment in the accounts. The net debit balance under this head had been showing an increasing trend from ₹ 21.68 lakh during 2010-11 to ₹ 66.90 lakh during 2012-13.

Other comments

➤ **Interest adjustment on Small Savings, Provident Funds, etc.**

During 2012-13, an amount of ₹ 219.92 crore were received by the Government on account of Small Savings, Provident Funds, etc. The disbursement out of this fund was made to the extent of ₹ 174.57 crore which resulted in a net receipt of ₹ 45.35 crore.

➤ **Booking under Minor Head “800 - Other Receipts and Other Expenditure”**

During the year 2012-2013, an amount of ₹ 132.66 crore under 24 Revenue Receipts heads and ₹ 444.41 crore under 33 Expenditure heads had been classified under 800-Other Expenditure constituting 3 per cent of total revenue receipts of the State and 7 per cent of the total expenditure incurred under respective major heads.

3.8 Conclusion

The foregoing discussion discloses deficiencies in furnishing UCs in time against grants/loans received, non-furnishing of detailed information about financial assistance received by various Institutions and non-submission of accounts in time. There was delay in placement of Separate Audit Reports to the Legislature and arrears in finalisation of accounts by the Autonomous Bodies/Authorities.



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