Chapter – III

Financial Reporting

Chapter 3

3 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 Utilization Certificates

Financial Rules stipulate that for the grants provided for specific purposes, Utilization Certificates (UCs) should be obtained by the departmental officers from the Grantees and, after verification, these should be forwarded to the Principal Accountant General (A&E) within 18 months from the date of their sanction unless specified otherwise. However, 182 UCs aggregating ₹740.77 crore in respect of grants released up to 2014-15 were in arrears as detailed in **Appendix 3.1**.

The status of outstanding UCs is given in **Table 3.1.**

Table 3.1: Year-wise arrears of Utilization Certificates

(₹ in crore)

Year	Number of Utilization Certificates awaited	Amount
Up to 2012-13	60	54.54
2013-14	36	86.81
2014-15*	86	599.42
Total	**182**	**740.77**

Source: Notes to Finance Accounts

** For the grants released during 2014-15, the Utilization Certificates will become due only during 2015-16 and onwards.*

Major cases of non-submission of UCs related to Health and Family Welfare Department (76 *per cent*). Non-submission of UCs defeats the very purpose of Legislative control over public purse and is fraught with the risk of the funds released for various schemes/programmes having been locked up, misused or diverted for unauthorized purposes.

3.2 Non-receipt of information pertaining to institutions substantially financed by the Government

To identify the institutions which attract audit under Sections 14 and 15 of the CAG's (Duties, Powers and Conditions of Service) Act, 1971, heads of the Government departments are 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.

Sixteen departments did not furnish the information pertaining to institutions receiving grants aggregating ₹25 lakh or more for periods ranging from two years to more than 10 years, as detailed in **Appendix 3.2.**

Circular instructions were issued by the Finance Department (December 2013) to all the Secretaries of Administrative departments to furnish the required information to the Pr. AG (A&E) directly. However, there was no significant improvement in the compliance with reference to the instructions of Finance Department.

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

Several Autonomous Bodies have been set up by the State Government in the field of village and small industries, urban development, etc. The audit of accounts of 11 bodies in the State has been entrusted to the CAG. These are audited with regard to their transactions, operational activities and accounts, conducting regulatory/compliance audit, review of internal management and financial control, review of systems and procedures, etc.

Separate Audit Reports in respect of two Autonomous Bodies for the year 2011-12 and four autonomous bodies for the year 2012-13 and five autonomous bodies for 2013-14 were yet to be placed before the State Legislature.

The status of entrustment of audit, rendering of accounts, issuing of Audit Reports and their placement before the State Legislature are indicated 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 proforma accounts in the prescribed format annually, showing the working results of financial operations, so that the Government can assess their working. The finalized 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 finalization of accounts, the investment of the Government remains outside the scrutiny of Audit/State Legislature. Consequently, corrective measures, if any, required for ensuring accountability and improving efficiency cannot be taken in time. Besides, the delay in all likelihood also opens the system to the 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. Out of the nine undertakings which have been closed/transferred/converted into co-operative federations, proforma accounts in respect of two undertakings were due from 1969-70. The position of arrears in preparation of proforma accounts by the undertakings is given in **Appendix 3.4.**

The Finance Department replied (December 2013) that with the online computerization of treasury and the system of drawal on treasuries by preferring bills, there appears to be no necessity for preparation of proforma accounts. The Administrative Departments of these undertakings will be instructed to examine the necessity or otherwise of maintaining of proforma accounts. Karnataka Government Insurance Department will continue to render proforma accounts. Further development in this matter is awaited.

3.5 Misappropriations, losses, etc.,

There were 42 cases of misappropriation, losses, etc., involving Government money amounting to ₹15.13 crore as 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 **Appendix 3.5** and the nature of these cases is given in **Appendix 3.6**. The particulars of the pending cases in each category of theft and misappropriation are given in **Table 3.2.**

Table 3.2: Profile of pending cases of misappropriations and theft

(₹ in crore)

Nature of the cases	Number of cases	Amount involved
Theft	11	0.06
Misappropriation	31	15.07
Total	42	15.13

Source: Information compiled by office of Pr.AG (G&SSA) and AG (E&RSA)

Around 88 *per cent* of the amount involved pertained to Public Works Department (₹11.94 crore) and Department of Forests, Ecology and Environment (₹1.38 crore)

3.6 Non-receipt of stores and stock accounts

The annual accounts of stores and stock are required to be furnished by various departments to Audit by 15 June of the following year. The half yearly accounts of Public Works, Water Resources and Minor Irrigation Departments are due to be received by 15 December of the year and 15 June of the following year. Delay in receipt of stores and stock accounts has been commented upon in successive Audit Reports.

The position of arrears relating to submission of stores and stock accounts by 13 departments involving 98 offices is indicated in **Appendix 3.7.**

3.7 Abstract Contingent bills

Under Rule 36 of the Manual of Contingent Expenditure, 1958, the Controlling and Disbursing Officers are authorized to draw sums of money by preparing Abstract Contingent(AC) bills, by debiting service heads and are required to present detailed contingent bills (vouchers in support of final expenditure) to the Principal Accountant General (A&E) through treasuries. Detailed bills aggregating ₹218.12 crore, drawn on 9,758 AC bills, were pending as at the end of March 2015, as detailed in **Table 3.3.** Controlling officers should also ensure that no amounts are drawn from the treasury unless required for immediate disbursement**.**

Table 3.3: Pending Abstract Contingent bills

(₹ in crore)

Year	Abstract Contingent bills drawn		Detailed Contingent bills rendered		Outstanding NDC bills against AC bills drawn	
	No. of bills	Amount	No. of bills	Amount	No. of bills	Amount
Upto 2012-13	52,834	502.22	48,157	444.70	4,677	57.52
2013-14	6,514	169.41	4,781	95.27	1,733	74.14
2014-15	4,896	109.69	1,548	23.23	3,348	86.46
Total	**64,244**	**781.32**	**54,486**	**563.20**	**9,758**	**218.12**

Source: Notes to Finance Accounts

Out of ₹109.69 crore drawn against AC bills in 2014-15, bills for ₹24.43 crore were drawn in March 2015, of which, ₹0.42 crore were drawn on the last day of the financial year.

Most of the outstanding NDC bills relates to Major Head 2015 – Elections (1,561 bills amounting to ₹119.36 crore), Major Head 2055 – Police (31 bills amounting to ₹22.80 crore), Major Head 2402 – Soil and Water Conservation(1,106 bills amounting to ₹17.77 crore), Major Head 2406 – Forestry and Wild Life (601 bills amounting to ₹14.78 crore), Major Head 2202-General Education (1,891 bills amounting to ₹12.60 crore) and Major Head 2235- Social Security and Welfare (1,031 bills amounting to ₹5.27 crore).

The withdrawal of money on an AC bill is accounted for against the functional Major Head in the Consolidated Fund. Unless the accounts are settled within the time allotted, the expenditure stands inflated. This impacts the fiscal indicators of the Government (Revenue surplus/fiscal deficit). Instructions were issued by the Finance Department to all Principal Secretaries/ Secretaries to Government (August 2012) for settlement of accounts within the stipulated period, failing which action would be taken to stop the salary of the DDO concerned. However, it was observed in audit that the practice of drawal of salary by DDO concerned continued who had substantial bills pending against them indicating poor compliance to the instructions of Finance department.

PAC in its 5th report (July 2015) has taken a serious note on this issue and stated that strict action should be taken for non-submission of NDC bills by the DDOs.

3.8 Personal Deposit Accounts

The Karnataka Financial Code provides for opening of Personal Deposit (PD) accounts with permission from Government in cases where the ordinary system of accounting is not suitable for transactions. PD accounts created by debit to the Consolidated Fund of the State should be closed at the end of the financial year. Administrators of the accounts should intimate the Treasury Officer the balance to be transferred to the Consolidated Fund. For continuation of PD accounts beyond the period of its currency, administrators are required to seek the permission of the Finance Department. Periodical reconciliation of PD accounts with treasury accounts is the responsibility of the administrators concerned.

3.8.1 Funds kept in PD Accounts

The transactions relating to PD accounts for the period 2010-15 are detailed in **Table 3.4.**

Table 3.4: Funds in PD accounts

(₹ in crore)

Year	Opening Balance	Receipts/Deposits	Withdrawals	Closing Balance
2010-11	1,214.23	2,201.06	1,942.39	1,472.90
2011-12	1,472.90	2,737.35	2,732.00	1,478.25
2012-13	1,478.25	3,582.23	2,974.30	2,086.18
2013-14	2,086.18	3,782.85	3,571.93	2,297.10
2014-15	2,297.10	3,915.81	3,784.62	2,428.29

Source: Finance Accounts

As the balances in the deposit account have been showing an increasing trend over the years, action is required to be initiated to follow the provisions of the code for write back /cleaning up of balances in respect of funds which have outlived their utility.

The net closing balance mainly related to the Administrators mentioned in **Table 3.5**

Table 3.5: Closing balances in PD accounts

(₹ in crore)

Sl No	Administrators	Amount
1	Personal Deposits – General	286.92
2	Deputy Commissioners	3,095.54
3	PD Account of Money Lender & Pawn Broker	19.65
4	PD Account of Director, Department of Scheduled Tribe	131.06

Source: DDR Ledger. Table is to be read in conjunction with Table 3.6

Finance Department while confirming the facts stated that out of the total balances in the PD accounts as on 31-03-2015, first batch of 198 PD accounts have been identified as inoperative wherein no transactions are recorded for the past 3 or more years as on 31-03-2015. The total of the balances outstanding in these 198 PD accounts is ₹11.90 crore. The individual balances under these PD accounts have been verified by the concerned treasuries, and a separate proposal is being submitted to Government for closure of these PD accounts and to write back the balance amounts to the Consolidated Fund of the State very shortly. Further, this process of identifying the inoperative PD Accounts will be taken up periodically and regularly to write back the balance amounts to the Consolidated Fund of the State.

3.8.2 Reconciliation of Personal Deposit (PD) accounts

The purpose of PD accounts is to enable Drawing and Disbursing Officers (DDOs) to incur expenditure pertaining to a scheme, for which funds are placed at their disposal, by transfer from the Consolidated Fund of the State. Administrators are required to close these accounts on the last working day of the year by crediting the unspent balances to the Consolidated Fund. Under the rules, Administrators of PD accounts are required to reconcile the balances of these accounts with the treasury officers (where the detailed accounts are maintained by the treasuries) and with the Pr.AG (A&E) (where the detailed accounts are maintained by the Pr.AG). Information on reconciliation of figures by the Administrators with the treasuries was not available, but none of the Administrators of the 56 PD accounts have reconciled their accounts with the Pr.AG (A&E).

The number of operative / inoperative PD accounts is indicated in **Table 3.6** and the details of adverse balances thereof are in **Appendix 3.8.**

As per Article 286A of Karnataka Financial Code, the State Government is required to close all PD accounts remaining inoperative for more than three years. As on 31 March 2015, it is observed that 33 PD Accounts with an outstanding balance of ₹83.48 crore were inoperative for more than three years as detailed in **Table 3.6**. Action may be taken by administrators to analyze the balance and retention of the account before embarking upon the process of closure of accounts, by writing back the transactions to the Consolidated Fund of the State.

Table 3.6: Operative / In-operative PD accounts

(₹ in crore)

Particulars	Personal Deposit Accounts			
	Credit		Debit	
	No .of Accounts	Amount	No. of Accounts	Amount
Operative PD Accounts	19	3,559.97	4	1,198.08
In-Operative PD Accounts	21	74.94	12	8.54

Source: Finance Accounts

As seen from the table, debit balances (adverse) totaling ₹1,198.08 crore was in respect of four administrators (operative PD Accounts) and ₹8.54 crore in respect of 12 administrators (in-operative PD Accounts), indicating the need for reconciliation.

PAC in its 5th report (July 2015) has stated that the in-operative PD accounts should be closed and the amount outstanding in the PD accounts are to be transferred to the Consolidated Fund within three months from the date of submission of its report.

Finance Department stated (January 2016) that the facts pertaining to 33 inoperative accounts within an outstanding balance of ₹83.48 crore as on March 2015 will be verified and action will be taken to close those PD accounts which are inoperative for more than three years and to write back the balance amounts to the Consolidated Fund.

3.8.3 Incorrect closure of PD account balances

The Government directed (April 2012) transfer of the unspent balance of ₹1.72 crore pertaining to the PD Account of Assistant Director, Pension, Small Savings and Asset Liability Monitoring Department, Bengaluru (South), which was inoperative, to Consolidated Fund. The District Treasury Officer (DTO) Bengaluru (Urban) closed the PD account (November 2014) by transferring the amount (TTR) from 8443-00-106-0-01 and crediting under 2047-00-911-0-02. However, as per the records of Pr.AG (A&E), the balance under the said PD Account was ₹3.00 crore to the end of March 2014. After adjusting the amount of ₹1.72 crore, there was still a balance of ₹1.28 crore to be adjusted in the books of accounts of Pr. AG (A&E), rendering the entire exercise of cleaning up of the balances only partially fruitful. Not following the prescribed procedure of closure of PD Account resulted in understatement of revenue expenditure by ₹1.72 crore during 2014-15.

3.9 Reconciliation of Receipts and Expenditure

To exercise effective budgetary control over revenue/expenditure and to ensure accuracy in accounts, all Controlling Officers are required to reconcile every month, the receipts and expenditure recorded in their books with the figures accounted for by the Pr. AG (A&E). Reconciliation of receipts has been completed for a value of ₹1,02,849.93 crore (98.75 *per cent* of total receipts of ₹1,04,152.29 crore) which excludes receipts from loan head of account. Reconciliation of expenditure has been completed for a value of ₹74,495.37 crore (60.45 *per cent* of total expenditure of ₹1,23,236.59 crore) which excludes expenditure from loan head of account. Non-reconciliation of accounts has an impact on the assurance of the completeness and correctness of the receipts and expenditure figures depicted in the accounts. Failure to reconcile the expenditure figures by the department may result in frauds, defalcations and over-drawals etc. remaining undetected.

PAC in its 5th report (July 2015) has instructed the Government to take strict action on implementation of circulars issued for reconciliation of Receipt and Expenditure.

3.10 Comments on Accounts

3.10.1 Return of share application money received towards the share capital for M/S. Rail Infrastructure Development Company (Karnataka) Limited (K-RIDE)

Government had released (March 2003), an amount of ₹1.27 crore as contribution of Government of Karnataka towards the Share Capital for M/s. Rail Infrastructure Development Company (Karnataka) Ltd, (K-RIDE), pursuant to the Share

Holder's Agreement (SHA) dated 24.11.2002 to undertake four identified rail projects namely, (i) Hassan-Mangalore Gauge conversion project, (ii) Guntakal-Hospet Doubling, (iii) Sholapur-Gadag Gauge conversion and (iv) Hubli-Ankola new line for expeditious implementation.

Out of the four projects supposed to be commissioned, only one Project viz., Sholapur-Gadag had been commissioned. Hassan-Mangalore and Guntakal-Hospet had been completed and commissioned by the Ministry of Railways in collaboration with Karnataka State without any role of K-RIDE. The fourth project viz. Hubli-Ankola new line was yet to take off due to non-receipt of environmental clearance.

The K-RIDE had resolved to refund the share application money due to delay in taking up the project and refunded the same which was remitted to Government Account on 20.05.2014.

The contribution of ₹1.27 crore of Government of Karnataka towards the Share Capital for M/s. K-RIDE pursuant to the SHA was kept idle for more than 11 years without allotment of shares, and servicing of debt is done by Government of Karnataka.

The said release of funds inflated the capital investment of Government funds met out of borrowed money for capital formation which does not appear to be prudent fiscal management.

The Infrastructure Development Department (IDD) replied (August 2015) that the shares were not allotted due to delay in execution of projects and the proposed change in the capital structure.

3.10.2 Government funds met out of borrowed money for capital formation was parked in nationalized banks in violation of Financial Rules

Government ordered (January 2010) to form 'Vijayanagara Punaschethana Prathishtana Trust' to conduct cultural activities by opening a 'Theme park' in Hospet, Ballari District. The said Trust was dissolved by Government in July 2012. While dissolving the Trust, Government instructed (July 2012) to transfer the bank balance, cash on hand and deposits with interest to the joint account of Managing Director, KSTDC Limited and Additional Commissioner, Tourism Department. The above said amount was parked in nationalized bank in violation of the financial rules. An amount of ₹13.80 crore which included bank balance, cash on hand and deposits with interest was remitted (February 2015) to Government.

Due to delay on the part of Government to issue proper and timely instructions, Government funds met out of borrowed money, for capital formation, was idle for two and a half years.

3.10.3 Merger of expenditure relating to Secret Service with Scholarships and Incentives

In order to simplify the classification of expenditure, action was initiated during 2003-04 to merge certain objects of expenditure into a common object head. The

Secret Service expenditure incurred by certain departments like Police, Forest, Excise, etc., stood merged under the newly created object head 'Scholarships and Incentives'. Finance Department replied that this expenditure is in the nature of incentives and justified its classification under the said head of account. The reply is not tenable for the reason that the expenditure is generally in the nature of impetus/bonus given for a specific purpose to the person concerned for specific information. Therefore the provision made under Scholarships and Incentives is required to be examined by considering opening of a new object head to capture expenditure relating to this item of expenditure. At present the expenditure figures shown appears to lack transparency.

3.10.4 Defective Budgeting in respect of External Loans availed by State Government on back to back basis

State Government avails external aids (Loans) through Government of India to implement projects under Health, Irrigation, Urban Development, Rural Development and Public Works, which are implemented by different departments of Government and autonomous institutions. With the changed policy from1 April 2005, the aid is passed on to the Government department on back to back basis[9] from the lender. The re-payment of loan and payment of interest thereon is through the Reserve Bank of India books. These re-payments are initially in the books of Controller of Aid Accounts and Audit, Government of India which are later on passed on to the State books through the banker (RBI). These external loans carry with them commitment charges which is the fee levied on the total committed loan amount not drawn from time to time, the rate of which is as per the relevant loan/credit agreement. These payments are reimbursed by the State Government.

As per Karnataka Budget Manual 1975, expenditure in respect of which a token demand is presented could be incurred only after its voting by the Assembly except in cases initially met out of Contingency Fund. Further, when the token demand was made, all the details regarding the loan and its servicing towards commitment/other charges, the full particulars regarding the loan amount not drawn from time to time, the rate of commitment charges, to whom it was paid should have been brought out and the expenditure incurred so far was to be explained.

However, deviation from the provision of Karnataka Budget Manual 1975, is noticed as detailed below:

During the year 2014-15, a provision of ₹100 crore and ₹50 crore was made towards repayment of principal and for payment of interest respectively on external loans released on back-to-back basis. With regard to payment of commitment charges, no provision was made in the original budget. However, in the Supplementary Estimate – I which was presented to the Legislature on 1 August 2014, a token demand of ₹1,000/- was provided by opening an object code 241-Interest to meet

[9] Back to back basis means, the assistance is passed on as per the loan conditions of external agency and the fluctuation in the exchange rate are to be met by the concerned State.

the interest and commitment charges in respect of external loans to be released on back to back basis. Before obtaining the approval for token demand in Supplementary Estimate I, the Government had incurred an expenditure of ₹206.78 lakh (up to 06.06.2014) on this account. Total expenditure towards commitment charges for the year 2014-15 was ₹437.83 lakh.

The matter was brought to the notice of the department (April 2015), reply is yet to be received.

3.10.5 Accounting of inadmissible transactions under the object head prescribed for Compensatory Cost

A comment was made in the report on State Finances, 2013-14, that expenditure on Compensatory Cost with specific object head of expenditure '060' included inadmissible expenditure on components like administrative expenses, salaries, wages to contract labourers etc., while the object head was intended for recording expenditure on compensation for deficient services rendered by the Government to the public.

During the year 2014-15, a budget provision of ₹9.55 crore was made for the guarantee of services to the citizens under 060-Compensatory Cost. On a scrutiny of records, it was observed that the expenditure on Compensatory Cost included inadmissible expenditure relating to the payment of telephone charges, purchase of stationery, salaries and wages, etc., to the extent of ₹0.44 crore recorded under the functional major head 2230 – Labour and Employment.

While accepting the inadmissible expenditure being booked to the object head of classification – 060 Compensatory Cost, Finance department stated that orders have been issued in December 2015 to curb such drawals and DDOs and Treasury Officers to exercise utmost care in drawal of Compensatory Cost.

3.11 Transparency in accounts

3.11.1 Incorrect application of interest rates for conversion of outstanding interest into equity in case of M/s. Mysore Electrical Industries (MEI) Limited.

The interest on loans and advances by the State Government are generally fixed taking into consideration the average cost of funds for the State Government. However, it was observed that based on the supplementary demand for the year 2014-15 (Demand No.18), the Government Order was issued (22.12.2014) for adjustment of ₹22.92 crore, being outstanding amount of interest as on March 2013, into equity in case of M/s. MEI Ltd. The outstanding interest of ₹22.92 crore was arrived at after reducing the rate of interest from 18 *per cent* and 22 *per cent* per annum to 6.25 *per cent* and 9 *per cent* per annum respectively without proper justification, resulting in reduced equity of Government in the company. Thus the action of the Government was not in consonance with canons of financial propriety.

In reply, the Finance Department stated (June 2015) that the loans were given to MEI towards VRS loans, conversion of arrears of sales tax into loan and working capital loan. As per G.O. dated 10.07.2003, interest rate for VRS loans is to be at

6.25% whereas that for loans to State PSUs, Boards and Corporations, autonomous bodies is fixed at 9%. Hence, the change in interest rates is as per the policy of the Government in this regard and hence, in order.

The reply of the department is not acceptable, as the G.O. dated 10.07.2003, was applicable only to the loans given on or after 1 April 2003. As mentioned in Para 2 of the GO, new rates of interest shall apply to all the new loans sanctioned by the Government on or after 1 April 2003. The loans given to MEI Ltd., towards VRS loans, related to the period from 1998 to 2002.

- To bring about greater transparency and to enable informed decision making in Government Accounts, the TFC had recommended inclusion of certain statements/appendices in the Finance Accounts which would give details of expenditure at object head level such as salaries, maintenance expenditure, subsidies including implicit subsidies, debt liabilities, cash flow statement etc.

Non-inclusion of salary details in respect of Panchayat Raj Institution(PRI) employees in the Finance Accounts of the State Government and the overlapping of heads relating to the salary expenditure of Urban Local Bodies(ULB) are discussed in para 1.6.3. Subsidy expenditure shown in accounts being incomplete on account of exclusion of items of expenditure forming implicit subsidies are also discussed in the same para. However, the Overview of Budget placed before the Legislature bring out these items of expenditure separately.

As per the recommendations of XII Finance Commission, a statement on maintenance expenditure is to be provided in the Finance Accounts, segregating salary/wage and non-salary components. Appendix X- Maintenance Expenditure does not show salary and non-salary component separately as the data is yet to be captured. The circular instructions issued by the Finance Department require for formulation of proposals by capturing the data separately for which separate object heads were provided.

Accounting reforms are required to be undertaken to bring the data into accounts for transparency.

3.12 Important factors affecting accuracy of accounts

The accounts of the Government are kept on cash basis. Certain transactions that arise in Government Account, the receipts and payments of which cannot at once, be taken to a final head of receipt or expenditure owing to lack of information as to the nature or for any other reasons, are to be booked temporarily under the suspense head. This head is cleared on receipt of relevant details/information. Debt, Deposit and Remittances (DDR) heads account for such transactions where the Government, as a custodian of public money, receives and holds such money in trust.

The accuracy of the State Finance Accounts 2014-15 has been adversely affected by factors like (i) large number of transactions under suspense heads awaiting final classification and (ii) increasing number and magnitude of adverse balances under DDR heads. A general review of the transactions showed the following:

a) Outstanding balances under major suspense accounts

Certain intermediary/adjusting heads of accounts known as 'Suspense heads' are operated in Government accounts to reflect transactions of receipts and payments which cannot be booked to a final head of account due to lack of information as to their nature or for other reasons. These heads of accounts are finally cleared by minus debit or minus credit when the amounts under them are booked to their respective final heads of accounts. If these amounts remain un-cleared, the balances under the suspense heads would accumulate and would not reflect Government's receipts and expenditure accurately. The balances under certain major suspense heads of accounts, as recorded in the ledger maintained by Pr.AG (A&E), are indicated in **Table 3.7.**

Table 3.7: Suspense Head (8658 – Suspense Accounts)

(₹ in crore)

Name of Minor Head	2012-13		2013-14		2014-15	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
101- Pay and Accounts office Suspense	68.91	1.41	89.58	0.58	67.40	0.70
Net	**Dr. 67.50**		**Dr. 89.00**		**Dr. 66.70**	
102-Suspense Account(Civil)	23.76	8.93	22.95	9.47	17.93	7.35
Net	**Dr. 14.83**		**Dr. 13.48**		**Dr. 10.58**	
110-Reserve Bank Suspense	20.30	60.22	24.91	37.80	15.44	56.20
Net	**Cr. 39.92**		**Cr. 12.89**		**Cr. 40.76**	

Source: DDR Ledger/Finance Accounts

The Finance Accounts reflect the net balances under these heads. The outstanding balances are worked out by aggregating the outstanding debit and credit separately. The implications of the balances under these heads are discussed in the succeeding paragraphs.

❖ **Pay and Accounts Office (PAO) Suspense**

This head is intended for settlement of transactions between the Accountant General and the various separate Pay and Accounts Officers. The transactions initially recorded under this head in the books of the Accountant General are cleared on receipt of the Cheques/Demand Drafts from the Pay and Accounts Officer and on the issue of Cheque/Demand Draft in respect of amounts received in the State Treasuries on behalf of the Pay and Accounts Officer. Outstanding debit balance under this head would mean that payments have been made by the Principal Accountant General on behalf of a PAO, which were yet to be recovered. Outstanding credit balance would mean that payments have been received by the Principal Accountant General on behalf of a PAO, which were yet to be paid. The net debit balance under this head has shown an increasing trend in 2013-14 and decreased during 2014-15. On clearance/settlement of this, the cash balance of the State Government will increase.

❖ **Suspense Account (Civil)**

Transactions where full particulars of the classification are not available or where the relevant vouchers/schedules in support thereof are not available or where there is some discrepancy between the figures reported in the Treasury Schedules of payment/cash accounts and those appearing in the supporting vouchers, schedules, etc., constitute the major portion of outstanding under this head.

Transactions taking place at State Treasuries on behalf of Railways, Defence and P&T are also initially classified under this head pending settlement of claims by these authorities.

The net debit balance under this head has decreased only marginally during the year. However, in so far as accounts with Railways (₹3.20 crore) and accounts with Defence (₹0.84 crore) are concerned, the cash balance will increase on clearance. There is no impact on cash balance on rest of the items on clearance.

❖ **Reserve Bank Suspense, Central Accounts Office**

This head is operated for recording inter-governmental transactions where monetary settlement between the cash balances of two Governments is done by sending advice to the Central Accounts Section of the Reserve Bank of India. This head is cleared by transferring the amount to the final head of account on receipt of intimation of the monetary settlement having been carried out by the RBI. The main transaction which gets settled through this suspense head are grants/loans received from the Government of India and their repayments, discharge of securities and interest paid thereon by the Public Debt offices of RBI and payments made by the Director General of Supplies and Disposals for materials supplied to Government Departments.

During the year, the credit balance under this head was ₹40.76 crore, which was an increase of ₹27.87 crore over the previous year, indicating that corresponding clearances had not been made by the concerned Pay and Accounts Offices for the above amount.

b) Adverse Balances under DDR Heads

Adverse balances are negative balances appearing under those heads of accounts, where there should not be a negative balance. For e.g., against the accounting head of any loan or advance, a negative balance will indicate more repayment than the original amount advanced. As revealed by Finance Accounts for the year 2014-15, adverse balance of E- Public Debt amounting to ₹111.62 crore (Major Head 6003-Internal Debt) was on account of credits of the direct release of loans by National Co-operative Development Corporation (NCDC) to loanee entities without routing these loans through the Consolidated Fund of the State. In respect of the adverse balance of ₹23.66 crore (Major Head 6004- Loans and Advances from Central Government) was on account of write-off of Central Loans on the recommendations of XIII FC (balances outstanding as per books of accounts as at 31 March 2010). In respect of loans and advances the adverse balance was ₹15.14 crore which was on account of non-reconciliation/misclassification in accounts.

Finance Department stated (September 2015) that:

i) Regarding the adverse balance under loans from NCDC, the State Government had proposed two adjustments to wipe out adverse balance and had sought approval of the Accounts Office for effecting the adjustment, which is under examination in Accounts Office.

ii) Regarding the adverse balance under Loans and Advances, these were mostly under miscellaneous loans and details were not available either with Pr.AG (A&E) or with the department as these loans related to very old periods. It was therefore, not possible to reconcile the balance and find out the reasons for adverse balances. Therefore, balances may have to be written back to miscellaneous Government account treating them as un-reconciled balances which have reached a dead end and were not susceptible for reconciliation/verification.

iii) Regarding adverse balance under Loans to Government Servants, the State Government requested Pr. AG (A&E) for furnishing the year wise adverse balances under different categories for further examination and further remedial action.

In respect of Loans and Advances from Central Government (MH-6004), the adverse balance is due to the write-off of loans as per the recommendations of XIII FC. Since this account is maintained in Pr. AG (A&E) office, the reconciliation of balance is being taken up by Pr.AG (A&E) with Chief Controller of Accounts, Ministry of Finance, Department of Economic Affairs, Revenue, Finance Services, Expenditure and Disinvestment, New Delhi.

3.13 Conclusion

Detailed bills against abstract contingent bills have been found wanting since long and large sums of money were being retained in PD Accounts thereby going against the principle of Legislative financial control. Non-reconciliation of expenditure and receipts was to the extent of 40 *per cent* of the total expenditure and one *per cent* of total receipts respectively. There were adverse balances under certain accounts in Consolidated Fund heads, which required remedial action for clearance.

3.14 Recommendations

- ***Accounting reforms by introducing separate object heads to capture data on salary/non-salary items of expenditure in respect of the maintenance, salary expenditure of the staff of Panchayat Raj Institutions, as recommended by the Finance Commission, are required to be undertaken.***

- ***Immediate steps need to be taken for review of status of PD accounts and closure of inoperative ones.***
- ***Review of suspense heads needs to be done to bring the transactions to the final heads in the accounting year itself.***

Bengaluru **(L. Angam Chand Singh)**
The **Principal Accountant General**
(General and Social Sector Audit)
Karnataka

Countersigned

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