

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 (UCs)

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, 518 Utilisation Certificates (UCs) aggregating to ₹ 8.76 crore in respect of grants-in-aid paid up to 2014-15¹, were in arrears as of March 2015 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 (₹ in lakh)	Number	Amount (₹ in lakh)
1	9 and above	40	66.24	3	3.40
2	7-9	556	244.79	8	44.79
3	5-7	74	570.74	16	34.74
4	3-5	20	118.00	0	0
5	1-3	353	316.39	0	0
6	0-1	559	1,138.78	491	793.01
Total		1,602	2,454.94	518	875.94

Source: Departmental figures.

¹ Grants-in-aid paid during 2014-15, although not due for submission of UCs within 2014-15, were in arrears.

Major cases of financial implications due to non-submission of UCs were related to Department of Sports and Youth Affairs (28 *per cent*), Animal Husbandry Livestock Fisheries and Veterinary Services (26 *per cent*) and Transport Department (18 *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.

3.1.1 Pendency in submission of Utilisation Certificates

Utilisation Certificates (UCs) pending submission as on 31 March 2015 in respect of Ecclesiastical Affairs Department were 273 aggregating to ₹ 20.95 crore against the release of 1,298 grants amounting to ₹ 59.95 crore from 2008-09 till 2014-15 as detailed below:

Table 3.2: Statement showing pending utilisation certificates

(₹ in crore)

Sl. No.	Range of delay in number of years	Total grants released		Utilisation Certificates in arrears	
		Number	Amount	Number	Amount
1.	3 and above	901	21.45	161	8.89
2.	1 – 3	139	11.11	31	3.59
3.	0 – 1	258	27.39	81	8.47
	TOTAL	1,298	59.95	273	20.95

The Department while releasing the grants laid down following time schedule for submission of the Utilisation Certificates:

- ₹ 50,000 to ₹ 1 lakh - Three months
- ₹ 1 lakh to ₹ 5 lakh - Six months, and
- ₹ 5 lakh and above - 12 months

However, as revealed from the records and also as stated by the Department, the pendency in submission of UCs was mainly due to shortage of manpower, non-adherence of the instructions by the grantee units and absence of follow-up actions by the Department in written form, as the follow-up as stated by the Department was mainly done through telephone and verbally.

3.1.2 Review of grants-in-aid

A detailed review on utilisation of grants-in-aid in Ecclesiastical Department revealed the following:

- Rule 112 of the Sikkim Financial Rule (SFR) lays down that ‘Grants should be made available, as far as possible, on the basis of specific schemes drawn up in sufficient detail and duly approved by Government’.

Audit examination revealed that neither any specific scheme was drawn nor was it approved by the Government and the grants were made merely on application by the societies, religious institution, etc.

- Note 1 below sub rule (2) of Rule 113 of the Sikkim Financial Rules lays down that ‘Grants-in-aids in excess of ₹ 1 lakh per annum recurring and ₹ 5 lakhs non-recurring should normally be sanctioned with the specific conditions laid down in the sanction letters that the accounts of the institution receiving the grant should be open for test check by the Comptroller and Auditor General of India at his discretion. The audit in pursuance of this provision will be undertaken by the Comptroller and Auditor General of India in consultation with the administrative department concerned which will make necessary arrangements with the institutions for the conduct of such audit’.
- Rule 114 stipulates that the grantee institutions or bodies receiving the grant is required to maintain subsidiary accounts of the Government grants and furnish to the Accountant General i) a copy of the audited statement of its accounts; and ii) a copy of their constitution.

However, audit of records revealed that the sanction intimation letters sent to the grantee units did not contain the specific conditions as laid down in the rule above. Further, the grantee units were not intimated about maintenance of the subsidiary accounts. The audited statements of accounts and their constitution were also not sent to the Accountant General.

- Rule 116 (1) lays down that ‘unless it is otherwise ordered by Government, every grant made for a specific object, is subject to the implied conditions that the grant shall be spent upon the object within a reasonable time (*one year*), if no time limit has been fixed by the sanctioning authority.

It was seen in audit that though the time limit has been framed, it was neither adhered to by the grantee units nor by the Department. As stated by the Department, the follow-up actions for the submission of the UCs were merely made verbally or telephonically, hence it was not done in written forms which ultimately led to non-submission of the UCs and doubtful utilisation of the grants.

It was further seen that the Department released ₹ 59.95 crore involving 1,298 UCs in the form of grants to various religious institutions during the year 2008-09 to 2014-15. However, 273 out of 1,298 UCs involving ₹ 20.95 crore were not received as of October

2015 as detailed in Table 3.2 above. 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.

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 expenditures 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 of India (CAG) in a financial year, he shall continue to audit the receipts and expenditures 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 CAG under the provision *ibid.* 65 annual accounts of 28 Autonomous Bodies/Authorities due up to 2014-15 had not been received by the Accountant General (Audit) as detailed in **Appendix 3.2**. The age-wise delay in years is detailed in the table below:

Table 3.3: Statement showing age-wise non-furnishing of accounts

Sl. No.	Range of delays in number of years	Total number of accounts
1	5 and above	8
2	3-5	6
3	1-3	23
4	0-1	28
	TOTAL	65

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 16 bodies in the State has 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.

The audit of accounts of five Bodies in the State has been entrusted to the CAG for which Separate Audit Report (SAR) 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 and one Autonomous Body viz., State Legal Service Authority (SLSA) upto 2013-14. 9 Separate Audit Reports of three Autonomous Bodies (SBS for the years 2005-06, 2008-09 to 2010-11, State Legal Service Authority for the year 2013-14 and Sikkim State Electricity Regularity Commission for the year 2011-12 to 2014-15) had not been placed before the State Legislature as of October 2015. Details are given in **Appendix 3.3**.

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 3.4: 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 (₹ in crore)	Remarks/ Reasons for delay in preparation of Accounts
1	Government Food Preservation Factory	2010-11	2.92	Delay in holding Board Meetings/AGM
2	Temi Tea Estate	2013-14	-	Delay in holding Board Meetings/ AGM

3.5 Misappropriation, losses, etc.

There were three cases of misappropriation, losses, etc., involving Government money amounting to ₹ 15.80 lakh at the end of 2014-15 on which final action was pending. The Department-wise break up of pending cases and age wise analysis is given in the **Appendix-3.4** and the nature of those cases is given in **Appendix-3.5**. The age-profile of the pending cases with the number of cases pending in each category of theft, misappropriation/loss, etc. was under:

Table 3.5: Profile of pending cases of misappropriation, loss, defalcation, etc.

(₹ in lakh)

Age-profile of the pending cases			Nature of the pending cases	Number of cases	Amount involved
Range in years	Number of cases	Amount involved			
15-20	1	12.72	Misappropriation	3	15.80
05-10	1	0.26			
05.10	1	2.82	Loss		

Source: Departmental figures.

Around 80.50 per cent of the amount involved pertains to the Food and Civil Supplies and Consumer Affairs 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 and Entitlements), Sikkim.

Reconciliation had been completed for all revenue and capital Expenditure heads, while 100 per cent of total Receipt Heads were reconciled during 2014-15.

3.7 Other comments

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

During the year 2014-2015, an amount of ₹ 161.10 crore under 36 Revenue Receipts heads and ₹ 424.27 crore under 44 Expenditure Heads had been classified under 800-Other Receipts/Expenditure constituting 3.61 per cent of total revenue receipts of the State and 9 per cent of the total expenditure incurred under respective major heads.

3.8 Conclusion and recommendation

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.

The sanctioning authority/concerned Department may evolve a mechanism to gather the UCs promptly and look into the delays in submission to identify the bottlenecks and address them.

Gangtok
The

(Vanlal Chhuanga)
Accountant General (Audit), Sikkim

Countersigned

New Delhi
The

(Shashi Kant Sharma)
Comptroller and Auditor General of India