

**CHAPTER-III**  
**FINANCIAL REPORTING**



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### 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 Delay in furnishing Utilisation Certificates

Financial Rules provide that utilisation certificates (UCs) should be obtained for specific purpose grants by the departmental officers from the grantees and after verification, these should be forwarded to the Accountant General (Accounts and Entitlement) Himachal Pradesh within one year from the date of their sanction unless specified otherwise. However, of the 42,642 UCs due in respect of grants and loans aggregating ₹ 3,065.48 crore upto March 2015, 15,539 UCs (36 per cent) for an aggregate amount of ₹ 2,387.39 crore (78 per cent) were pending as of March 2015 out of which one UC involving ₹ 0.07 crore was pending for more than nine years. The department-wise break-up of outstanding UCs is given in **Appendix 3.1** and age-wise delays in submission of UCs are summarized in **Table 3.1**.

**Table 3.1: Age-wise arrears of Utilisation Certificates as on 31 March, 2015**  
(₹ in crore)

Sr. No.	Range of delay (in number of years)	Total grants paid		Utilisation certificates outstanding	
		Number of Cases	Amount	Number	Amount
1.	0 – 1	25,615	1,437.89	11,674	1,240.88
2.	1 – 3	16,199	1,396.01	3,128	942.06
3.	3 – 5	825	231.26	737	204.45
4.	5 – 7	02	0.25	--	--
5.	7 – 9	--	--	--	--
6.	9 and above	01	0.07	--	--
	<b>Total</b>	<b>42,642</b>	<b>3,065.48</b>	<b>15,539</b>	<b>2,387.39</b>

*Source: Accountant General (Accounts & Entitlement)*

Pendency of UCs mainly pertained to the Department of Education (9,581 UCs: ₹ 250.57 crore), Rural Development (2,719 UCs: ₹ 1,086.85 crore), Social Justice and Empowerment (1,572 UCs: ₹ 77.39 crore), Art and Culture (329 UCs: ₹ 6.35 crore),

Industries (180 UCs: ₹ 33.43 crore), Urban Development (152 UCs: ₹ 550.34 crore), Sports and Youth Services (15 UCs: ₹ 0.89 crore), Tourism (47 UCs: ₹ 37.77 crore), Animal Husbandry (69 UCs: ₹ 62.38 crore), Excise and Taxation (72 UCs: ₹ 16.27 crore), Secretariat and Social Services (seven UCs: ₹ 1.55 crore). In the absence of UCs, it could not be ascertained whether the recipients had utilised the grants for the purpose for which these were given.

### **3.2 Delay in submission of Accounts/Separate Audit Reports (SARs) of Autonomous Bodies and placement of SARs before the State Legislature**

Several Autonomous Bodies have been set up by the State Government. The audit of accounts of 14 autonomous bodies in the State has been entrusted to the Comptroller and Auditor General of India. The status of entrustment of audit, rendering of accounts to audit, issuance of Separate Audit Report and its placement in the Legislature is indicated in **Appendix 3.2**.

The accounts of HP Building and Construction Workers Welfare Board, Shimla were late by twelve months for the year 2013-14 whereas the delay in respect of other bodies ranged between half month and three months. The accounts for the year 2014-15 in respect of all the 13 bodies (except State Veterinary Council, Shimla) had not been furnished as of August 2015. Delay in finalisation of accounts carries the risk of financial irregularities going undetected and, therefore, the accounts need to be finalised and submitted to Audit at the earliest.

Separate Audit Report on State Veterinary Council, Shimla for 2012-13 and 2013-14 has been issued and the same placed before the Legislature. SARs of remaining 13 Autonomous Bodies issued by Audit for the year 2012-13 are yet to be placed before the State Legislature. SARs for 13 bodies for 2014-15 are pending due to non-furnishing of accounts. One SAR on State Veterinary Council, Shimla has been issued for the year 2014-15 which is yet to be placed before the Legislature.

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

To identify institutions/organisations which attract audit under Sections 14 and 15 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 (C&AG's DPC Act), the 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 for which the assistance is granted and the total expenditure of the institutions. Further, Regulations on Audit and Accounts, 2007 provide that governments and heads of departments which sanction grants and/or loans to bodies or authorities shall furnish to the Audit Office by the end of July every year a statement of such bodies and authorities to which grants and/or loans aggregating ₹ 10 lakh or more were paid during the preceding year indicating (a) the amount of assistance, (b) the purpose for which the assistance was sanctioned and (c) the total expenditure of the body or authority.

15 Departments/ autonomous bodies<sup>1</sup> (out of a total of 20 department/autonomous bodies) had furnished such details for the year 2014-15 upto August 2015. Due to this, audit in remaining cases could not provide assurance to legislature/government about the manner in which the grants sanctioned/paid by them have been utilised, specifically on the issue of non-diversion and proper utilisation.

Due to non-furnishing of the above details to the office of the Principal Accountant General (Audit), Himachal Pradesh, the bodies/institutions could not be identified to bring them under audit purview, as a result of which the accuracy and propriety of expenditure out of such loans and grants given out of Consolidated Fund of the State could not be examined in audit to express audit opinion.

### 3.4 Misappropriation/loss, theft, etc.

As per the provisions of Himachal Pradesh Financial Rules, State Government reported 47 cases of misappropriation/losses, theft, etc., involving government money amounting to ₹ 78.70 lakh upto June 2015 on which final action was pending. Out of these, 41 cases were more than five years old. The department-wise break up of pending cases and age-wise analysis is given in **Appendix 3.3** and nature of these cases is given in **Appendix 3.4**. The age-profile of the pending cases and the number of cases pending in each category 'Theft and misappropriation/loss' as emerged from these appendices are summarised in **Table 3.2**.

**Table 3.2: Profile of misappropriations/losses and theft**

(₹ in lakh)

Age-Profile of the Pending Cases			Nature of the Pending Cases		
Range in years	Number of cases	Amount involved	Nature/characteristics of the cases	Number of cases	Amount involved
0 – 5	06	6.08	Theft	12	12.09
5 – 10	08	19.68			
10 – 15	09	33.77			
15 – 20	09	12.51	Misappropriation/ loss of material	35	66.61
20 – 25	02	3.12			
25 and above	13	3.54			
<b>Total</b>	<b>47</b>	<b>78.70</b>	<b>Total</b>	<b>47</b>	<b>78.70</b>

<sup>1</sup> Higher Education; Sarva Shiksha Abhiyan; Elementary Education; SC, ST and Minority Affairs; Art, Culture and Language; Animal Husbandry; State Seed and Organic Produce Certification Agency; Urban Development; Agriculture; HIMFED; Fisheries; NRHM; Directorate of Horticulture; Directorate of Co-operation and Conservator of Forests (CAT Plans).

A further analysis indicates that the reasons for which the cases were outstanding could be classified in the categories listed in **Table 3.3**.

**Table 3.3: Reasons for outstanding cases of misappropriation/loss, theft, etc.**

(₹ in lakh)

Reasons for the delay/outstanding cases		Number of cases	Amount
(i)	Awaiting departmental and criminal investigation	15	17.37
(ii)	Awaiting orders for recovery or write off	14	8.05
(iii)	Pending in the courts of law	06	27.30
(iv)	Recovery made/written off but awaiting final disposal from PAC	12	25.98
<b>Total</b>		<b>47</b>	<b>78.70</b>

### **3.5 Misclassification in Accounts**

#### **Operation of Omnibus Minor Head-800**

The expenditure of the government under the Consolidated Fund is classified as revenue and capital under various functional heads. The sub major heads and minor heads representing the sub functions/programmes are opened below the major heads. The minor head-800 is an omnibus head, opened in the accounts, when a particular item of expenditure/receipt cannot be accommodated in any of the existing minor heads. Routine operation of minor head-800 is to be discouraged, since it renders the accounts opaque.

During 2014-15, revenue receipts aggregating ₹ 2,680.31 crore (15.02 *per cent* of total revenue receipts) were classified under omnibus minor head-800-other receipts under 48 major heads. Instances where a substantial proportion (50 *per cent* or more) of the receipts were classified under the minor head 800-Other receipts are given in **Appendix 3.5 (A&B)**.

Similarly, expenditure aggregating ₹ 877.94 crore constituting 3.94 *per cent* of total expenditure (revenue and capital) during 2014-15 was classified under major head 800-other expenditure under 41 revenue and capital major heads. Classification of large amounts under the omnibus minor head-800-other expenditure/receipts affects true and fair picture of the financial reporting and obscures transparency in accounts for informed decision making.

### **3.6 Conclusion and Recommendations**

Substantial delays in submission of utilisation certificates occurred and as a result proper utilisation of grants could not be ensured. In absence of annual accounts, it could not be ascertained whether certain autonomous bodies/authorities attract provision of section 14 of the CAG's (DPC) Act, 1971. Further, in cases of theft of government money misappropriation/loss, etc., departmental action was pending for

long period. 15.02 *per cent* of total revenue receipts and 3.94 *per cent* of total expenditure was classified under omnibus minor head 800-Other receipts/expenditure during 2014-15.

*The State Government may ensure timely submission of utilisation certificates in respect of the grants released to grantee institutions and timely preparation and submission of Annual Accounts by the Autonomous Bodies to facilitate auditing. An effective and time bound mechanism needs to be put in place to ensure speedy settlement of (i) cases relating to theft, misappropriation, losses, etc. (ii) receipts and expenditure of major schemes under the Minor Head '800-Other receipts' and '800-Other expenditure'.*



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The 11 January 2016

*Countersigned*



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Comptroller and Auditor General of India

New Delhi

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