

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 compliance 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 for the grants provided for specific purposes, Utilisation Certificates (UCs) should be obtained by the departmental officers from the grantees and after verification, these should be forwarded to the Accountant General (Accounts & Entitlement) within 12 months from the date of their sanction unless specified otherwise. However, of the 629 grants in respect of 11 (Eleven) departments aggregating ₹ 830.33 crore paid up to 2014-15, 104 Utilisation Certificates (UCs) (16.53 per cent) for an aggregate amount of ₹ 217.65 crore were in arrears¹⁶. The department-wise break-up of outstanding UCs is given in **Appendix 3.1** and the age-wise delay in submission of UCs is summarised in **Table 3.1**.

Table 3.1: Age-wise arrears of utilisation certificates

(₹ in crore)

Sl. No.	Range of delay in number of years	Total grants paid		Utilisation certificates outstanding	
		Number of cases	Amount	Number of cases	Amount
1	0 - 1	1	2.00	1	2.00
2	1 - 3	357	129.85	35	59.56
3	3 - 5	271	698.48	68	156.09
Total		629	830.33	104	217.65

In the absence of the Utilisation Certificates it could not be ascertained whether the recipients had utilised the grant for the purpose for which those were given.

¹⁶ Grants-in-aid paid during 2014-15, although not due for submission of UCs within 2014-15, were in arrears.

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, (DPC) 1971, the Government/Head 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.

55 annual accounts of 21 Autonomous Bodies/Authorities due up to 2014-15 had not been received as of August 2015 by the Accountant General (Audit). The details of those accounts are given in **Appendix 3.2** and their age-wise pendency is presented in **Table 3.2**.

Table 3.2: Age-wise arrears of Annual Accounts due from Government Bodies

Sl. No.	Delay in number of years	No. of the Bodies/ Authorities	Grants received (₹ in Lakhs)
1	1 – 3	28	Not Available
2	>3 – 5	5	Not Available
3	>5 – 7	-	Not Available

It is seen from the table above that delay in submission of accounts ranged between one and five years in respect of the Autonomous Bodies/Authorities.

Due to the absence of Annual Accounts and subsequent audit of those 22 Bodies and Authorities involving 55 Annual Accounts, the proper accounting/utilisation of the grants and loans disbursed to those Bodies/Authorities remained unverified. The reasons for non-preparation of the accounts were however, not intimated.

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

Several Autonomous Bodies have been set up by the State Government in the field of development of Khadi and Village Industries, State Legal activities, Power and Pollution Regulations etc. Of these, the audit of accounts of the Nagaland Khadi and Village Industries Board (NKVIB) up to 2014-15 was entrusted to the Comptroller and Auditor General of India under Section 19 (3) of the DPC Act. However, the annual account of the Board for the period 2014-15 had not been furnished (August 2015). The status of entrustment of audit, issuance of Separate Audit Report (SAR) and its placement in respect of NKVIB in the Legislature is indicated in **Table 3.3**.

Table 3.3: Delay in submission of Accounts and tabling of Separate Audit Reports

Year of SAR	Period of entrustment	Date of issue of SAR	Date of placement in the Legislature	Delay in placement in the Legislature (Years)
2010-11	2009-14	10-01-2013	16-07-2013	-
2011-12	2009-14	09-06-2015	NA	-
2012-13	2009-14	09-06-2015	NA	-
2013-14	2009-14	09-06-2015	NA	-
2014-15	2014-19	Accounts not yet received	NA	-

Nagaland Electricity Regularity Commission and Nagaland Hospital Authority were established¹⁷ under the State Legislative Act and the audit of accounts entrusted to the Comptroller and Auditor General of India under Section 104 and 105 of Central Electricity Act 2003 and Rule 14 of Notification issued under Section 22 of Hospital Authority Bill 2003 by the Government of Nagaland. However, though the annual accounts of those Authorities/Bodies were due for submission to the Accountant General (Audit) every year, the Accounts had not been furnished since their inception.

3.4 Departmental Commercial Undertakings

Activities of quasi-commercial nature are also performed by the departmental undertakings of certain Government departments. The department-wise position of the year up to which proforma accounts were not finalised in those undertakings are given in **Appendix 3.3**. It was noticed that:

As on 31 March 2015, there were eight departmentally managed Government commercial undertakings.

A mention was made in the Report of the Comptroller and Auditor General of India on State Finances for the year 2012-13 about delay in preparation of Proforma accounts of those undertakings. Despite this, accounts were in arrears for periods ranging from 1 to 35 years as of March 2015.

The finalised accounts of departmentally managed commercial undertakings reflect their overall financial health and efficiency in conducting their business. In the absence of timely finalisation of accounts, Government's investment remains outside the scrutiny of the Audit/State Legislature. Consequently, corrective measures if any required, could not be taken in time. Besides, the delay also opens the system to risk of fraud and leakage of public money.

¹⁷ Nagaland Electricity Regulatory Commission (04.03.2008), Nagaland Hospital Authority (01.04.2004)

3.5 Balances lying unspent in Civil Deposits and Bank Accounts

The Government provides State's share to various Departments/Agencies for implementation of centrally sponsored/State schemes. Those Departments/Agencies retain such funds, outside the Government account in their bank accounts. As the funds are generally not spent fully by the implementing agencies in the financial year of their receipt, there remain unspent balances in bank accounts and in civil deposits.

The details of funds drawn, its utilisation and funds kept in civil deposit/current bank accounts in respect of 16 Departments/Agencies are presented in the table below:

Table 3.4: Non-utilisation of funds during the year 2014-15

(₹ in crore)

Sl. No.	Name of Department/Directorate	Amount drawn	Expenditure incurred	Amount kept in Civil Deposit	Amount kept in Bank Account
1	Controller of Legal Metrology & Consumer Protection	4.00	0.00	0.00	4.00
2	Directorate of Science & Technology	2.00	0.24	1.76	0.00
3	State Institute of Rural Development	2.10	0.00	2.10	0.00
4	Directorate of Information Technology & Communication	5.36	0.00	5.36	0.00
5	Directorate of Evaluation	2.69	0.00	2.69	0.00
6	Directorate of Horticulture	4.62	0.00	4.62	0.00
7	Directorate of Economics & Statistics	0.88	0.00	0.88	0.00
8	Transport Commissioner	2.70	0.00	2.70	0.00
9	Directorate of Veterinary & Animal Husbandry	14.61	0.00	14.61	0.00
10	Election Department	2.80	2.46	0.00	0.34
11	Directorate of Women Resource Development	1.59	0.00	1.59	0.00
12	Directorate of Land Records & Survey	1.12	0.00	1.12	0.00
13	Directorate of Youth Resources & Sports	11.41	0.00	11.41	0.00
14	Directorate of Printing & Stationery	1.69	1.00	0.00	0.69
15	Directorate of Rural Development	5.63	1.74	3.89	0.00
16	Department of Justice & Law	17.26	14.97	2.29	0.00
Total		80.46	20.41	55.02	5.03

(Source: Departmental Figures)

The above table shows that an amount of ₹ 80.46 crore was drawn by 16 departments during the year 2014-15 for implementation of different schemes. Out of the amount drawn, the departments utilised only an amount of ₹ 20.41 crore (25.37 per cent) during the financial year. The remaining amount was kept in Civil Deposit ₹ 55.02 crore (68.38 per cent) and current Bank Account ₹ 5.03 crore (6.25 per cent). In addition to the above, information furnished by two banks revealed that an aggregate amount of ₹ 467.76 crore was lying in the respective bank accounts of 93 DDOs as on 31st March 2015.

3.6 End use of Cess

The State Government notified (August 2011) the enforcement of Levy and Collection of Cess for the purpose of the Building and Other Construction Workers (Regulation of Employment and Conditions of Service) Act, 1996. The levy and collection of such cess will be at a rate of 1 per cent of the cost of construction incurred by an employer. In compliance of this notification, Finance Department advised and instructed the DDOs to ensure that deduction of the cess as prescribed is made against all civil construction works involving employment of labour and deposit the same to the account of the Nagaland Building and Other Construction Workers' Welfare Board (NBOCW Welfare Board) by DD/Cheque. As such the Board has been receiving the cess from 2011-12 onwards.

Details of amount collected and actual expenditure incurred during the period from 2011-12 to 2014-15 are in **Table 3.5**.

Table 3.5: Statement of cess collection and expenditure incurred during 2011-12 to 2014-15

(₹ in crore)

Year	Receipt during the year	Expenditure	Balance at the end of the year
2011-12	0.71	0.06	0.65
2012-13	3.60	0.00	4.25
2013-14	3.56	0.68	7.13
2014-15	6.17	0.42	12.88

The Government of Nagaland has constituted the Board to provide social security to the section of workers engaged in building and other construction works by implementing different welfare schemes viz. Grant for purchase of tools, Medical assistance, Children education allowance and Maternity benefit for women beneficiaries.

During 2014-15, out of total available cess fund of ₹ 13.30 crore, the Board could spend only ₹ 0.42 crore (3.16 per cent). Out of the total expenditure during the year, grant for purchase of tools was ₹ 0.25 crore (57.14 per cent). Moreover, an expenditure of ₹ 0.17 crore was also made in Monitoring & Evaluation and Skill Development Training.

3.7 Misappropriation, loss, defalcation, etc.

There were 34 cases of misappropriation, loss etc. involving Government money amounting to ₹ 616.13 crore up to the period 31 March 2015 on which final action was pending. The department-wise break up of pending cases and age wise analysis is given in **Appendix 3.4** and nature of the cases are given in **Appendix 3.5**. The age-profile of the pending cases and the number of cases pending in each category are summarised in **Table 3.6**.

Table 3.6: Profile of Misappropriation, loss, defalcation, etc.

Age-Profile of the Pending Cases			Nature of the Pending Cases		
Range in Years	Number of Cases	Amount Involved (₹ in crore)	Nature/Characteristics of the Cases	Number of Cases	Amount Involved (₹ in crore)
0 - 5	30	Bifurcation amount of range in years were not provided by the Deptts. Hence, only the consolidated total is shown.	Theft	6	2.11
5 - 10	4		Misappropriation	22	580.58
10 - 15	-		Defalcation	6	33.62
Total	34			34	616.31

A further analysis indicates the reasons for which the cases were outstanding as detailed in **Table 3.7**.

Table 3.7: Reasons for Outstanding cases of Misappropriation, loss, defalcation, etc.

Reasons for the Delay/ Outstanding Pending Cases		Number of Cases	Amount (₹ in crore)
i)	Awaiting departmental and criminal investigation	30	210.67
ii)	Departmental action initiated but not finalised	1	0.01
iii)	Criminal proceedings finalized but execution of certificate cases for recovery of the amount pending.	0	0
iv)	Awaiting orders for recovery or write off.	0	0
v)	Pending in the courts of law	3	405.63
Total		34	616.31


(Source: Vigilance & Anti-Corruption)

The highest amount of misappropriation and loss amounting to ₹ 402.66 crore involving two cases of misappropriation occurred in Food & Civil Supply, where final action had not been taken by the State Government.

3.8 Conclusion and recommendations

Timely submission of utilisation certificates is a major area of concern. At the end of March 2015, 104 UCs involving an aggregate amount of ₹ 217.65 crore were pending for submission even after a lapse of one to five years from various departments. Though the accounts of the State Autonomous Bodies and Departmental Commercial Undertakings were over due, those accounts were not submitted to Audit. Non-submission of accounts in time indicates non-compliance with the financial rules. The accounts of Autonomous Bodies/Authorities and Departmental Undertakings need to be finalised at the earliest. As on 31 March 2015, 34 cases of misappropriation, defalcation etc. involving ₹ 616.31 crore pertaining to 15 Departments were pending finalisation. Departmental inquiries in all fraud and misappropriation cases should be expedited to bring the defaulters to book.

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