

## Chapter III

### Financial Reporting

A sound internal financial reporting system 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. Reports on compliance and controls, if effective and operational, assist the 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

Rule 8.14 of the Punjab Financial Rules, as applicable to Haryana, provides that utilisation certificates (UCs) for the grants provided for specific purposes, should be obtained by departmental officers from the grantees. After verification, these should be forwarded to the Accountant General (A&E) within a reasonable time, unless a specific time limit is fixed by the sanctioning authority. However, of the 14,780 UCs due for submission in respect of grants and loans aggregating ₹ 18,543.19 crore, 1,879 UCs for an aggregate amount of ₹ 9,062.62 crore were in arrears. The department-wise break-up of UCs due, received and outstanding as on 31 March 2017 is given in *Appendix 3.1*. The age-wise delays in submission of UCs is summarised in **Table 3.1**.

**Table 3.1: Age-wise arrears of Utilisation Certificates**

(₹ in crore)

Sr. No.	Range of delay in number of years	Total grants paid		Utilisation Certificates outstanding	
		Number	Amount	Number	Amount
1	0 – 1	7,182	5,930.34	976	3,996.00
2	2 – 4	6,894	9,856.93	770	4,683.60
3	5 – 8	704	2,755.92	133	383.02
<b>Total</b>		<b>14,780</b>	<b>18,543.19</b>	<b>1,879</b>	<b>9,062.62</b>

**Table 3.1** shows that out of 1,879 outstanding UCs, 903 UCs (48 per cent) were in arrear for the grants released during the period between 2008-09 and 2014-15

i.e. for a period of two to eight years. Analysis of **Appendix 3.1** shows that out of total 1,879 outstanding UCs, 1,041 UCs (55 per cent) were outstanding from Rural Development Department. This not only indicates lack of internal control of administrative departments but also shows the tendency on the part of the Government to disburse fresh grants without ascertaining proper utilisation of earlier grants.

### 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 1971 (CAG's Act-1971), 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 of assistance granted and total expenditure of the institutions.

A total of 147 annual accounts of 73 autonomous bodies/authorities are awaited as on 31 July 2017. The details of these 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 bodies/authorities**

Sr. No.	Delay in number of years	Number of accounts	Grants received (₹ in crore)
1.	0-1	71	248.10
2.	1-3	51	142.48
3.	3-5	15	43.57
4.	5-7	07	19.83
5.	7-9	03	1.06
	<b>Total</b>	<b>147</b>	<b>455.04</b>

(Source: Figures obtained from Government Departments and Accountant General (A&E) Haryana)

In the absence of annual accounts, it could not be ascertained whether these bodies/authorities attract the provision of Section 14 of the CAG's Act 1971. Out of 161 autonomous bodies/authorities which attract audit under Section 14 of the Act, audit of 22 bodies/authorities was conducted during 2016-17.

### 3.3 Delays in submission of accounts of autonomous bodies for certification

Several autonomous bodies have been set up by the Government in the fields of Urban Development, Housing, Labour Welfare and Agriculture. The audit of accounts of 29 bodies in the State has been entrusted to the CAG. The status of entrustment of audit, rendering of accounts to audit, issuance of Separate Audit Reports (SARs) and its placement in the Legislature is indicated in *Appendix 3.3*.

One<sup>1</sup> autonomous body had not submitted its annual accounts for the last 20 years (1996-97 and onwards) whereas the delay in respect of other bodies ranged between one year and eight years. Delay in finalization of accounts carries the risk of financial irregularities going undetected and, therefore, the accounts need to be finalized and submitted to Audit at the earliest.

SARs in respect of Haryana Labour Welfare Board, Chandigarh (2009-10 to 2014-15) and Haryana Building and Other Construction Workers Welfare Board, Chandigarh (2009-10 to 2013-14) have not been placed before the State Legislature.

### 3.4 Departmentally managed commercial undertakings

The departmental undertakings of certain Government departments performing activities of quasi-commercial nature are required to prepare proforma accounts annually in the prescribed format showing the working results of financial operations so that the Government can assess their working. The final accounts 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 in time. Besides, the delay is open to risk of fraud and leakage of public money.

As of June 2017, five such undertakings had not prepared their accounts since the years ranging between 1987-88 and 2015-16. Government funds amounting to ₹ 7,429.57 crore stood invested in these undertakings. Though the arrears in preparation of accounts have been repeatedly commented in the earlier Reports on

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<sup>1</sup> District Legal Services Authority, Jhajjar.

State Finances, no improvement had taken place in this regard. The department-wise position of arrears in preparation of proforma accounts and investment made by the Government are given in **Appendix 3.4**.

### 3.5 Misappropriations, losses, defalcations, etc.

Rule 2.33 of the Punjab Financial Rules, as applicable to Haryana, stipulates that every Government employee would be held personally responsible for any loss sustained by Government through fraud or negligence on his part or any loss arising from fraud or negligence on the part of any other Government employee to the extent that he contributed to the loss by his own action or negligence. Further, as per rule 2.34 *ibid*, the cases of defalcations and losses are required to be reported to the Accountant General (A&E).

State Government reported 98 cases of misappropriation and defalcation involving Government money amounting to ₹ 1.41 crore on which final action was pending as of June 2017. The department-wise break up of pending cases and age-wise analysis is given in **Appendix 3.5** and nature of these cases is given in **Appendix 3.6**. 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 is summarised in **Table 3.3**.

**Table 3.3: Profile of misappropriations, losses, defalcations, etc.**

(₹in lakh)

Age-profile of the pending cases			Nature of the pending cases		
Range in years	Number of cases	Amount involved		Number of cases	Amount involved
0 - 5	21	54.32	Cases pending as of June 2016	105	133.43
5-10	15	21.44			
10-15	22	31.89	Cases added during the year	17	30.09
15 - 20	08	14.30			
20 - 25	08	2.40			
25 and above	24	16.47	Cases of losses written off during the year	24	22.70
<b>Total</b>	<b>98</b>	<b>140.82</b>	<b>Total pending cases as of June 2017</b>	<b>98</b>	<b>140.82</b>

Reasons for pendency of cases are listed in **Table 3.4**.

**Table 3.4: Reasons for outstanding cases of misappropriations, losses, defalcations, etc.**

Reasons for the delay/outstanding pending cases		Number of cases	Amount (₹ in lakh)
i)	Awaiting departmental and criminal investigation	1	1.61
ii)	Departmental action initiated but not finalised	68	78.61
iii)	Criminal proceedings finalised but execution of certificate case for the recovery of amount pending	3	1.12
iv)	Awaiting orders for recovery or write off	20	37.54
v)	Pending in the courts of law	6	21.94
<b>Total</b>		<b>98</b>	<b>140.82</b>

Out of the total loss cases, 72 per cent cases are related to theft of Government money/store. Further, in respect of 69 per cent cases of losses, departmental action had not been finalized while 20 per cent cases were outstanding for want of orders of the competent authority for recovery or write off of losses. It was further noticed that out of 98 cases of losses due to theft/misappropriation, 77 cases were more than 5 years old, including 24 cases which were more than 25 years old. The lackadaisical approach of departments in finalisation of these cases had not only caused loss to the State exchequer but also led to non-accountability of the officers/officials at fault.

### 3.6 Misclassification in accounts

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

Booking under Minor Head '800 – Other Receipts' and '800- Other Expenditure' should to be done only when the appropriate minor head has not been provided in the accounts. Routine operation of Minor Head-800 is to be discouraged, since it renders the account opaque.

During 2016-17, expenditure aggregating ₹ 13,502.60 crore (17.94 per cent of total expenditure<sup>2</sup>) was classified under Minor Head – 800 under various revenue and capital Major Heads. More than 90 per cent of total expenditure on power subsidy, medium irrigation, civil aviation, tourism and miscellaneous general

<sup>2</sup> Excluding loans and advances.

services were classified under omnibus Minor Head–800 instead of depicting these under distinct heads of accounts.

The booking of expenditure under omnibus para head ‘800- Other Expenditure’ decreased by ₹ 1,275.93 crore (9 *per cent*), from ₹ 14,778.53 crore in 2015-16 to ₹ 13,502.60 crore in 2016-17. However, this still constitutes a large amount. Classification of large amounts under the omnibus minor head ‘800-Other Expenditure/Receipts’ affects the transparency in financial reporting.

### **3.7 Conclusions**

There were substantial delays in submission of utilisation certificates and as a result proper utilisation of grants could not be ensured. In the absence of annual accounts, it could not be ascertained whether certain autonomous bodies/authorities attract the provision of Section 14 of the CAG’s Act 1971. A large number of autonomous bodies, and departmentally run commercial undertakings did not prepare their final accounts for considerable periods. As a result their financial position could not be assessed. Further, in cases of theft of Government money, misappropriation, loss of Government material and defalcation, departmental action was pending for long periods. 17.94 *per cent* of total expenditure was classified under omnibus minor head ‘800-Other Expenditure’ during 2016-17.

### **3.8 Recommendations**

The Government may consider:

- (i) Adopting appropriate measures to ensure receipt of accounts from the grantee institutions at the end of every year in order to enable identification of institutions attracting audit by CAG of India under Section 14 of the CAG’s (DPC) Act, 1971;
- (ii) Evolving a system to expedite the process of compilation and submission of annual accounts by autonomous bodies and departmentally run undertakings in order to assess their financial position;
- (iii) Preparing a time bound framework for taking prompt action in cases of theft, misappropriation, etc.; and

- (iv) Depicting the amounts of expenditure incurred under various schemes distinctly instead of clubbing the expenditure of major schemes under the Minor head '800-Other Expenditure'.

The above points were referred (October 2017) to the Additional Chief Secretary to Government of Haryana, Finance Department; their replies are awaited (October 2017).

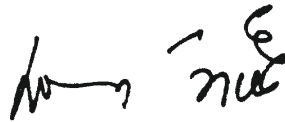


(MAHUA PAL)

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**Dated: 17 January 2018**    **Principal Accountant General (Audit), Haryana**

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**Dated: 22 January 2018**    **Comptroller and Auditor General of India**