CHAPTER-III: FINANCIAL REPORTING

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 Failure to submit Utilisation Certificates

Rule 116 (1) of the Sikkim Financial Rules (SFR) stipulates that every grant made for a specific object is subject to implied conditions: (i) that the grant shall be spent upon the object within a reasonable time of one year from the date of issue of the letter sanctioning grant and (ii) that any portion of the amount which is not ultimately required for expenditure upon that object shall be duly surrendered to Government. Utilisation Certificates (UCs) outstanding beyond that specified periods indicates absence of assurance on utilisation of the grants for intended purposes and the expenditure shown in the accounts to that extent cannot be treated as final. The status of outstanding UCs as per the records of the AG, Sikkim is given below:

Table -3.1: Outstanding Utilisation Certificates

Year	Number of UCs awaited	Amount (in crore)
Upto 2013-14	2956	5,23.81
2014-15	230	2,69.23
2015-16*	419	3,38.80
Total	**3,605**	**1,131.84**

**419 UCs amounting to ₹ 338.80 crore though not due are outstanding*

It can be seen from the above table that 3,605 UCs amounting to ₹ 1,131.84 crore paid upto the year 2015-16 were outstanding.

Through the instrument of UCs, the Grantor obtains assurance about proper utilisation of the funds placed at the disposal of the Grantee for the sanctioned purpose and also gets a certificate from the Grantee that the intended list of works have been executed, the details of which are available with him/her. Any delay in furnishing UCs to the Grantor or any inaccuracy in such reporting essentially undermines this control mechanism designed to prevent the diversion and proper utilisation of grants.

3.1.1 Review of Grants-in-aid

A detailed review on utilisation of Grants-in-aid in Sports and Youth Affairs Department revealed the following:

3.1.1.1 Pendency in submission of Utilisation Certificates

Test check of records of Sports and Youth Affairs Department in respect of pendency in submission of UCs revealed that UCs aggregating to ₹ 1.88 crore for 137 grants against the release of 150 grants for ₹ 2.09 crore from 2002-03 till 2013-14 were pending as on 31 March 2016 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		UCs in arrears	
		Number	Amount	Number	Amount
1	>7	130	1.46	119	1.33
2	5 – <7	17	0.22	16	0.21
3	3 – <5	2	0.34	2	0.34
4	0 – <3	1	0.07	0	0
	Total	**150**	**2.09**	**137**	**1.88**

As seen from the above table, UCs to merely 13 grants amounting to ₹ 0.21 crores were obtained for the periods 2002-03 to 2013-14. The pendency of submission of UCs was mainly due to not adhering to the instructions as stipulated in the SFR by the Grantee units as well as by the Department itself and lack of follow-up action by the Department as detailed below:

- Rule 111(1) of the SFR states 'unless in any case Government directs otherwise, every order sanctioning a grant shall indicate whether it is recurring or non-recurring in nature and specify the object for which it is given and the conditions, if any, attached to the grant'.

- Rule 112 of the SFR lays down '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.

Out of 150 cases of grants, 71 cases pertaining to the years 2002-03 (20), 2003-04 (26), 2005-06 (12) and 2006-07 (12) were test checked which revealed that the grants were neither indicated as recurring nor as non-recurring in nature. The object for which the grant was disbursed was not specified. The Department had also not imposed any condition on the Grantee for utilisation of the funds and the grants were released without any forwarding letter mentioning the conditions and the signature in acknowledgement of the receipt of the cheques were simply obtained in a payment voucher. Further, specific schemes were not drawn up in respect of any of the test-checked grant.

- Rule 113(1) stipulates that when recurring Grants-in-aid are sanctioned to the same institution for the same purpose, a certificate to the effect that the unspent balance of the previous grant has either been surrendered to Government or has been taken into account in sanctioning the subsequent grant should be incorporated in the sanction letter in such cases.

Records revealed that while sanctioning recurring Grants-in-aid to the same institutions for the same purpose, the Department neither enquired about the unspent balance, if any, with the Grantee units of the previous year nor did the units produce the accounts. No records of surrender of the unspent balance of the previous grant or taking into account the balance in sanctioning the subsequent grant was found. Hence, Rule 113 (1) of the SFR had been clearly violated.

- Rule 114 *ibid* stipulates that the Grantee institutions or bodies receiving the grant is required to maintain subsidiary accounts of the Government grants and furnish to the AG (i) a copy of the audited statement of its accounts; and (ii) a copy of their constitution.

The Department never directed the Grantee institutions for maintaining of subsidiary accounts and submission of the audited statements to the AG. None of the Grantee institutions had ever submitted audited statements to the AG.

- Rule 116 (1) (i) *ibid* 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; and (ii) that any portion of the amount which is not ultimately required for expenditure upon that object shall be duly surrendered to Government. Further, Rule 116 (2) *ibid* provides that even in respect of unconditional Grants-in-aid, Government reserves the right to have the accounts of the recipient body audited by the Comptroller and Auditor General of India (CAG) on their own initiative, if and when occasion demands, to satisfy themselves regarding the manner in which the affairs of the recipient body are managed.

While sanctioning the grants, it was seen that the Department never made Grantee units aware of the time limit for spending of the grants as per the rule above. The Department had not even fixed any time limit. Hence, due to non-fixation of time limit and non-submission of the accounts by the Grantee units, the Department could not verify the expenditure or proper utilisation of the Grants-in-aid upon the specific object for which it had been sanctioned and within the reasonable time limit. Therefore, full and proper utilisation of the grants remained doubtful. No surrender of unspent balance was ever made.

Further scrutiny revealed that during 2003-04 (₹ 0.53 lakh) and 2005-06 (₹ 0.96 lakh) ₹ 1.49 lakh was spent from Grants-in-aid for refreshment to National Cadet Corps, purchase of mementos etc. Recipient of Grants-in-aid of ₹ 0.10 lakh during 2004-05 was not known in one case.

It was further seen that the Department released ₹ 2.09 crore involving 150 UCs in the form of grants to various associations, institutions etc. during the year 2002-03 to 2015-16.

However, 137 out of 150 UCs involving ₹ 1.88 crore were not received as of October 2016 as detailed in **Table 3.2**. This was mainly due to:

- Lack of monitoring and co-ordination between the Department and its Grantee units. There was nothing in the records produced to audit to show that the Department was doing any monitoring.
- Non-adherence of the prevailing rules and instructions by the Department itself and the Grantee units as well, and
- Absence of follow-up action by the Department.

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.

The substantially funded Autonomous Bodies/Authorities are required to submit their annual accounts for audit by the CAG under the provision ibid. A total of 50 annual accounts of 22 Autonomous Bodies/Authorities for the period from 2013-14 to 2015-16 had not been received by the AG till September 2016 as detailed in **Appendix 3.1**. 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	01
2	3-5	03
3	1-3	24
4	0-1	22
	Total	**50**

In the absence of finalisation of accounts and their subsequent audit, it could not be ensured whether the grants and expenditure have been properly accounted for and whether the purpose for which the grants were provided have actually been achieved.

3.3 Status of submission of accounts of autonomous bodies/Statutory Corporations 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.

Out of 16 bodies, 11 had not submitted its accounts for the period ranging from one to seven years as detailed in **Appendix 3.2**.

The audit of accounts of four Bodies in the State has been entrusted to the CAG for which Separate Audit Report (SAR) is prepared for placement before the Legislature. The details in this regard are given in **Appendix 3.3** which showed the following:

- SAR upto 2012-13 of State Legal Services Authority (SLSA) had been placed before the State Legislature. The SAR for 2013-14 was issued to the Government on 28 May 2015 but has not been placed in the State Legislature. SAR for 2014-15 though issued to the Government in February 2016 was under printing.
- SAR upto 2010-11 of State Bank of Sikkim (SBS) had been placed before the State Legislature. The SARs for the periods 2011-12 and 2012-13 though issued to the Government in February 2016 were under printing.
- The audit of Sikkim State Electricity Regulatory Commission (SSERC) was conducted for the first time for the years 2011-12, 2012-13, 2013-14 and 2014-15 and the SARs were issued to the Government in June 2016 and were under printing.
- SAR upto 2010-11 of State Trading Corporation of Sikkim (STCS) had been placed before the State Legislature. The SARs for the periods 2011-12, 2012-13 and 2013-14 though issued to the Government in June 2015 were under printing.

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 AG for audit within a specified time frame. The position of arrears in preparation of proforma 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	0.40[1]	Delay in holding Board Meetings/AGM

3.5 Misappropriation, losses, etc.

There was one case of theft involving Government money amounting to ₹ 0.26 lakh in respect of FRED at the end of 2015-16 on which final action was pending. The break-up of pending case and age-wise analysis of theft case 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			
05-10	1	0.26	The person involved in the case is untraceable.	1	0.26

Source: Departmental figures

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 AG.

Reconciliation had been completed for all Revenue and Capital Expenditure heads (₹ 4,278.56 crore) and Revenue Receipt heads (₹ 3,784.29 crore) during 2015-16.

3.7 Other comments

Booking under Minor Head 800 - Other Receipts/Other Expenditure

Minor Heads 800-Other Expenditure/Other Receipts are intended to be operated only when the appropriate minor head has not been provided in the accounts. Routine operation of Minor Heads 800 is to be discouraged, since it renders the accounts opaque. During the year, the State Government classified under 800-Other Receipts/Expenditure, an amount of ₹ 748.98

[1] *Plan fund from Government of Sikkim. All revenue earned by the Tea Estate is credited to Government Account and all expenditure incurred by the Tea Estate is borne by the Government of Sikkim.*

crore under 30 Revenue Receipts heads and ₹ 301.14 crore under 32 expenditure heads, constituting 19.79 *per cent* of total revenue receipts and 7.04 *per cent* of the total Expenditure (Revenue and Capital) incurred under respective Major Heads.

3.8 Conclusion and Recommendations

During the year 2015-16, all the COs reconciled the Government receipts and expenditure with the figures in the books of the AG.

However, the practice of not furnishing UCs in time against grants received, not furnishing of detailed information about financial assistance given to various institutions and not submitting of accounts by 22 Autonomous Bodies/Authorities in time indicated that financial rules were not complied with. There were also delays in placement of SARs to Legislature.

There is a need to ensure that the Audit Reports of the Autonomous Bodies are placed in the Legislature on time and UCs are submitted by recipient of grants within the prescribed time.

Gangtok | **(Vanlal Chhuanga)**
The | **Accountant General (Audit), Sikkim**

Countersigned

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