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**Chapter 3**  
Financial Reporting

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## 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 Non-submission of Utilisation Certificates

**3.1.1** The State Government rules (Para 369-H of FHB Volume 5 Part I) prescribe that where grants are sanctioned for specific purposes, the departmental officers concerned should obtain Utilisation Certificates (UCs) from grantees which after verification should be forwarded to the Accountant General (A&E). Non submission of UCs makes it difficult to ensure that the funds released have been utilised for intended purposes. The position of outstanding UCs as on 31 March 2015 is given in **Table 3.1**.

**Table 3.1: Outstanding Utilisation Certificates**

Periods	Number of UCs awaited	Amount (₹ in crore)
Up to 2012-13	3,86,669	87,986.34
2013-14	24,870	17,583.69
2014-15	19,640	22,173.35
<b>Total</b>	<b>4,31,179</b>	<b>1,27,743.38</b>

(Source: Finance Accounts 2014-15)

**Table** revealed that a large number of UCs in respect of substantial amounts were outstanding at the close of 2014-15.

#### 3.2 Detailed Contingency Bills

As per para 62 of Uttar Pradesh Treasury Manual, Drawing and Disbursing Officers are authorised to draw sums of money through Abstract Contingent (AC) bills by debiting service heads. After utilisation of the money, Detailed Contingent (DC) bills are required to be presented subsequently to the Accountant General (A&E) along with supporting documents within 30 days. Prolonged non-submission of supporting DC bills renders the expenditure under AC bills opaque.

As on 31 March 2015, 5,985 AC bills amounting to ₹ 236.62 crore were outstanding for want of DC bills. Year-wise details are given in the **Table 3.2**.

**Table 3.2: Outstanding Abstract Contingent Bills**

Period	AC Bills drawn		DC Bills Received upto 31 March 2015		AC Bills outstanding as on 31 March 2015	
	Number	Amount (₹ in crore)	Number	Amount (₹ in crore)	Number	Amount (₹ in crore)
Upto 2012-13	34,047	706.45	28,593	642.58	5,454	63.87
2013-14	498	38.56	390	14.18	108	24.38
2014-15	764	160.72	341	12.35	423	148.37
<b>Total</b>	<b>35,309</b>	<b>905.73</b>	<b>29,324</b>	<b>669.11</b>	<b>5,985</b>	<b>236.62</b>

(Source: Finance Accounts 2014-15)

During 2014-15, out of 764 AC bills, amounting to ₹ 160.72 crore, 66 AC bills amounting to ₹ 31.70 crore were drawn in March 2015 which includes 35 AC bills amounting to ₹ 6.70 crore which were drawn between 24 March and 31 March 2015. Significant expenditure against AC bills in the month of March, especially in the last week of March, indicates that the draws were primarily for the purpose of exhausting the budget and indicates inadequate budgetary control.

### 3.3 Departmental Commercial Undertakings

Departmental Commercial Undertakings finalise *proforma* accounts in prescribed format annually showing the working results of the financial operations and efficiency in business. The accounts should be submitted to the Accountants General for audit within three months from the month of closure of the accounts.

As of March 2015, there were nine such undertakings in the State. Three of these had not finalised their upto date *proforma* accounts. The department-wise position of arrears of accounts is given in **Appendix 3.1**. The State Pharmacy of Ayurvedic and Unani Medicine (with no investment) had not finalised their accounts since 1990-91 (as of 2014-15). The *proforma* accounts of the State Live Stock-cum-Agriculture Farm with an investment of ₹ 24.85 crore was not finalised for 2011-12 to 2014-15. Similarly, the *proforma* accounts of Public Distribution System of Food grains with an investment of ₹ 2,617.93 crore was not finalised for 2012-13 to 2014-15.

As a result, the investments in Departmental Commercial Undertakings remained beyond scrutiny of Audit/State Legislature.

### 3.4 Reporting of Pending Cases

As per Paragraph 82 of the Financial Rules, cases of defalcation or losses should immediately be reported to the office of the Principal Accountant

General (G&SSA), U.P., Allahabad even though made good by the person responsible for it.

As of 2014-15, 139 such cases involving ₹ 8.85 crore (884.60 lakh) were pending for settlement. The Department-wise break up of pending cases and their age-wise analysis is given in *Appendix 3.2*. The nature of these cases is given in *Appendix 3.3*. The nature and age profile of the pending cases given in the appendices are summarised in **Table 3.3**.

**Table 3.3: Profile of Pending cases**

Age-profile of the pending cases			Nature of the pending cases		
Years ranging	Number of cases	Amount involved (₹ in lakh)	Nature of the cases	Number of cases	Amount involved (₹ in lakh)
0 - 5	13	175.19	Theft	65	42.90
5 - 10	21	220.48			
10 - 15	12	28.27	Misappropriations	08	58.73
15 - 20	36	70.69			
20 - 25	17	23.42	Losses	23	171.27
25 & above	40	366.55	Defalcations	43	611.70
<b>Total</b>	<b>139</b>	<b>884.60</b>	<b>Total</b>	<b>139</b>	<b>884.60</b>

(Source: Records of Concerned Departments)

We observed that out of 142 cases (as of 31 March 2014) involving ₹ 891.23 lakh, three cases, involving ₹ 6.63 lakh was settled/written off during 2014-15 (*Appendix 3.4*) and remaining 139 cases involving ₹ 884.60 lakh were pending as of March 2015 for various reasons as listed in **Table 3.4**.

**Table 3.4: Reasons for Pending cases**

Reasons for the delay/ outstanding cases		Number of cases	Amount (₹ in lakh)
i	Awaiting departmental and criminal investigation	27	189.67
ii	Departmental action initiated but not finalised	74	541.63
iii	Criminal proceedings finalised but execution of cases for the recovery of the amount pending	2	4.58
iv	Awaiting orders for recovery or write off	12	7.99
v	Pending in the Hon'ble Courts of law	24	140.73
<b>Total</b>		<b>139</b>	<b>884.60</b>

(Source: Records of Concerned Departments)

### 3.5 Operation of Minor Head '800'

Minor Heads 800-Other Receipts/Other Expenditure are intended to be operated only when the appropriate Minor Head has not been provided in the accounts. Routine operation of Minor Head 800 is to be discouraged, since it renders the accounts opaque.

However, during 2014-15, ₹ 31,126.17 crore, under the various Revenue and Capital Major Heads of accounts on the expenditure side, constituting about 13.88 *per cent* of the total expenditure, ₹ 2,24,324.60 crore (Revenue and Capital), was recorded under Minor Head 800-Other Expenditure below the concerned Major Heads. Similarly, ₹ 35,718.28 crore, under various Revenue Major Heads of accounts on the receipt side, constituting about 18.47 *per cent* of the total Revenue Receipts of ₹ 1,93,421.60 crore, was recorded under Minor Head 800-Other Receipts under concerned Major Heads. Instances where substantial proportion (50 *per cent* or more of the total Receipts/Expenditure under the Major Head) of the receipts/expenditure under the Major Head of the receipts/expenditure were classified under Minor Head ‘800-Other Receipts/Expenditure’ are given in *Appendices 3.5* and *3.6* and summarised in **Table 3.5**.

**Table 3.5: Bookings under Minor Head 800- ‘Other Receipts’ and ‘Other Expenditure’**

Particulars	Receipts		Expenditure	
	Amounts (₹ in crore)	Heads of accounts	Amounts (₹ in crore)	Heads of accounts
100 <i>per cent</i> and above	1,116.61	1452, 0801, 0217, 0023, 0810, 0506, 1456, 0852, 0575, 0415, 0875, 0047	14,366.48	4401, 2245, 2801, 2040, 5053, 4070, 2705, 4859, 5425, 4853, 4047, 2407, 2885, 2041
Between 75 <i>per cent</i> and 99 <i>per cent</i>	8,150.60	0235, 0851, 0075, 0406, 1055, 0071, 0029, 1053 0230, 0059, 1054, 0220, 0211, 0403	2,578.65	3475, 4575, 4235, 2425
Between 50 <i>per cent</i> and 74 <i>per cent</i>	23,383.19	1601, 0056, 0055, 0070, 0700	5,224.72	2405, 4217, 4216, 3452, 2211
<b>Total</b>	<b>32,650.40</b>		<b>22,169.85</b>	

(Source: Finance Accounts 2014-15)

As a result, expenditure incurred under various programmes/ activities of the Government and classified under Minor Head ‘800- Other expenditure’ could not be depicted distinctly in the proper heads of Finance Accounts 2014-15.

The minor head 800-Other Receipts/Expenditure is utilised at the time of budget making in those cases where specific minor head is not available for receipts/ expenditure, provision relating to the scheme. However, the State Government continued to book a substantial percentage of receipts and expenditure under the omnibus minor head 800 for several years.

### **3.6 Non-transfer of amounts to the Central Road Fund**

There was a budget provision of ₹ 200 crore for grant from Central Road Fund for the year 2014-15. As against this, GoI released ₹ 234.26 crore from Central Road Fund to the State Government in 2014-15. In terms of guidelines, the central grant is to be booked as Revenue Receipts under Major Head ‘1601-Grants-in-aid’ and an equivalent amount transferred to the Public

Account under Major Head ‘8449-Other Deposits-103-Subventions from Central Road Fund by debiting the Revenue Expenditure Major Head ‘3054- Roads and Bridges’. However, due to non-availability of budget provision under Major Head-3054, no amount was transferred to the Major Head 8449- 103 under the Public Account. Further, since no expenditure has been booked against the aforesaid head in Public Account on Roads and Bridges during 2014-15, the utilisation of Government of India release of ₹ 234.26 crore for construction of National Highways is not ascertainable.

The Government stated that it makes provision for expenditure under the Major Head 5054-Capital Outlay on Roads and Bridges against the grant received from Central Road Fund and incurs expenditure to ensure reflection of the assets (roads constructed) in State Accounts. However, the State Government made plea that the road constructed (assets) from this fund would have no reflection in the State Accounts. This plea of the State Government is not in consonance with the guidelines of the Central Government as stated above.

### 3.7 Variation in Cash Balance

The difference of ₹ 45.54 crore (net *debit*) between the cash balance of the State Government, as worked out by the Accountant General (A&E) and as reported by the Reserve Bank of India, is mainly due to non-reconciliation of figures by the Agency Banks. This is being reconciled.

### 3.8 Transfer of Funds to Personal Deposit Accounts

As per para 4 of Uttar Pradesh Personal Ledger Account Rules 1998, the State Government is authorised to open Personal Deposit (PD) Accounts for specific purposes in consultation with the Accountant General. Designated Administrators are authorised to operate these PD accounts by transfer of funds, which is booked as expenditure against the Consolidated Fund (Service Major Heads) of the State. These PD accounts are required to be closed on the last working day of the following financial year and the unspent balances remitted back to the Government Accounts. However, the State Government has not followed this procedure. Details are given in **Table 3.6**.

**Table 3.6: Status of Personal Deposit Accounts**

Opening Balance (01.04.2014)		Addition during 2014-15		Clearance during 2014-15		Closing Balance (31.03.2015)	
No. of accounts	Amount involved (₹ in crore)	No. of accounts	Amount involved (₹ in crore)	No. of accounts	Amount involved (₹ in crore)	No. of accounts	Amount involved (₹ in crore)
1,459	5,868.25	0	0.00	0	0.00	1,459	5,868.25

(Source: Finance Accounts 2014-15)

As per information received from the State Government, out of 1,459 PD Accounts, 1,051 are operative and 408 are inoperative. The inoperative accounts with unspent balance of ₹ 94.38 crore are required to be closed. The

State Government has stated that the procedure for closing of inoperative PD accounts is being finalised.

Further, 50 out of 79 treasuries in the State intimated the Accountant General (A&E) that 878 PD accounts maintained by them had been reconciled during 2014-15. The status of reconciliation of the remaining 29 treasuries has not been made available by the respective treasuries.

### **3.9 Non-submission of details of grants/loans paid**

The Regulation on Audit and Accounts, 2007 provides that the Government and Heads of Departments sanctioning the assistance should furnish to the Audit Office, by the end of July every year, a statement of such institutions/organisations to which financial assistance aggregating ₹ 10 lakh or more were paid during the preceding year indicating the amount of assistance, the purpose for which it was sanctioned and total expenditure of the institutions/organisations so as to identify those which attract audit under Section 14 and 15 of C&AG's (Duties, Powers and Conditions of Services) Act, 1971. However, no such statement was sent to the Audit Office.

### **3.10 Conclusion and Recommendations**

#### **Outstanding Utilisation Certificate**

- A large number (4,31,179) of utilisation certificate were outstanding at the close of 2014- 2015 from the grantees.

Recommendation: The Government should take steps for obtaining Utilisation Certificates from the grantees.

#### **Detailed Contingency Bills**

- As many as 5,985 AC bills amounting to ₹ 236.62 crore were awaiting adjustment as on 31 March 2015.

Recommendation: The Government should ensure adjustment of Abstract Contingent Bill within stipulated period.

#### **Cases of theft, losses and misappropriations**

- There were 139 cases of theft, losses and misappropriations involving an amount of ₹ 884.60 lakh.

Recommendation: The Government should expedite inquiries in cases of misappropriation, theft, etc. and strengthening the internal control system to prevent recurrence of such cases.



**Operation of omnibus minor head '800'**

- Classification of large amounts booked under the minor heads '800-Other Receipts/ Expenditure' does not give a complete picture in the financial reporting.

Recommendation: The Government should discourage routine operation of Minor Heads-800 since it renders the accounts opaque.



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THE

01 JAN 2016

COUNTERSIGNED



**(SHASHI KANT SHARMA)**

Comptroller and Auditor General of India

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04 JAN 2016