

# **CHAPTER III**

## **FINANCIAL REPORTING**



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### FINANCIAL REPORTING

A sound internal financial reporting system and the availability of relevant and reliable information significantly contribute to efficient and effective governance by a State Government. Compliance with financial rules, procedures and directives as well as timeliness and quality of reporting are some of the attributes of good governance. Reports on compliance and controls, if effective and operational, assist State Governments in meeting their basic stewardship responsibilities, including strategic planning and decision-making. This chapter provides an overview of the State Government's compliance with some of the financial rules, procedures and directives during 2014-15.

#### 3.1 Delay in furnishing of Utilisation Certificates

Article 210A of the Tamil Nadu Financial Code provided that for grants released during a year for specific purposes, Utilisation Certificates (UCs) should be obtained by the Departmental officers from the organisations to whom grants were given and after verification, the UCs should be forwarded to the Accountant General (A&E) (AG (A&E)) within 18 months from the date of release of the grants, unless specified otherwise.

It was found that in respect of grants released up to 2013-14, nine UCs for ₹ 15.41 crore were not furnished by the grantees as of September 2015. Department/Chief Controlling Officer-wise break-up of outstanding UCs is given in **Appendix 3.1** and the year-wise analysis of delays in submission of UCs is summarised in **Table 3.1**.

**Table 3.1: Year-wise position of outstanding Utilisation Certificates**  
(₹ in crore)

Period	Utilisation certificates outstanding	
	Number	Amount
2013-14	7	11.66
Upto 2012-13	2	3.75
<b>Total</b>	<b>9</b>	<b>15.41</b>

(Source: Compiled from the information furnished by the Accountant General (A&E), Tamil Nadu)

Non-receipt of UCs indicates that the Departmental officers failed to comply with the rules to ensure accountability of the agencies that received Government funds.

#### 3.2 Non-reconciliation of Receipts and Expenditure

As per Rules 124 and 127 of the Tamil Nadu Budget Manual, departmental accounts maintained by the Chief Controlling Officers (CCOs) and the progressive actuals, month by month are required to be reconciled with those entered in the books of the AG (A&E), so as to ensure that the departmental

accounts are sufficiently accurate to secure departmental financial control and also to ensure accuracy of the accounts maintained by the AG (A&E) from which final published accounts are compiled. As per Rule 128 of the Tamil Nadu Budget Manual, the CCO is required to send a reconciliation certificate to the AG (A&E) after necessary adjustments are made either in the accounts of the CCO or in the books of the AG (A&E).

However, it was seen that out of 209 CCOs in the State, 58 CCOs for expenditure and 45 CCOs for receipts did not reconcile their accounts with AG (A&E) as detailed in **Appendix 3.2**.

Non-reconciliation of accounts has an impact on the assurance on the completeness and correctness of receipts and expenditure figures depicted in the accounts.

### **3.3 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, the heads of department are required to furnish to Audit every year, detailed information about the financial assistance given to various institutions, the purposes for which the assistance was granted and the total expenditure of these institutions.

The annual accounts of 369 autonomous bodies/authorities due up to 2014-15 were not received (June 2015). The details are given in **Appendix 3.3** and their age-wise pendency is presented in **Table 3.2**.

**Table 3.2: Age-wise arrears of Annual Accounts due from Autonomous Bodies/Authorities**

Sl. No.	Delay in number of years	Number of the Bodies/Authorities
1.	Up to one year	92
2.	More than one year and upto three years	119
3.	More than three years and upto five years	54
4.	Five years and above	104
<b>Total</b>		<b>369</b>

(Source: Data compiled from information furnished by the Heads of Department)

The major defaulters were educational institutions receiving Government grants for salaries, maintenance, etc and the enforcement of these requirements had been ineffective.

### **3.4 Non-adjustment of Temporary Advances**

The Drawing and Disbursing Officers (DDOs) draw temporary advances for the purpose of meeting contingent expenditure either on the authority of standing orders or specific sanctions of the State Government. According to Article 99 of the Tamil Nadu Financial Code, the advances should be adjusted by presenting detailed bills and vouchers as soon as possible.

It was noticed that 1,151 temporary advances amounting to ₹ 211.43 crore drawn up to 31 March 2015 by DDOs through Pay and Accounts

Offices/District Treasury Offices were remaining unadjusted as on 30 June 2015. Age-wise analysis of the advances pending is given in **Table 3.3**.

**Table 3.3: Age-wise analysis of advances pending**

Sl. No	Pendency	Number of Advances	Amount (₹ in crore)
1	More than 10 years	28	3.01
2	More than 5 years and less than 10 years	45	14.70
3	More than 1 year but less than 5 years	109	50.75
4	Less than one year	969	142.97
<b>Total</b>		<b>1,151</b>	<b>211.43</b>

(Source: Data compiled by the Accountant General (A&E), Tamil Nadu)

The pendency, involving substantial amounts, indicated laxity on the part of Departmental officers in enforcing the codal provisions regarding adjustment of the advances.

### **3.5 Operation of Personal Deposit Accounts**

Personal Deposit (PD) Accounts are created for specific purposes by debiting the service heads in the Consolidated Fund of the State and crediting Personal Deposits (Minor head - 106 under 8443 Civil Deposits). These are required to be closed by the administrators of PD Accounts at the end of the financial year by minus debiting the unspent balances, if any, to the relevant service heads. There were 821 PD accounts in operation in 31 District Treasuries (DTs) and five Pay and Accounts Offices (PAOs) with closing balance at year end. Details of PAOs and DTs having more than ₹ one crore closing balance (across 26 PD accounts) totalling ₹ 245.25 crore are indicated in **Table 3.4**.

**Table 3.4: PAOs/District Treasuries having more than ₹ one crore closing balances**

Sl. No.	Name of the PAO/District Treasury	Number of accounts	Amount (₹ in crore)
1.	Coimbatore	2	3.83
2.	Dharmapuri	1	1.68
3.	Nagapattinam	1	5.46
4.	The Nilgiris	1	3.43
5.	PAO (East)	3	65.87
6.	PAO (North)	5	13.16
7.	PAO (Secretariat)	1	60.09
8.	PAO (South)	4	47.89
9.	Salem	2	21.07
10.	Tiruchirappalli	2	10.55
11.	Tirunelveli	1	2.76
12.	Tirupur	1	1.51
13.	Tiruvannamalai	1	2.16
14.	Villupuram	1	5.79
<b>Total</b>		<b>26</b>	<b>245.25</b>

(Source: Data compiled by Accountant General (A&E), Tamil Nadu)

There were negative balances as on 31 March 2015 in respect of 28 PD accounts aggregating to ₹ 7.70 crore. It was also noticed that there were 130 inoperative PD Accounts as on 31 March 2015 as compared to 408 in the previous year.

### **3.6 Misappropriations, losses, defalcations, etc.**

Article 294 of the Tamil Nadu Financial Code stipulates that heads of office should report all cases of defalcations or loss of public moneys, stores or other movable or immovable properties to the Accountant General. Further, the Financial Code prescribes the principles and procedures to be followed for enforcing responsibility for losses and disposal of such cases.

The State Government departments reported to audit, 403 cases of misappropriation, shortages, theft and loss involving a total amount of ₹ 13.07 crore up to March 2015 (as of September 2015) on which final action was pending. The department-wise break-up of pending cases and the nature of these cases are given in **Appendix 3.4**. The age-profile of the pending cases and the number of cases pending in each category – misappropriation, loss, theft, etc., are summarised in **Table 3.5**.

**Table 3.5: Profile of misappropriations, shortages, thefts, losses, etc.**

Age-Profile of the Pending Cases			Nature of the Pending Cases		
Range in years	Number of cases	Amount involved (₹ in lakh)	Nature of the cases	Number of cases	Amount involved (₹ in lakh)
0 - 5	8	46.96	Theft	40	13.03
6 - 10	39	388.39	Loss and Shortages	148	231.69
11 - 15	36	278.05	Misappropriation	215	1,062.77
16 - 20	64	377.43	Cases of losses, written off during the year	Nil	Nil
21 and above	256	216.66			
<b>Total</b>	<b>403</b>	<b>1,307.49</b>	<b>Total pending cases</b>	<b>403</b>	<b>1,307.49</b>

(Source: Information received from Heads of Department)

The reasons for the outstanding cases are classified under the categories listed in **Table 3.6**.

**Table 3.6: Reasons for the outstanding cases of misappropriations, shortages, thefts, losses etc.**

Reasons for the delays		Number of cases	Amount (₹ in lakh)
(i)	Awaiting departmental and criminal investigation	192	598.10
(ii)	Departmental action initiated but not finalised	124	260.74
(iii)	Criminal proceedings finalised but recovery of the amount still pending	15	172.39
(iv)	Awaiting orders for recovery or write off	48	71.57
(v)	Pending in courts of law	24	204.69
<b>Total</b>		<b>403</b>	<b>1,307.49</b>

(Source: Information received from Heads of Department)

### **3.7 Deficiencies noticed in the Pay and Accounts Office**

#### **Accumulation of uncashed cheques**

Paragraph 92 (iii) of the Pay and Accounts Office Manual and Rule 49 of Tamil Nadu Treasury Code specify that in cases where cheques are not encashed within three months after the month of their issue, the payees should be advised by the PAO of the fact of those cheques having become time-barred and should be requested to obtain fresh cheques surrendering the time-barred cheques. If no reply is received from the payee within a month after the issue of intimation by the PAO/Treasury and the fact of non-payment of cheque is also certified by the bank, action should be taken to cancel the cheque. However, the PAOs failed to undertake these actions as described below:

It was noticed from the details of uncashed cheques furnished by PAOs that 56,465 cheques for ₹ 602.33 crore remained uncashed (June 2015) for periods up to 28 years. The age-wise profile of the number of cases and the value of cheques depicted as uncashed as per the books of PAOs are summarised in **Table 3.7**.

**Table 3.7: Details of uncashed cheques**

(₹ in crore)		
Delay in number of years	Number of cases	Value of cheques
0 - 5 years	1,970	541.82
5 - 10 years	19,384	12.45
Beyond 10 years	35,111	48.06
<b>Total</b>	<b>56,465</b>	<b>602.33</b>

(Source: Information furnished by PAOs)

### **3.8 Amounts booked under Minor Head “800”**

Booking of receipts or expenditure under the Minor Head – “800 - Other Receipts” and “800 - Other Expenditure” is considered opaque classification of receipts and expenditure as these heads do not disclose the schemes, programmes, etc., to which the amounts relate. These minor heads normally accommodate the receipts/expenditure which cannot be classified under the available programme minor heads or due to incorrect identification of receipts/expenditure under the available heads of account at the stage of budget preparation.

During 2014-15, under 17 major heads in the Revenue and Capital sections, expenditure aggregating ₹ 11,139.34 crore (76.01 *per cent* of the total expenditure of ₹ 14,655.91 crore in these heads) was classified under the minor head – 800 – Other Expenditure. The entire expenditure under “Capital Outlay on Nutrition”, “Flood Control and Drainage” and “Capital Outlay on Other Administrative Services” were classified under the omnibus minor head 800 - Other Expenditure, instead of depicting the same under relevant minor heads below the functional major heads as indicated in **Appendix 3.5**.

Similarly, under 21 major heads, revenue receipts aggregating ₹ 1,726.16 crore (85.01 *per cent* of the total receipt of ₹ 2,030.55 crore), were classified under minor head – 800 – Other Receipts. The entire receipts under “Urban Development” and “Family Welfare” were classified under the omnibus minor head 800 – Other Receipts as indicated in **Appendix 3.6**.

Classification of the large amount under the omnibus minor head “800 – Other Expenditure/Receipts” reflected lack of transparency in financial reporting.

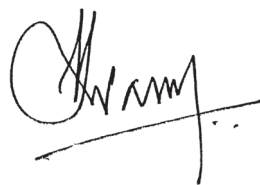
### **3.9 Conclusion**

Certain departmental officers failed to ensure adherence to the terms and conditions relating to timely submission of utilisation certificates in respect of grants released. Similarly, 369 autonomous bodies/authorities did not submit their accounts due up to 2014-15 to Audit. Temporary advances drawn up to 31 March 2015 by the DDOs involving an amount of ₹ 211.43 crore in 1,151 cases remained unadjusted. There were 130 inoperative PD accounts at the end of the year which were required to be closed. The State Government departments reported 403 cases of misappropriations, losses, defalcation, etc., involving a total amount of ₹ 13.07 crore up to March 2015 on which final action was pending. There were 56,465 number of cheques amounting to ₹ 602.33 crore remaining unencashed due to non-initiation of timely action by PAOs.



### 3.10 Recommendations

- The controlling officers may identify the reasons for the delay in submission of accounts by the autonomous bodies/undertakings to Audit and institute measures to ensure that arrears in submission of accounts are cleared in a time bound manner.
- In respect of outstanding cases of misappropriations, losses, defalcations, etc., Government may finalise cases where departmental action has been initiated and the cases awaiting orders for recovery or write off.
- The pendency of a large number of unencashed cheques should be cleared by the PAOs.



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