

CHAPTER-III
FINANCIAL REPORTING

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Financial Reporting

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 submission of Utilisation Certificates

Financial Rules provide that for the grants provided for specific purposes, Utilisation Certificates (UCs) should be obtained by the departmental officers from the grantees. After verification, these should be forwarded to the Accountant General (Accounts & Entitlement) within 12 months from the date of their sanction unless specified otherwise. As per Finance Accounts, Utilization Certificates in respect of 255 cases involving an amount of ₹ 865.30 crore were outstanding for submission as on March 2018 as detailed in Table 3.1. The department-wise break-up of outstanding UCs is given in **Chart 3.1** and **Appendix 3.1**

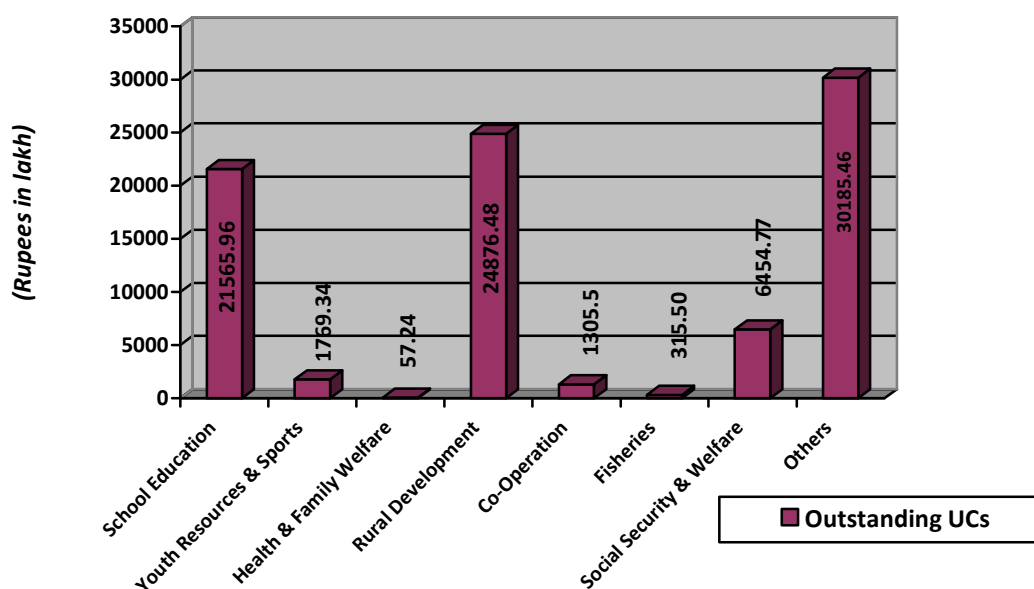
Table 3.1: Year-wise break up of pending Utilisation Certificates in respect of Grants-in-Aid

Years	Number of cases / Amount of grant		Number of UCs submitted		Number of UCs outstanding as of March 2018	
	Number of cases	Amount	Number of cases	Amount	Number of cases	Amount
	Up to 2014-15 (Oldest case 2010-11)	330	1164.46	141	519.91	189
2015-16	35	138.00	5	55.25	30	82.75
2016-17	55	328.40	19	190.40	36	138.00
Total	420	1630.86	165	765.56	255	865.30

(Rupees in crore)

Source: Principal Accountant General (A&E), Nagaland

Chart 3.1: Department wise outstanding position of UCs as on March 2018



Major defaulting departments, which had not submitted the UCs, were the School Education, Rural Development, Social Security and Welfare, Youth Resources & Sports, Co-operation, etc.

As the outstanding UCs are not being submitted in a timely manner within one year or as per specified time frame, after their becoming due for submission, there is a strong need for the Government to put in place necessary mechanism for ensuring their timely submission. Besides, Government needs to take strict action against the departmental officers concerned including supervisory failures in this regard for not ensuring submission of UCs in a timely manner as high pendency of UCs is fraught with the risk of frauds and misappropriation of funds. Moreover, due to lack of action to ensure submission of Utilisation Certificates, it could not be ascertained whether the grants had been utilized for the purpose for which these were given.

While accepting (December 2018) the facts, Government stated that necessary action would be taken to submit the pending UCs on priority.

Recommendation (12): The Government needs to enforce strict compliance to the timelines for submission of the UCs by the recipients and failure to comply with the timelines should be scrupulously dealt with. Action against erring officials needs to be initiated.

3.2 Non-submission/delay in submission of Accounts

In order to identify the bodies/authorities 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 of assistance granted and the total expenditure of the Institutions.

A total of 121 annual accounts in respect of 22 Autonomous Bodies/Authorities due up to 2017-18 had not been received as of August 2018 by the Accountant General (Audit). The details of those 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 Government Bodies/Authorities

Sl. No.	Delay in number of years	No. of the Bodies/ Authorities	Grants received (Rupees in Lakhs)
1	4 – 5	15	Details not Available
2	>5 – 8	7	Details not Available

It may be seen from the table above that delay in submission of accounts ranged between four and eight years in respect of the Autonomous Bodies/Authorities.

Twenty two Bodies and Authorities did not submit their Annual Accounts to Audit. The number of pending accounts was 121 with pendency ranging between four to eight years. Thus, proper utilisation of grants and loans disbursed to these Bodies/Authorities and their accounting remained unverified in audit. The non-submission/delay in submission of annual accounts dilutes the accountability and defeats the very purpose of preparation of accounts.

The reasons for non-preparation of the accounts were not intimated. Such inaction was also indicative of the failures of the management at the level of such bodies/ authorities and at Government's level as well, which was a matter of concern.

While accepting (December 2018) the facts, Government stated that necessary action would be taken to expedite the submission of accounts by the departments.

3.3 Delay in submission of Accounts/Audit Reports of Autonomous Bodies

Fourteen Autonomous Bodies have been set up by the State Government in the field of development of Khadi and Village Industries, State Legal activities, Power and pollution regulations *etc.* Of these, the audit of accounts of the Nagaland Khadi and Village Industries Board (NKVIB) up to 2018-19 was entrusted to the Comptroller and Auditor General of India under Section 19 (3) of the DPC Act. However, the annual accounts of the Board for the period 2015-18 were not furnished to Audit (December 2018). The status of entrustment of audit, issuance of Separate Audit Report (SAR) and its placement in respect of NKVIB in the Legislature is indicated in **Table 3.3:**

Table 3.3: Delay in submission of Accounts and tabling of Separate Audit Reports

Year of SAR	Period of entrustment	Date of issue of SAR	Date of placement in the Legislature	Delay in placement in the Legislature (Years)
2011-12	2009-14	09-06-2015	18.08.2017	2
2012-13	2009-14	09-06-2015	18.08.2017	2
2013-14	2009-14	09-06-2015	18.08.2017	2
2014-15	2014-19	18-07-2016	18.08.2017	1
2015-16	2014-19	Accounts not yet received	Not applicable	Not applicable
2016-17	2018-19	Accounts not yet received	Not applicable	Not applicable
2017-18	2018-19	Accounts not yet received	Not applicable	Not applicable

Nagaland Electricity Regularity Commission and Nagaland Hospital Authority were established¹⁵ under the State Legislative Act and the audit of accounts was entrusted to the Comptroller and Auditor General of India under Section 104 and 105 of Central Electricity Act 2003 and Rule 14 of Notification issued under Section 22 of Hospital Authority Bill 2003 by the Government of Nagaland. Although the annual accounts of those Authorities/Bodies were due for submission to the Accountant General (Audit) every year, yet the Accounts were not furnished by those authorities since their inception due to which C&AG could not conduct the audit and submit Reports to State Legislature. Besides, non-furnishing of accounts and absence of audit was fraught with the risk of misappropriation *etc.*

While accepting (December 2018) the facts, Government stated that necessary action would be taken to impress upon the departments to submit their accounts without any further delay.

Recommendation (13): *There is a need to impress upon the Autonomous Bodies for submission of accounts regularly besides ensuring by the State Government that the Separate Audit Reports of the Autonomous Bodies where issued, are placed in the Legislature in time.*

¹⁵ Nagaland Electricity Regulatory Commission (04.03.2008), Nagaland Hospital Authority (01.04.2004)

3.4 Departmental Commercial Undertakings

Some departmental undertakings perform activities which are of quasi-commercial nature. The financial results of such departmental undertakings are in the form of proforma accounts. The department-wise position of the year up to which proforma accounts were not finalised in those undertakings are given in **Appendix 3.3**. It was noticed that:

As on 31 March 2018, there were eight departmentally managed Government commercial undertakings.

A mention was made in the Report of the Comptroller and Auditor General of India on State Finances for the year 2012-13 about delay in preparation of Proforma accounts of those undertakings. Despite this, accounts were in arrears for periods ranging between two and 37 years as of March 2018.

The finalised accounts of departmentally managed commercial undertakings reflect their overall financial health and efficiency in conducting their business. In the absence of timely finalisation of accounts, Government's investment remains outside the scrutiny of the Audit/State Legislature. Consequently, corrective measures required, if any, could not be taken in time. Besides, delay in preparation and submission of proforma accounts also exposes the system to risk of fraud and leakage of public money.

While accepting (December 2018) the facts, Government stated that necessary action would be taken to arrest the situation of delay in preparation of accounts by the Commercial Undertakings concerned.

Recommendation (14): *The Government may ensure timely preparation of accounts by Departmental Commercial Undertakings and monitor the same. Effective steps are required to be taken by the State Government for clearance of arrears of accounts on priority.*

3.5 Balances lying unspent in Civil Deposits and Bank accounts

The State Government provides its share to various Departments/Agencies for the implementation of Centrally Sponsored/State schemes. Those Departments/Agencies retain such funds, outside the Government account in their bank accounts and Civil Deposits. As the funds are generally not spent fully by the implementing agencies in the financial year of their receipt, they remained unspent and kept in bank accounts and in Civil Deposits.

The details of funds drawn, their utilization and funds kept in Civil Deposits/current bank accounts in respect of five departments/agencies are presented in the **Table 3.4**:

Table 3.4: Non-utilisation of funds during the year 2017-18

(Rupees in crore)

Sl. No.	Name of the Department/Directorate	Amount drawn	Expenditure incurred	Amount kept in Civil Deposit	Amount kept in Bank Account
1	Election Department	1.00	0.00	1.00	0.00
2	CE, Water Resources	1.14	0.00	1.14	0.00
3	Directorate of Social Welfare	32.59	24.32	8.27	0.00
4	Director of Higher Education	1.30	0.00	1.30	0.00
Grand Total		36.03	24.32	11.71	0.00

Source: Departmental Figures.

The above table shows that an amount of ₹ 36.03 crore was drawn by the four departments during the year 2017-18 for implementation of different schemes. Out of the amount drawn, the departments utilised only an amount of ₹ 24.32 crore (67.50 per cent) during the financial year. The remaining amount of ₹ 11.71 crore (32.50 per cent) was kept in Civil Deposit. In addition to the above, information furnished by Seven¹⁶ Banks revealed that an aggregate amount of ₹ 19.44 crore was also lying in the respective Bank accounts of 70 Drawing and Disbursing Officers (DDOs) as on 31 March 2018 without being spent for the intended purpose. Resultantly, the funds drawn and kept in Civil Deposits were shown as utilized by the respective DDOs and thus, the Accounts of the respective year (s) were inflated to that extent without the actual expenditure having been incurred under the programme/scheme for which the funds were provided.

Government accepted (December 2018) the facts pointed out by Audit.

3.6 End use of Cess

The State Government notified (August 2011) the enforcement of Levy and Collection of Cess for the purpose of the Building and Other Construction Workers (Regulation of Employment and Conditions of Service) Act, 1996. The levy and collection of such Cess will be at a rate of one per cent of the cost of construction incurred by an employer. In compliance with this notification, Finance Department instructed the DDOs to ensure that deduction of the Cess as prescribed, is made against all civil construction works involving employment of labour and to deposit the same into the account of the Nagaland Building and Other Construction Workers' Welfare Board (NBOCW Welfare Board) by Demand Draft/Cheque. As such, the board had been receiving the Cess with effect from 2011-12 onwards.

The details of amount collected and actual expenditure incurred during the period from 2013-14 to 2017-18 are shown in **Table 3.5:**

Table 3.5: Statement of Cess collection and expenditure incurred (2013-14 to 2017-18)

(Rupees in crore)

Year	Opening Balance	Receipt during the year	Available Fund	Expenditure	Balance at the end of the year
2013-14	4.25	3.56	7.81	0.68	7.13
2014-15	7.13	6.17	13.30	0.42	12.88
2015-16	12.88	7.22	20.10	2.00	18.10
2016-17	18.10	9.23	27.33	1.40	25.93
2017-18	25.93	9.45	35.38	7.56	27.82

Source: Information furnished by NBOCW Welfare Board.

The Government of Nagaland had constituted the Board to provide social security to the section of workers engaged in building and other construction works by implementing different welfare schemes viz., Grant for purchase of tools, Medical assistance, Children education allowance and Maternity benefit for the women beneficiaries.

During 2017-18, out of total available Cess fund of ₹ 35.38 crore, the Board could spend only ₹ 7.56 crore (21.37 per cent). Out of the total expenditure of ₹ 7.56 crore, grant on account of

¹⁶ SBI (Tuensang), SBI (Mokokchung), SBI (Longleng), UCO Bank, Vijaya Bank, HDFC & Axis Bank

purchase of tools was ₹ 0.32 crore (4.23 per cent), insurance coverage was Nil, medical assistance was ₹ 0.09 crore (1.19 per cent), children education scholarship was ₹ 2.19 crore (28.97 per cent) and maternity benefit for women was ₹ 0.11 crore (1.46 per cent) respectively. Moreover, an expenditure of ₹ 4.80 crore was also made for the skill labour training and ₹ 0.05 crore for the installation of Computer software.

It could be seen that the funds received under the Cess had increased over the years. However, the Board could not utilise the available balances optimally towards the welfare of the construction workers. Thus, there was a need to start awareness programmes towards availability and utilization of Cess fund among the beneficiaries and prepare Schemes and call for applications for various benefits.

3.7 Misappropriation, loss, defalcation, etc.

There were 29 cases of misappropriation, losses etc., involving Government money amounting to ₹ 178.96 crore up to the period ending 31 March 2018 on which final action was pending. The department-wise break up of pending cases and age wise analysis is given in **Appendix 3.4** and nature of the cases are given in **Appendix 3.5**. The age-profile of the pending cases and the number of cases pending in each category are summarised in **Table 3.6**:

Table 3.6: Profile of Misappropriation, loss, defalcation, etc.

Nature of the Pending Cases				
Range in Years	Number of Cases	Nature/ Characteristics of the Cases	Number of Cases	Amount Involved (Rupees in crore)
0-5	27	Theft	1	0.01
		Misappropriation/ Losses	26	170.94
5-10	2	Defalcations	2	8.01
Total	27		29	178.96

Source: Vigilance & Anti-Corruption department.

A further analysis indicates the reasons for which the cases were outstanding as detailed in **Table 3.7**:

Table 3.7: Reasons for Outstanding cases of Misappropriation, losses, defalcations, etc.

Reasons for the Delay/ Outstanding Pending Cases		Number of Cases	Amount (in crore)
i	Awaiting departmental and criminal investigation	24	160.89
ii	Departmental action initiated but not finalized	4	5.28
iii	Pending in the Court of law	1	12.79
Total		29	178.96

Source: Vigilance & Anti-Corruption department.

The highest amount of misappropriation, loss and theft that amounted to ₹ 82.96 crore, involved two cases of misappropriation, one case of theft and one case of loss of government material in School Education Department, out of which an amount of ₹ 0.41 crore had been recovered (December 2018). Government accepted (December 2018) the facts pointed out by Audit and assured that it would expedite the process of finalization of the pending cases.

Recommendation (15): The Government should lodge First Information Report in all the cases of defalcation/ misappropriation/ loss to the Government and it may be ensured that timely action is taken in all such cases which may act as a deterrent in recurrence of such cases in future.

3.8 Follow up action on Audit Reports

The preparation of the reports of the Comptroller and Auditor General of India on State Finances in respect of the Government of Nagaland had commenced in 2008-09. These Audit Reports can achieve the desired results only if they evoke positive and adequate response from the executive authorities themselves. To ensure accountability of the executive about the issues contained in the Audit Reports, the Public Accounts Committee of Nagaland Legislative Assembly issued instructions (December 2002) for submission of *suo motu* explanatory notes by the Administrative Departments concerned within one month of presentation of the Audit Reports to the State Legislature.

The Audit Reports on State Finances for the years from 2008-09 to 2016-17 were placed before the State Legislature on 27.03.2010; 28.03.2011; 22.03.2012; 18.03.2013; 25.07.2014; 17.03.2015; 19.03.2016; 28.03.2017 and 20.09.2018 respectively, *suo motu* explanatory notes on the observations made in the respective Audit Reports had not been furnished by the departments.


3.9 Conclusion

Failure in timely submission of Utilisation Certificates (UCs) was a major area of concern. At the end of March 2018, 255 UCs involving an aggregate amount of ₹ 865.30 crore were pending for submission even after a lapse of one to seven years by various departments.

The accounts of the State Autonomous Bodies and Departmental Commercial Undertakings were not submitted to Audit for the last two to thirty seven years due to which audit by C&AG of India could not be conducted, which was a serious matter.

As on 31 March 2018, 29 cases of misappropriation, defalcation *etc.*, involving ₹ 178.96 crore pertaining to 13 Departments, private firms and various other departments were pending for finalisation.

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Dated: 06 June 2019


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