

CHAPTER-3 | FINANCIAL REPORTING

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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. The reports on compliance and controls, if effective and operational, assist the State Government in meeting its basic stewardship responsibilities, including strategic planning, decision making and accountability of the stakeholders. This Chapter provides an overview and status of State Government's compliance with various financial rules, procedures and directives during the current year.

3.1 Delay in furnishing Utilization Certificates

Financial Rules provide that for the grants provided for specific purposes, Utilization Certificates (UCs) should be obtained by the departmental officers from the grantees and, after verification, these should be forwarded to the Accountant General (Accounts and Entitlements) within 12 months from the date of their sanction unless specified otherwise. 542 UCs amounting to ₹ 6,56.87 crore were pending as of March 2016. Of these, 371 UCs (68.45 per cent) involving ₹ 5,10.07 crore were pending for period up to two years and 171 UCs involving ₹ 1,46.80 crore were pending for more than two years. The age-wise delays in submission of UCs have been summarized in **Table 3.1**.

Table-3.1: Age-wise arrears of Utilization Certificates as on March 2016

(₹ in crore)

| Sl. No. | Range of delay in number of years | Utilization Certificates Outstanding | |
|--------------|-----------------------------------|--------------------------------------|----------------|
| | | Number | Amount |
| 1. | 0-1 | 249 | 3,07.95 |
| 2. | 1-2 | 122 | 2,02.12 |
| 3. | More than two years | 171 | 1,46.80 |
| Total | | 542 | 6,56.87 |

Source: Finance Accounts 2015-16 prepared by AG (A&E), Uttarakhand.

However, due date of 249 utilization certificates amounting ₹ 3,07.95 crore falls between April 2016 to March 2017. Thus, the Departmental officers did not submit 293 UCs due for submission by March 2016 in respect of which grants amounting to ₹ 3,48.92 crore were given upto March 2015 for specific purposes.

In the absence of UCs, it could not be ascertained whether the recipients had utilized the grants for the intended purpose for which these were sanctioned. Thus, efforts may be made by the departments for expeditious submission of UCs by the recipients.

3.2 Non-submission/delay in submission of accounts

In order to identify the institutions which attract audit under Section 14 of the Comptroller and Auditor General's (Duties, Power and Conditions of Services)

Act, 1971, the Government / Heads of the Department 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 Government and the 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.

It was seen that none of the departmental heads had furnished the statement of such bodies and authorities to which grants and / or loans aggregating ₹ 10 lakh or more were paid during the preceding year. Consequently, audit could not provide assurance to the Legislature / Government, the manner in which the sanctioned grant was utilized, specifically on the issues of diversion or misutilization.

3.3 Delay in submission of Accounts in respect of Departmentally Managed Commercial Undertakings

The departmental undertakings of certain Government departments performing activities of 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 finalized annual 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 finalization of annual accounts, the investment of the Government remains outside the scrutiny of the Audit / State Legislature. Consequently, corrective measures, if required, for ensuring accountability and improving efficiency, cannot be taken 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 Department in the government are to ensure that the undertakings prepare such accounts and submit the same to Accountant General (Audit), Uttarakhand, Dehradun for audit within a specified time frame. As of March 2016, the department-wise position of arrears in preparation of *pro forma* accounts and investment made by the Government are given in **Appendix-3.1**. 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.

3.4 Misappropriations, losses, defalcations, etc.

Audit observed four cases of misappropriation, defalcation *etc.*, and involving Government money amounting to ₹ 8.80 lakh up to the period March 2016 on which final action was pending. The department-wise break-up of pending cases showing age

wise analysis and nature of these cases are given in *Appendix-3.2* and *Appendix-3.3* respectively. The age-profile of the pending cases and the number of cases pending in each category; and misappropriation / loss are summarized in **Table 3.2**.

Table-3.2: Profile of cases of misappropriations, losses, defalcations, etc., as on 31 March 2016

| Age-Profile of the Pending Cases | | | Nature of the Pending Cases | | |
|----------------------------------|-----------------|-----------------------------|---|-----------------|-----------------------------|
| Range in Years | Number of Cases | Amount involved (₹ in lakh) | Nature/Characteristics of the Cases | Number of Cases | Amount involved (in ₹ lakh) |
| 0 – 1 | 04 | 8.80 | Theft/Misappropriation/Loss/ corruption of material | 03 | 8.80 |
| | | | Defalcation of Material | 01 | WMV* |
| 1 – 2 | -- | -- | -- | -- | -- |
| 2 – 3 | -- | -- | -- | -- | -- |
| 3 – 4 | | | | | |
| 4 & above | | | | | |
| -- | -- | -- | Total | 04 | 8.80 |
| -- | -- | -- | Cases of Loss Written off during the Year | -- | -- |
| Total | 04 | 8.80 | Total- Pending cases | 04 | 8.80 |

*Without Money Value.

Of these four cases of misappropriation/ loss amounting to ₹ 8.80 lakh pending for final action, three cases involving a substantial amount of ₹ 8.80 lakh were awaiting finalization by the Department of Transport and one case of sabotage without money value was pending in the Department of Sub registrar.

An effective mechanism needs to be put in place to ensure speedy settlement of cases relating to misappropriation, loss and theft in order to avoid recurrence of such cases in future.

3.5 Bookings under Minor Head 800-'Other Receipts' and 'Other Expenditure'

Minor Heads 800- 'Other Expenditure' and 'Other Receipts' under various Major Heads are intended to be operated only when the appropriate minor head has not been provided in the chart of accounts. Routine operation of Minor Heads 800 under various Major Heads is to be discouraged, since it renders the accounts opaque. During 2015-16, an amount of ₹ 33,21.56 crore under 39 Major Heads of account, constituting 14.39 per cent of the total revenue expenditure (₹ 2,30,86.44 crore) was classified under the Minor Head-800 'Other Expenditure' in the Revenue Account. Similarly, a total sum of ₹ 15,42.60 crore under 29 Major Heads of Account constituting 7.26 per cent of the total revenue receipts (₹ 2,12,34.43 crore) was classified under the Minor Head-800 'Other Receipts'. Instances where a substantial portion (50 per cent or more and exceeding ₹ 10.00 crore), of the receipts and expenditure were classified under Minor Head '800-Other Receipts' and '800-Other Expenditure' are depicted in **Table 3.3**.

Table 3.3: Substantial amount booked under Minor Head-‘800’ other receipts/expenditure

(₹ in crore)

| “800-Other Receipts” | | | | “800-Other Expenditure” | | | |
|----------------------|-----------------|------------------------------|------------------------|-------------------------|-------------------|------------------------------|---------------------------|
| Major Head | Total Receipts | Booking under Minor Head 800 | Percentage of receipts | Major Head | Total expenditure | Booking under Minor Head 800 | Percentage of Expenditure |
| 0023 | 24.42 | 24.42 | 100 | 2040 | 2,82.87 | 2,23.51 | 79.02 |
| 0030 | 8,70.67 | 8,70.67 | 100 | | | | |
| 0059 | 13.96 | 13.94 | 99.86 | 2217 | 2,57.31 | 1,71.65 | 66.71 |
| 0210 | 76.86 | 76.86 | 100 | 2425 | 43.02 | 25.00 | 58.11 |
| 0406 | 3,57.47 | 3,57.47 | 100 | 2501 | 5,53.01 | 5,33.34 | 96.44 |
| 0801 | 1,68.57 | 1,68.57 | 100 | | | | |
| Total | 15,11.95 | 15,11.93 | 99.99 | Total | 11,36.21 | 9,53.50 | 83.92 |

Source: Finance Accounts prepared by Accountant General (A&E) Uttarakhand.

The major schemes are not depicted distinctly in the Finance Accounts, though the details of these expenditures are depicted in the sub-head (scheme) level or below in the detailed demands for Grants and corresponding head-wise Appropriation Accounts forming part of the State Government Accounts. Classification of large amounts booked under the minor head '800'-Other receipts/ expenditure affects the transparency/ fair picture in financial reporting.

3.6 Conclusion and Recommendations

The departmental officers did not submit 293 Utilization Certificates (due for submission by March 2016) to the Accountant General (A&E), Uttarakhand in respect of the grants of ₹ 3,48.92 crore given up to March 2015 for specific purposes. In the absence of these certificates it could not be ascertained whether the recipients had utilized the grants for the intended purposes.

The Government may ensure timely submission of utilization certificates by the departments in respect of the grants released for specific purposes.

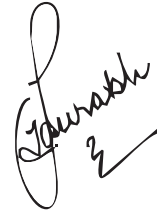
The departmental heads were not submitting statement of such bodies and authorities to Accountant General (Audit) Uttarakhand to which grants or loan aggregating ₹ 10 lakh or more were paid during preceding year. As such the institutions which attract audit by CAG could not be identified properly.

The Government may ensure timely finalization and submission of annual accounts of all autonomous bodies, and other entities that receive grants or loans, for ensuring accountability.

Significant amounts of expenditure and receipts under Central and State Schemes, booked under the Minor Heads ‘800-Other Expenditure’ and ‘800-Other Receipts’ under

various Major Heads were not distinctly depicted in the State Finance Accounts of 2015-16, affecting the transparency in financial reporting.

The Government may ensure correctness in financial reporting by separately depicting the receipts and expenditure of major schemes rather than including them under the Minor Heads '800-Other Expenditure' and '800-Other Receipts' across various major heads.



Dehradun
The 28 December 2016

(SAURABH NARAIN)
Accountant General (Audit), Uttarakhand

Countersigned



New Delhi
The 05 January 2017

(SHASHI KANT SHARMA)
Comptroller and Auditor General of India