



CHAPTER – III
Financial Reporting

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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

Article 208 of The Kerala Financial Code stipulate that the State may make such grant-in-aid for public purposes or activities carried out by private institutions or local bodies as are in conformity with Article 282 of the Constitution of India. Financial rules³⁵ of the Government require that the authority sanctioning grant-in-aid has to stipulate, in every order sanctioning the grant, a time limit not exceeding one year from the date of sanction for utilisation of the grant. The Utilisation Certificate (UC) for grants-in-aid exceeding ₹10,000 has to be forwarded to the Principal Accountant General (Accounts and Entitlement), Kerala. It was observed that 34 utilisation certificates for ₹77.35 crore were not received (June 2014), by the PAG in respect of grants paid during the period from 2010-11 to 2012-13. 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)

Utilisation certificates outstanding as on June 2014		
Delay	Number	Amount
Upto one year	19	7.74
More than one year	11	69.15
More than two years	4	0.46
Total	34	77.35

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

It was also observed that 20 out of 34 pending UCs amounting to ₹2.26 crore related to the institutions falling under the administrative control of Cultural Affairs Department. Information collected from the 14 institutions coming under the Cultural affairs department revealed that non-submission of UCs were due to ignorance on the procedure of reporting to PAG, oversight, delay in auditing the accounts, etc. of the institutions.

³⁵ 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 detailed information about the financial assistance provided to various institutions, the purpose of assistance granted and the total expenditure of the institutions to audit every year.

As of March 2014, the annual accounts of 26 autonomous bodies/authorities due up to 2012-13 was not furnished to the Principal Accountant General (General and Social Sector Audit)/Accountant General (Economic and Revenue Sector Audit), Kerala as detailed in **Appendix 3.1**.

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

The audit of accounts of 23 autonomous bodies in the field of legal aid, human rights, development of khadi, etc. 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 (SAR) and their placement in the Legislature are indicated in **Appendix 3.2**.

Out of the above 23 bodies, accounts for 2012-13 are due from 16 bodies which includes five bodies (Kerala Institute of Labour and Employment, Thiruvananthapuram, District Legal Services Authority, Palakkad, District Legal Services Authority, Wayanad, District Legal Services Authority, Kannur and Kerala Water Authority) who are yet to submit the accounts for 2011-12 also.

3.4 Departmentally managed Commercial Undertakings

The departmental undertakings of certain Government departments performing activities of quasi-commercial nature are required to prepare annually *pro forma* accounts in the prescribed format, showing the working results of financial operations so that the Government can assess their working. The finalised accounts reflect their overall financial strength and efficiency in conducting their business. Non-finalisation of accounts in time puts the investment of the Government outside the scrutiny of Audit.

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 the specified timeframe.

The department-wise position of arrears in preparation of *pro forma* accounts and investments made by the Government in respect of three³⁶ such undertakings, is

³⁶ Kerala State Insurance Department, State Water Transport Department and Text Book Office

given in **Appendix 3.3**. Out of the three, two are running on loss (State Water Transport Department and Text Book Office) and accounts of Text Book Office are in arrears from 2003-04. In the absence of up-to-date accounts, financial status of Text Book Office could not be ascertained.

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 final action on 117 cases of misappropriation, defalcation, etc., involving Government money amounting to ₹7.83 crore for the period up to June 2014 reported to State Government was pending as detailed in **Appendix 3.4** and **Appendix 3.5**. 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.

A. Age-profile of the pending cases			B. 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	17	106.11	Theft	15	4.30
5 – 10	27	240.10	Misappropriation/loss of material	102	779.09
10 – 15	36	348.95			
15 – 20	15	65.04			
20 – 25	9	9.22			
25 and above	13	13.97			
Total	117	783.39	Total	117	783.39
			Total pending cases	117	783.39

Source: Cases reported by departments of the State Government

The reasons for delay in finalization of outstanding cases were analysed and summarised 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	22	220.63
2.	Departmental action initiated but not finalised	46	263.33
3.	Awaiting orders for recovery or write off	27	75.23
4.	Pending in the courts of law	22	224.20
	Total	117	783.39

Source: Information received from Departments of the State Government

3.6 Parking of funds in Public Account

According to Article 40 (c) 7 of Kerala Financial Code and the instructions issued by Government, a Government servant should not, on any account, reserve or appropriate by transfer to a deposit or any other head or draw from treasury and keep in cash chest, any portion of an appropriation remaining unexpended during the year in order to prevent it from lapsing and use it for expenditure after the end of the year and funds remaining unutilised should be credited back to Consolidated Fund. Government have also issued orders restricting parking of Government funds in Commercial banks as it would affect the ways and means position of the State. Audit conducted a study to ascertain whether the funds drawn by debiting consolidated fund were actually utilised or parked in Treasuries/Banks.

A test-check of records in this regard conducted in Agriculture, Animal Husbandry, Scheduled Caste Development, Scheduled Tribes Development and Urban Development Departments and 11 District/Sub treasuries³⁷ revealed the following:

3.6.1 Parking of funds in Treasury Savings Bank accounts

The State Government is releasing funds to Heads of the Departments, Autonomous Bodies, Public Sector Undertakings, etc., for implementing various schemes, as grant-in-aid, share capital contribution, etc. These funds are to be expended in the same financial year itself. If the schemes are not implemented in the same financial year, sanction will be accorded by the Government for opening Special Treasury Savings Bank account temporarily for keeping the unspent balance for a specified period. The Special TSB accounts should be closed immediately after implementation of the scheme.

i) Retention of funds for years without utilisation

Audit noticed that there were funds drawn, the entire amount of which were parked in TSB without utilisation (up to six years) in respect of the schemes given in Table 3.4.

Table 3.4 : Details of unutilised funds with departmental officers

(₹ in crore)

Sl. No.	Name of scheme	Year of drawal	Amount drawn	Unutilised amount as on 31 March 2014
	Agriculture			
1.	Construction of additional media store and growth room for Biotechnology and Model Floriculture Centre Kazhakuttom	2007-08	0.40	0.40 ³⁸
	Animal Husbandry			
2.	Goat and poultry rearing scheme for ST beneficiaries	2011-12	0.35	0.35

³⁷Thiruvananthapuram, Kattakada, Kollam, Kottayam, Pala, Ernakulam, Muvattupuzha, Thrissur, Kozhikode, Thamarassery and Sub Treasury, Medical College, Thrissur.

³⁸ Parked in commercial bank account till 7 April 2014 and transferred to TSB account on 8 April 2014.

Sl. No.	Name of scheme	Year of drawal	Amount drawn	Unutilised amount as on 31 March 2014
	Scheduled Caste Development			
3.	Establishing virtual Pre Examination Training Centres	2011-12	2.94	2.94
4.	Self sufficient villages	2011-12	30.00	30.00
	Scheduled Tribes Development			
5.	Rehabilitation of landless tribal families (Revenue Divisional Office, Ottappalam)	2012-13	1.04	1.04
6.	Tribal Resettlement and Development Mission Wayanad	2011-12	10.00	10.00 ³⁹
	District Planning Office			
7.	Construction of DPC Secretariat building in Kollam	2010-11	1.00	1.00
	Total		45.73	45.73

Source : Information furnished by departmental officers

The reasons for non-utilisation were stated as insufficiency of fund, change in project, procedural delay, etc.

ii) Amount partly utilised and balance kept unutilised for more than a year

Scrutiny of records in the departments test-checked revealed that in nine cases ₹53.07 crore (**Appendix 3.6**) out of ₹58.73 crore drawn from consolidated fund for the period from 2001-02 to 2012-13 remained unutilised in Treasury Savings Bank account. Audit has observed that once the funds were transferred to TSB accounts no monitoring was done by the departments for the timely utilisation and effective implementation of the schemes.

Responding to audit observations, Finance (Streamlining) department has directed (November 2014) departmental officers to credit back the unspent money kept in TSB account to Government account, if the same cannot be expended immediately.

3.6.2 Parking of funds in Commercial banks

Finance Department issued instructions from time to time that all Government departments, State Public Sector Undertakings/Autonomous Bodies/ Institutions and Welfare Fund Boards shall retain the funds received from the State Government in Government treasuries only. In spite of these directions, instances of parking Government funds in nationalised/co-operative banks were noticed as detailed below:

A test check of the records of Scheduled Caste Development, Scheduled Tribes Development, Agriculture and Urban Development departments showed that an amount of ₹24.98 crore (**Appendix 3.7**) was parked in 13 accounts in nationalised/co-operative bank of implementing agencies of various schemes during the period from 2010-11 in violation of the instructions of Finance Department.

³⁹ Balance as on 30.4.2014

Scrutiny of records at Directorate of Agriculture revealed that ₹1.62 crore⁴⁰ parked in bank accounts was transferred to Special TSB account of the Director during April 2014 as per the direction of Finance Department, instead of resuming it to Government account.

It was also noticed that ₹6 crore out of ₹7.56 crore (drawn during the period from 2003-04 to 2006-07) under Agriculture Export Zone scheme (scheme discontinued in 2009-10) and parked in commercial bank was diverted (January 2011) to other purpose by executive orders without the approval of State Legislature. The balance amount of ₹1.86 crore (including interest) was also transferred (April 2014) to TSB Account instead of resuming to Government account.

The circular instructions (August 2009) also states that any violation of the instructions would be viewed seriously and the officers concerned would be held liable to pay interest at the rate of 18 *per cent* per annum for the entire period for which Government money has been kept outside treasuries. But no instances of fixing the liability to pay interest at the rate of 18 *per cent* per annum on the concerned officers were noticed in audit. In response to audit observations, Finance (Streamlining) Department directed (November 2014) the departmental officers to transfer the funds parked in various banks to interest bearing special TSB accounts and credit it back to Government account, if the same cannot be expended immediately. In response to this, Additional Chief Secretary stated that the Government is planning to introduce a new system to avoid parking of funds in TSB accounts.

Withdrawal of funds without adequate planning and keeping the funds unutilised in commercial bank accounts contrary to the directions of Government and existing rules had a negative impact on the ways and means position of the State.

3.6.3 Funds lying in Personal Deposit (PD) accounts

i) Non-closure of PD accounts at the end of the financial year

PD accounts are maintained in the treasuries in the nature of banking accounts. Government sanctions opening of a PD account with prior consultation of Accountant General (A&E). The audit of PD accounts maintained by Departmental Officers was conducted to ascertain whether the funds are drawn from the Consolidated fund and unnecessarily accumulated in deposits, thus affecting the basic discipline of budgetary control. A test-check of PD accounts maintained by Departmental Officers in 11 treasuries revealed the following:

⁴⁰ Rupees one crore: Kuttanad heritage programme and ₹0.62 crore (₹0.40 crore principal + ₹0.22 crore interest): Construction of additional media store and growth room for Biotechnology and Model Floriculture Centre Kazhakuttam

Article 282 (5) (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. Audit noticed that an amount of ₹4.01 crore lying in eight PD accounts maintained by various departments⁴¹ as on 31 March 2014 in violation of the above provision.

Audit also noticed that difference in PD account balance of the department with that in treasury in two of the above eight PD accounts. A difference of ₹1.23 crore was noticed between the departmental balance and treasury balance in the PD account No.273/1 maintained (at Sub Treasury, Fort) by the District Scheduled Caste Development Officer, Thiruvananthapuram. Similarly a difference of ₹2.43 crore existed in the PD account 264/1 maintained by the Director of Urban Affairs at Sub Treasury, Vellayambalam.

The department did not maintain cash book as prescribed and also did not conduct any reconciliation with the treasury accounts. Thus the exact cash balance in each account could not be ascertained in audit.

Non-maintenance of cash book, periodical non-reconciliation of departmental balances with Treasury accounts and non-adherence to the standard accounting procedures in respect of PD accounts resulted in differences between departmental and treasury balances and the chances of misappropriation/defalcation could not be ruled out. Responding to audit observations Finance (streamlining) department directed (November 2014) the concerned officers to reconcile the difference in PD accounts.

ii) Lapsed deposit

Departmental officers handling public money are permitted to retain their PD account without closing at the end of the financial year. According to Article 282 (5) (c) and (d) of Kerala Financial Code, Deposit accounts not acknowledged by the Administrators and not operated by them for more than three financial years and deposits remain unclaimed for more than three complete financial years should lapse to Government. Audit noticed that an amount of ₹4.22 crore lying (ranging from three to 10 years) as on 31 March 2014 in 13 PD accounts were not closed by invoking the above provision as detailed below in **Table 3.5**.

⁴¹Special Tahasildar, Land Reforms (₹0.017 crore, PD 181/1), Principal Medical College, Thiruvananthapuram (₹0.034 crore, PD 2133/1), Labour Commissioner (₹2.23 crore, PD 77/1), District Labour Officer, TVM (₹0.058 crore, PD 43/1), Principal Medical College, Thrissur (₹0.051 crore, PD4/819), District Scheduled Castes Officer, Thiruvananthapuram (₹1.43 crore, PD 273/1), Director of Urban Affairs (₹0.09 crore PD 264/1) and Principal Medical College Kozhikode (₹0.10 crore, PD 14/5).

Table 3.5 : Details of lapsed deposits

(₹ in crore)

Sl. No.	Name of account holder	PD code	Closing balance as on 31 March 2014	Date of last transaction
	District Treasury, Thiruvananthapuram			
1.	State Central Library	47/1	0.23	November 2004
2.	Directorate of Health Services	152/1	0.10	March 2006
3.	Science and Technology Environment	136/1	0.07	May 2004
4.	Assistant Director, Dairy Development	10/1	0.02	October 2008
5.	Integrated Poultry Development	3/1	0.09	April 2004
6.	GAD, Secretariat	60/1	0.03	July 2003
7.	Land Use Board	1033/1	0.04	March 2003
8.	Directorate of Collegiate Education	78/1	0.82	December 2003
9.	Director, Higher Secondary Education	672/1	0.56	June 2006
	Additional Sub Treasury Vanchiyoor			
10.	Principal Medical College	179/1	0.73	October 2004
11.	Principal Medical College	179/3	0.01	July 2004
	Sub Treasury Vellayambalam			
12.	Directorate of Panchayats	265/1	0.74	June 2008
13.	Directorate of Urban Affairs	264/2	0.78	November 2007
	Total		4.22	

Source : Information collected from treasuries

In response to this, Finance (streamlining) department directed (November 2014) the concerned officers to close the inoperative PD accounts.

3.7 Conclusion

Delayed submission or ignorance of the procedure in submission of utilisation certificates by the institutions were the main reasons for non-receipt of utilisation Certificate in the office of the Principal Accountant General (A&E). Twenty six autonomous bodies/authorities were required to submit their accounts in respect of grant-in-aid received by them during the year 2013-14. Finality has not been reached in long pending cases of misappropriation, defalcation, etc., involving Government money. Funds released for implementation of State/Central schemes were parked in Treasury Savings Bank accounts, without utilisation up to six years. Though there were instructions to penalize officers for keeping the funds outside Government account, departmental officers continue to do the same and no penalty was imposed on them. Inoperative PD accounts were seen retained without closing. Non-reconciliation of departmental balance with treasury balance caused difference between both the balances and no efforts were taken by departmental officers to reconcile them.

3.8 Recommendations

Taking advantage of the computerization of treasuries, the State Government may consider evolving a system of automatic closure of Treasury Savings Bank and Personal Deposit Accounts after their validity period and the transferring of unutilised balances to the Consolidated Fund.



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