



**CHAPTER III**

**Financial Reporting**



## 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, 462 utilisation certificates (UCs) aggregating to ₹ 19.49 crore in respect of grants-in-aid paid up to 2013-14<sup>1</sup>, were in arrears as of March 2014 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**

Sl. No.	Range of Delay in Number of years	Total grants released		Utilisation Certificates in arrears	
		Number	Amount	Number	Amount
1	9 & above	40	761.81	8	91.26
2	7-9	361	447.75	2	40.00
3	5-7	233	1,647.50	6	514.97
4	3-5	41	701.00	4	34.00
5	1-3	24	553.00	0	0
6	0-1	475	3,016.14	442	1,268.61
<b>Total</b>		<b>1,174</b>	<b>7,127.20</b>	<b>462</b>	<b>1,948.84</b>

Source: Information furnished by the State Government departments.

Major cases of financial implications due to non-submission of UCs were related to Ecclesiastical Affairs Department (57 per cent), Health Care, Human Services and Family Welfare Department (33 per cent) and Co-operation Department (9 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.

<sup>1</sup> Grants-in-aid paid during 2013-14, although not due for submission of UCs within 2013-14, were in arrears.

### 3.1.1 Pendency in submission of Utilisation Certificates

Utilisation Certificates (UCs) pending submission as on 31 March 2014 in respect of Co-operation Department were 344 aggregating to ₹ 1.85 crore against the release of 1,015 number of grants amounting to ₹ 12.33 crore from 1999-2000 till 2013-14 as detailed below:

Table - 3.2: Statement showing pending utilisation certificates

Sl. No.	Range of Delay in Number of years	Total grants released		Utilisation Certificates in arrears	
		Number	Amount	Number	Amount
1	9 & above	32	51.81	5	1.26
2	7-9	355	79.00	0	0
3	5-7	222	291.00	2	14.98
4	3-5	33	377.00	3	24.00
5	1-3	20	118.00	0	0
6	0-1	353	316.39	334	144.31
<b>Total</b>		<b>1,015</b>	<b>1,233.20</b>	<b>344</b>	<b>184.55</b>

(₹ in lakh)

The Department while releasing the grants issued the following instructions with a copy to the concerned district offices:

- 1) To furnish the UCs promptly.
- 2) To submit monthly progress reports along with detailed expenditure incurred to the district offices and the district offices to compile and submit the same on quarterly basis to the Head Office.
- 3) Inclusion of the concerned Assistant Registrar/Inspector of the District in the construction sub-committee and technical officers from the Building and Housing Department/Block Administrative Centre in case of construction grants to monitor the work from time to time.
- 4) Information to the Joint Registrar of Co-operative Societies (JRCS) in the concerned district offices to collect and forward the UCs as soon as possible and also to submit compliance reports to the Secretary, Co-operation Department after one month from the date of issue of the letter.

However, as revealed from the records, the pendency in submission of UCs was mainly due to non-adherence of the instructions by the grantee units, absence of follow up action by the field offices as instructed and shortage of staff in the district level.

### 3.1.2 Review of grants

A detailed review on utilisation of grants in Social, Justice, Empowerment and Welfare Department (SJEWD) revealed the following:

- Rule 113 (1) of the Sikkim Financial Rules (SFR) lays down that ‘When recurring grants-in-aid are sanctioned to the same institution for the same purpose, a

certificate to the effect that the unspent balance of the previous grant has either been surrendered to Government or has been taken into account in sanctioning the subsequent grant should be incorporated in the sanction letter in such cases’.

Audit examination revealed that four Commissions/Boards during the period from 2009-10 to 2013-14 as detailed below, neither surrendered the unspent balance to the tune of ₹ 1.96 crore to the Government nor the surrendered amount has been taken into account while sanctioning the subsequent grant by the Department.

**Table 3.3: Details of unspent balances**

(₹ in lakh)

Sl. No.	Boards/Commission	Unspent Balances				
		2009-10	2010-11	2011-12	2012-13	2013-14
1	Sikkim Commission for Backward Classes	0	3.39	3.54	19.77	7.70
2	Sikkim Welfare Commission	12.11	10.35	13.09	23.48	34.06
3	State Women Commission	4.31	0	11.51	34.60	17.73
4	Extruder Food Processing Plant	175.68	56.47	2.84	450.54	Not produced
<b>TOTAL</b>		<b>192.10</b>	<b>70.21</b>	<b>30.98</b>	<b>528.39</b>	<b>59.49</b>
<b>Grand Total</b>		<b>₹ 881.17 lakh i.e. ₹ 8.81 crore</b>				

Further critical analysis revealed that State Welfare Commission had been incurring expenditure less than the actual grants received during the period 2009-10 and 2011-12 to 2013-14 leaving huge balance at the end of the year. The Department never verified the actual expenditure of the unit and had been sanctioning the grants more than the actual requirements as detailed below.

**Table 3.4: Details of expenditure less than the sanctioned grant**

(₹ in lakh)

State Welfare Commission				
Year	Opening Balance	Grants-in-aid received	Expenditure	Closing Balance
2009-10	0	17.00	4.89	12.11
2010-11	12.11	3.50	5.63	10.35 (Including Bank interest)
2011-12	10.35	9.53	7.06	13.09 (Including Bank interest)
2012-13	13.09	19.06	9.14	23.48 (Including Bank interest)
2013-14	23.48	20.00	10.52	34.06 (Including Bank interest)

- Rule 113(2) of the SFR lay down that ‘Only so much of the grant shall be paid during any financial year as is likely to be expended during that year. In the case of grants for specific works or services such as buildings or other schemes, the sanctioning authority shall use its discretion in authorising payments according to the needs of the work. It should be ensured that money is not drawn in advance of requirements and that a rush of payment of these grants in March is avoided’.

Audit of records revealed that an amount of ₹ 50 lakh was sanctioned as grants-in-aid to Spastics Society of Sikkim for setting up of Composite Rehabilitation Centre in Sikkim during March 2013. The Society before applying for the Grants,

neither prepared any Detailed Project Report (DPR) nor had acquired any land for the same. It was seen that the amount was kept as 'Fixed Deposit' since March 2013 till August 2014. The Department neither asked for submission of the DPR nor enquired about the land where the centre would be set up for such a huge amount. Violating the provisions of SFR, the Department sanctioned the amount in advance of requirement.

- 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'.

Test check revealed (August) that SJEDW released ₹ 40 lakh in the form of grants to State Commission for Protection of Right of Children during 2013-14. After incurring an expenditure of ₹ 15.77 lakh, the Commission instead of surrendering the unspent balance of ₹ 24.23 lakh, transferred ₹ 10 lakh to Juvenile Welfare/Justice Board and retained the balance amount of ₹ 14.23 lakh in Bank as of March 2014.

It was further seen that the Department released ₹ 41.52 crore involving 47 UCs in the form of grants to various Boards/Commissions during the year 2009-10 to 2013-14. However, 12 out of 47 UCs involving ₹ 8.20 crore were not received till the date of Audit (August 2014) as detailed in **Appendix 3.2**. This was mainly due to lack of monitoring and co-ordination between the Department and its grantee units as was evident from the fact that the Department could not produce any document in support of its monitoring over the grants released in spite of repeated request (written and verbal) from Audit.

### 3.2 Non-submission/delay in submission of accounts

In order to identify new 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 State Government/Heads of the Departments are required to furnish to Audit every year detailed information about the financial assistance given to various institutions, the purpose of assistance granted and the total expenditure of the institutions. None of the departments could submit the same though specifically called for.

Further, according to section 14 (3) of the Comptroller and Auditor-General's (Duties, Powers and Conditions of Service) Act, 1971 where the receipts and expenditure of any body or authority are, by virtue of the fulfillment of the conditions specified in sub-section (1) or sub-section (2) of section 14, audited by the Comptroller and Auditor-General in a financial year, he shall continue to audit the receipts and expenditure of that body or authority for a further period of two years notwithstanding that the conditions

specified in sub-section (1) or sub-section (2) are not fulfilled during any of the two subsequent years.

The substantially funded Autonomous Bodies/Authorities are required to submit their annual accounts for audit by the C&AG under the provision *ibid*. Fifty six annual accounts of 35 Autonomous Bodies/Authorities due up to 2013-14 had not been received by the Accountant General (Audit) as detailed in **Appendix 3.3**. The age-wise delay in years is detailed in the table below:

**Table 3.5: Statement showing age-wise non furnished of accounts**

Sl. No	Range of delays in number of years	Total number of accounts
1	5 & above	2
2	3-5	2
3	1-3	3
4	0-1	49
	<b>Total</b>	<b>56</b>

### 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 has been entrusted to the Comptroller and Auditor General of India. 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.

The audit of accounts of four Bodies in the State has been entrusted to the C&AG for which Separate Audit Report is prepared for placement before the Legislature. Out of these four autonomous bodies, three autonomous bodies viz. Sikkim Mining Corporation (SMC), State Trading Corporation of Sikkim (STCS) and State Bank of Sikkim (SBS) rendered accounts upto 2010-11. 11 Separate Audit Reports of three Autonomous Bodies (STCS for the year 2005-06 to 2010-11, SBS for the years 2005-06, 2008-09 to 2010-11 and State Legal Service Authority for the year 2012-13) had not been placed before the State Legislature as of August 2014. Details are given in **Appendix 3.4**

### 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 Accountant General for audit within a specified time frame. The position of arrears in preparation of *pro forma* accounts by the undertakings is given below:

**Table 3.6: Arrears in finalisation of proforma accounts and Government investment in Departmentally Managed Commercial and Quasi-Commercial Undertakings**

Sl. No.	Name of the Undertakings	Accounts finalised upto	Investment as per the last Accounts finalised ( <i>₹ in crore</i> )	Remarks/ Reasons for delay in preparation of Accounts
1.	Temi Tea Estate	2012-13	52.91	-
2.	Government Food Preservation Factory	2010-11	2.92	Delay in holding Board Meetings/AGM

### 3.5 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.

Reconciliation had been completed for all revenue and capital Expenditure Heads, while 99 *per cent* of total Receipt Heads were reconciled during 2013-14.

### 3.6 Other comments

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

During 2013-14, an amount of ₹ 242.54 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 ₹ 181.05 crore which resulted in a net receipt of ₹ 61.49 crore. An amount of ₹ 49.68 crore was paid as interest.

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

During the year 2013-2014, an amount of ₹ 168.77 crore under 32 Revenue Receipts heads and ₹ 523.63 crore under 35 Expenditure heads had been classified under 800-Other Expenditure constituting 3.90 *per cent* of total revenue receipts of the State and 11.98 *per cent* of the total expenditure incurred under respective major heads.

### **3.7 Conclusion**

The foregoing discussion discloses deficiencies in furnishing UCs in time against grants/loans paid, non-furnishing of detailed information about financial assistance paid to 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.

**Gangtok  
The**

**(Vanlal Chhuanga)  
Accountant General (Audit), Sikkim**

**Countersigned**

**New Delhi  
The**

**(Shashi Kant Sharma)  
Comptroller and Auditor General of India**