

CHAPTER-III
FINANCIAL REPORTING

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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 compliances 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 utilisation certificates (UCs) should be obtained for specific purpose grants by the departmental officers from the grantees and after verification, these should be forwarded to the Accountant General (Accounts and Entitlement), Himachal Pradesh within one year from the date of their sanction unless specified otherwise. However, of the 5,004 UCs due in respect of grants aggregating ₹ 5,317.40 crore upto March 2018, 2,710 UCs (54 per cent) for an aggregate amount of ₹ 2,799.78 crore (53 per cent) were pending as of March 2018. The department-wise break-up of outstanding UCs is given in **Appendix 3.1** and age-wise delays in submission of UCs are summarised in **Table 3.1**.

Table 3.1: Age-wise arrears of Utilisation Certificates as on 31 March 2018

| Sr. No. | Range of delay (in number of years) | Total grants paid | | Utilisation certificates outstanding | |
|---------|-------------------------------------|-------------------|---------------------|--------------------------------------|---------------------|
| | | Number of Cases | Amount (₹ in crore) | Number of Cases | Amount (₹ in crore) |
| 1. | 0 – 1 | 2,443 | 2,435.46 | 1,559 | 1,797.96 |
| 2. | 2 – 3 | 1,693 | 2,178.33 | 677 | 797.23 |
| 3. | 4 | 361 | 304.52 | 159 | 103.80 |
| 4. | 5 – 6 | 507 | 399.09 | 315 | 100.79 |
| | Total | 5,004 | 5,317.40 | 2,710 | 2,799.78 |

Source: Accountant General (Accounts and Entitlement)

The majority of cases of outstanding/pendency of UCs i.e. 44 per cent pertained to Rural Development (1,182 UCs: ₹ 1,200.95 crore) and other main departments were Urban Development (126 UCs: ₹ 455.26 crore), Medical and Public Health (113 UCs: ₹ 186.04 crore), Housing (153 UCs: ₹ 60.28 crore), Industries (94 UCs: ₹ 36.81 crore), Art and Culture (132 UCs: ₹ 5.25 crore), Excise and Taxation Department (Compensation and assignment to local bodies) (258 UCs: ₹ 9.95 crore), Social Security and Welfare (163 UCs: ₹ 27.42 crore), Forests (131 UCs: ₹ 6.71 crore), etc.

Pendency in submission of UCs indicates lack of monitoring of utilisation of grants released to the grantees by the department. Non-submission of UCs defeats the very purpose of Legislative control over the public purse and is

fraught with the risk of the funds released for various schemes/programme being locked up, misused or diverted for unauthorised purposes.

The State Government may ensure timely submission of utilisation certificates in respect of the grants released to grantee institutions.

3.2 Delay in submission of Accounts/Separate Audit Reports (SARs) of Autonomous Bodies and placement of SARs before the State Legislature

Several Autonomous Bodies have been set up by the State Government in the fields of Education, Urban Development, Welfare, Health, etc. where audit of accounts of 14 autonomous bodies in the State had been entrusted to the Comptroller and Auditor General of India. Audit observed that out of 14, only one named Himachal Pradesh Legal Service Authority, Shimla had submitted their accounts for 2017-18. The delay in submission of accounts by remaining 13 entities to audit ranged from one to four years as of September 2018. Details of the periods upto which accounts were rendered, issuance of Separate Audit Report and its placement in the Legislature is given in **Appendix 3.2**. Age-wise details are shown in **Table 3.2**.

Table 3.2: Age-wise arrears of Annual Accounts

| Sr. No. | Delay in Number of years | No. of Bodies/Authorities |
|---------|--------------------------|---------------------------|
| 1. | 0-1 | 03 |
| 2. | 2-3 | 09 |
| 3. | 3-4 | 01 |
| | Total | 13 |

Delay in finalisation of accounts carries the risk of financial irregularities going undetected and, therefore, the accounts need to be finalised and submitted to Audit at the earliest.

3.3 Non-submission of details of grants/loans paid

To identify institutions/organisations which attract audit under Sections 14 and 15 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) 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 for which the assistance is granted and the total expenditure of the institutions. Further, Regulations on Audit and Accounts, 2007 provide that governments and 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.

However, no departments/autonomous bodies (out of a total of 20 departments/autonomous bodies), had furnished such details. In the absence of such information, the number of bodies/authorities which attract audit of C&AG under Section 14 and 15 of DPC Act could not be evaluated. As a result of which the accuracy and propriety

of expenditure out of such loans and grants given out of Consolidated Fund of the State could not be examined in audit.

Appropriate measures for compilation and submission of accounts by these institutions/ entities within the fixed timeframe to audit need to be ensured by the State Government, so as to ensure that financial irregularities, if any, do not go undetected.

3.4 Misappropriation/loss, theft, etc.

Mention was made in previous years' Audit Reports regarding cases of misappropriation, losses, theft, etc. In spite of that, no action has been taken on the cases by the State Government as of September 2018.

State Government reported 48 cases of misappropriation/losses, theft, etc., involving government money amounting to ₹ 80.03 lakh upto July 2018 on which final action was still pending. In all these cases, the First Information Report (FIR) has been filed by the concerned departments. Out of these, 46 cases were more than five years old. The department-wise break up of pending cases and age-wise analysis is given in **Appendix 3.3** and nature of these cases is given in **Appendix 3.4**. 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 are summarised in **Table 3.3**.

Table 3.3: Profile of misappropriations/losses and theft

| 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 – 5 | 02 | 4.41 | Theft | 08 | 8.08 |
| 5 – 10 | 09 | 13.41 | | | |
| 10 – 15 | 05 | 12.03 | | | |
| 15 – 20 | 13 | 41.44 | Misappropriation/loss of material | 40 | 71.95 |
| 20 – 25 | 03 | 4.91 | | | |
| 25 and above | 16 | 3.83 | | | |
| Total | 48 | 80.03 | Total | 48 | 80.03 |

A further analysis indicates that the reasons for which the cases were outstanding could be classified in the categories listed in **Table 3.4**.

Table 3.4: Reasons for outstanding cases of misappropriation/loss, theft, etc.

| Reasons for the delay/outstanding cases | | Number of cases | Amount (₹ in lakh) |
|---|--|-----------------|--------------------|
| (i) | Awaiting departmental and criminal investigation | 26 | 31.38 |
| (ii) | Awaiting orders for recovery or write off | 01 | 2.57 |
| (iii) | Pending in the courts of law | 06 | 26.72 |
| (iv) | Recovery made/written off but awaiting final disposal from PAC | 14 | 18.94 |
| (v) | Others | 01 | 0.42 |
| | Total | 48 | 80.03 |

An effective and time bound mechanism needs to be put in place to ensure speedy settlement of cases relating to theft, misappropriation and losses.

3.5 Non-adjustment of temporary advances

The Himachal Pradesh Financial Rules 2009 provide that Head of the Office or any other authorized officer may sanction advances to a Government servant for purchase of goods or for hiring services or for any other special purpose subject to the condition that the adjustment bill, along with balance if any, shall be submitted by the concerned Government servant within fifteen days of the drawal of advance.

Test-check of records and information furnished by the various departments revealed that as on 31 March 2018, there were 61 cases of temporary advances relating to the period 2013-14 to 2017-18 aggregating ₹ 26.03 crore were pending for adjustment by four departments in their records due to non-submission of adjustment vouchers in the same financial year and awaited Utilisation Certificates from the concerned. Age-wise analysis of advances pending is given in **Table 3.5**.

Table 3.5: Age-wise analysis of cases of advances pending as of March 2018

| Sr. No. | Department | Pending year | No. of cases | Amount (₹ in lakh) |
|--------------|---|--------------|--------------|--------------------|
| 1. | Director, Ayurveda, Shimla | 2013-14 | 02 | 100.00 |
| | | 2014-15 | 04 | 55.50 |
| | | 2015-16 | 16 | 312.50 |
| | | 2016-17 | 10 | 368.71 |
| | | 2017-18 | 13 | 339.47 |
| 2. | Director, Health and Family Welfare, Shimla | 2014-15 | 13 | 1,398.33 |
| 3. | Director, Youth Services and Sports, Shimla | 2016-17 | 01 | 3.25 |
| | | 2017-18 | 01 | 25.00 |
| 4. | Director, Land Records, Shimla | 2016-17 | 01 | 0.30 |
| Total | | | 61 | 2,603.06 |

Non-recovery/adjustment of advances within prescribed time breaches financial discipline and entails risk of misappropriation of public money and unhealthy practices.

3.6 Important factors affecting accuracy of accounts

3.6.1 Outstanding balances under major suspense accounts

The accounts of the Government are kept on cash basis. Certain transactions that arise in Government Account, the receipts and payments of which cannot at once be taken to a final head of receipt or expenditure owing to lack of information as to the nature or for any other reasons, are to be booked temporarily under the 'Suspense Head'. On the receipt of relevant details/information, these heads of accounts are finally cleared by minus debit or minus credit when the amounts under them are booked to their respective final heads of accounts. If these amounts remain un-cleared, the balances under the suspense heads would accumulate and would not reflect Government's receipts and expenditure accurately. Debt, Deposit and Remittances heads account for such transactions where the Government, as a custodian of public money, receives and holds such money in trust.

The accuracy of the Finance Accounts 2017-18 of the State has been adversely affected by large number of transactions under suspense heads awaiting final classification. A general review of the transactions showed the following:

The balances under certain major suspense heads of accounts, as recorded in the ledger maintained by Accountant General (Accounts and Entitlement), are indicated in **Table 3.6.**

Table 3.6: Suspense Head (8658 – Suspense Accounts)

| Name of Minor Head | 2015-16 | | 2016-17 | | 2017-18 | |
|---|-------------------|--------|-------------------|--------|------------------|--------|
| | Dr. | Cr. | Dr. | Cr. | Dr. | Cr. |
| 101-Pay and Accounts Office-Suspense | 55.66 | 18.15 | 77.13 | 29.96 | 86.03 | 36.55 |
| Net | 37.51 Dr. | | 47.17 Dr. | | 49.48 Dr. | |
| 102-Suspense Account (Civil) | 194.87 | 212.23 | 275.05 | 275.24 | 171.47 | 164.12 |
| Net | 17.36 Cr. | | 0.19 Cr. | | 7.35 Dr. | |
| 112-Tax Deducted at Source (TDS) Suspense | 284.65 | 303.47 | 380.08 | 394.95 | 400.08 | 453.76 |
| Net | 18.82 Cr. | | 14.87 Cr. | | 53.68 Cr. | |
| 129-Material Purchase Settlement Suspense Account | 143.71 | 407.35 | 175.64 | 399.29 | 270.59 | 347.59 |
| Net | 263.64 Cr. | | 223.65 Cr. | | 77.00 Cr. | |

(₹ in crore)

The Finance Accounts reflect the net balances under these heads. The outstanding balances are worked out by aggregating the outstanding debit and credit separately. The implications of the balances under these heads are discussed in the succeeding paragraphs:

➤ **Pay and Accounts Office (PAO) Suspense– (Minor Head 101)**

This head is intended for settlement of transactions between the Accountant General and the various separate Pay and Accounts Officers. The transactions initially recorded under this head in the books of the AG are cleared on receipt of the Cheques/Demand Drafts from the Pay and Accounts Officer and on the issue of Cheque/Demand Draft in respect of amounts received in the State Treasuries on behalf of the Pay and Accounts Officer. *Outstanding debit balance under this head would mean that payments have been made by the AG on behalf of a PAO, which were yet to be recovered. Outstanding credit balance would mean that payments have been received by the AG on behalf of a PAO, which were yet to be paid. The net debit balance under this head showed increasing trend during 2015-18 and increased from ₹37.51 crore 2015-16 to ₹49.48 crore in 2017-18. On clearance/settlement of this, the cash balance of the State Government will increase.*

➤ **Suspense Account- Civil (Minor Head 102)**

This Minor Head is operated by the Accountants General to accommodate provisionally the differences noticed in the transactions which cannot be taken to the final head of expenditure/receipt accounts for want of certain information/documents viz., challans, vouchers etc. Receipts are credited and expenditure is debited to this account and cleared on receipt of required information by minus credit and minus debit respectively. *Outstanding debit balance under this head implies ‘payment made’ but could not be debited to the final head of expenditure for want of certain*

particulars and outstanding credit balance represents the ‘receipts’ which could not be credited to final receipt head of account for want of details. However, there was outstanding debit balance of ₹7.35 crore under this head as on 31 March 2018.

➤ **Tax deducted at Source (TDS) Suspense – (Minor Head 112)**

This Minor Head is intended to accommodate receipts on account of Income tax deducted at source viz., interest payments on State Government securities, salary bills of State Government employees and pension bills etc., by State Treasury officers/State Pay and Accounts Officers/other Departmental officers who render compiled accounts of State Government as well as from interest payments on State Government securities made at Public Debt offices of the RBI in the books of State Accountant General to enable them to settle transactions with Zonal Accounts Officers concerned of Central Board of Direct Taxes by means of Cheques/Bank Drafts. Receipts on account of TDS are credited to Major Head 8658 – Suspense accounts under Minor Head 112 – TDS Suspense. These credits are to be cleared by the end of each financial year and credited to the Income Tax Department. However, there was outstanding credit balance of ₹ 53.68 crore under this head as on 31 March 2018.

➤ Similarly, under 129-Material Purchase Settlement Suspense Account, there was outstanding credit balance of ₹ 77 crore under this head as on 31 March 2018.

3.7 Compliance to Accounting Standards

As per article 150 of the Constitution of India, the President of India may, on the advice of the Comptroller and Auditor General of India, prescribe the form of accounts of the Union and of the States. In accordance with this provision, the President of India has so far notified three Indian Government Accounting Standards (IGAS). Compliance to these Accounting Standards by Government of Himachal Pradesh in 2017-18 and deficiencies therein are detailed in **Table 3.7:**

Table 3.7: Compliance to Accounting Standards

| Sl. No. | Accounting Standard | Compliance by State Government | Deficiencies noticed in compliance |
|---------|--|--|--|
| 1 | IGAS 1: Guarantees Given by the Government | Complied (Statements 9 and 20 of Finance Accounts) | -- |
| 2 | IGAS 2: Accounting and Classification of Grants-in- Aid | Complied (Statement 10 of Finance Accounts) | During 2017-18, Grants-in-aid amounting to ₹ 1.21 crore (₹ 0.85 crore + ₹ 0.36 crore) was incurred by State Government, under Capital expenditure heads, which was in contravention of IGAS-2. |
| 3 | IGAS 3: Loans and Advances made by Governments | Complied (Statement 18 of Finance Accounts) | -- |

Source: Indian Government Accounting Standards and Finance Accounts

3.8 Conclusion

Substantial delays in submission of utilisation certificates occurred 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 (DPC) Act, 1971. A large number of autonomous bodies did not prepare their final accounts for considerable periods. As a result, their financial position could not be assessed. Further, there were cases of temporary advances pending for adjustment, cases of theft of Government money, misappropriation, loss of Government material and defalcation, departmental action was pending for long periods.



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Principal Accountant General (Audit)
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Shimla
The 13 August 2019

Countersigned



(RAJIV MEHRISHI)
Comptroller and Auditor General of India

New Delhi
The 20 August 2019

