Chapter 3

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 Non-submission of Utilisation Certificates

Financial Rules stipulate that for the grants provided for specific purposes, Utilisation Certificates (UCs) should be obtained by the departmental officers from the Grantees and, after verification, these should be forwarded to the AG (A&E) within 18 months from the date of their sanction unless specified otherwise. However, 303 UCs aggregating ₹2,585.26 crore in respect of grants released up to 2017-18 were in arrears as detailed in **Appendix 3.1**. The status of outstanding UCs is given in **Table 3.1**.

Table 3.1: Year-wise arrears of Utilisation Certificates

(₹ in crore)

Year	No. of utilisation certificates awaited	Amount
Up to 2015-16	96	315.61
2016-17	61	358.90
2017-18*	146	1,910.75
Total	**303**	**2,585.26**

Source: Finance Accounts

* *The year mentioned above relates to 'Due year' i.e., after 18 months of actual drawal*.

The majority of cases of non -submission of UCs related to the Medical and Public Health Department (64 *per cent*) and Urban Development Department (34 *per cent)*. 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 unauthorized purposes.

Submission of UCs against the amounts drawn should be a budgetary exercise carried out at regular intervals of time.

3.2 Non-receipt of Information Pertaining to Institutions substantially financed by the Government

To identify the institutions, which attract audit under Sections 14 and 15 of the CAG's (Duties, Powers and Conditions of Service) Act, 1971, heads of the Government Departments are required to furnish to audit every year information about the institutions to which financial assistance of ₹25 lakh or more was given, the purpose for which assistance was granted and the total expenditure of the institutions.

Fourteen Departments did not furnish the information pertaining to 487 institutions receiving grants aggregating ₹25 lakh or more for periods ranging from two years to more than 20 years, as detailed in **Appendix 3.2**. As seen from the appendix, the major defaulter was the department of Education.

Instructions were issued by the Finance Department (December 2017) to the Secretaries of Administrative Departments to furnish the required information to the AG (A&E) directly. However, there was no improvement in compliance.

3.3 Status of Submission of Accounts of Autonomous Bodies and Placement of Audit Reports before the State Legislature

Several Autonomous Bodies were set up by the State Government in the fields of Village and Small Industries, Urban Development, *etc*. The audit of accounts of 11 autonomous bodies in the State was entrusted to the C&AG under Sections 19 and 20 of CAG's DPC Act, 1971. These are audited with regard to their transactions, operational activities and accounts, conducting of regulatory/compliance audit, review of internal management and financial control, review of systems and procedures, *etc*.

Separate Audit Reports in respect of one autonomous body for the year 2014-15, two autonomous bodies for 2015-16 and seven autonomous bodies for 2016-17 were yet to be placed before the State Legislature. The Separate Audit Report in respect of one autonomous body was not placed since inception from 2006-07.

The status of entrustment of audit, rendering of accounts, issuing of Audit Reports and their placement before the State Legislature is indicated in **Appendix 3.3**.

3.4 Departmental Commercial Undertakings

The departmental undertakings of certain Government Departments performing activities of commercial and quasi-commercial nature are required to prepare proforma accounts in the prescribed format annually, showing the working results of financial operations, so that the Government can assess their working. The finalized 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 accounts, the investment of the Government remains outside the scrutiny of Audit/State Legislature. Consequently, corrective measures, if any, required for ensuring accountability and improving efficiency cannot be taken in time. Besides, the delay in all likelihood also opens the system to the 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 Accountant General for audit within a specified time-frame. Out of the nine undertakings, which are closed/transferred/converted into co-operative federations, proforma accounts in respect of two undertakings were due from 1969-70. The position of arrears in preparation of proforma accounts by the undertakings is given in **Appendix 3.4**.

In reply to the same issue being pointed out in an earlier audit report (SFR 2015-16**)**, the Finance Department stated (March 2019) that in the meeting held on 18.08.2015 regarding rendering of Proforma Accounts to AG, concerned departments were instructed to continue furnishing of Proforma Accounts to AG, since the status of Departmental Commercial Undertakings were not withdrawn. Further, it stated that the administrative departments were instructed to send comprehensive proposals to close the units.

3.5 Non-receipt of Stores and Stock Accounts

The annual accounts of Stores and Stock are required to be furnished by various departments to Audit by 15 June of the following year. The half yearly accounts of PWP and IWTD, Water Resources and Minor Irrigation Departments are due to be received by 15 December of the year and 15 June of the following year. Delay in receipt of stores and stock accounts is commented upon in successive Audit Reports.

The position of arrears relating to submission of stores and stock accounts by 11 departments involving 169 offices is indicated in **Appendix 3.5**.

3.6 Abstract Contingent Bills

Under Rule 36 of the Manual of Contingent Expenditure, 1958, the Controlling and Disbursing Officers are authorised to draw sums of money by preparing Abstract Contingent (AC) bills by debiting service heads and are required to present Non-payment Detailed Contingent (NDC) bills (vouchers in support of final expenditure) to the AG(A&E) through treasuries before 15th of the month following the month to which the bill relates. Controlling officers should also ensure that no amounts are drawn from the treasury unless required for immediate disbursement. Detailed bills aggregating to ₹84.00 crore, drawn on 3,276 AC bills, were pending at the end of March 2018 as detailed in **Table 3.2** and **Table 3.3**.

Table 3.2: Abstract Contingent Bills

(₹in crore)

	Number	Amount
Opening balance as on 01.04.2017	3,272	84.81
AC bills drawn during the year	3,094	90.03
Total	6,366	174.84
Submission of NDC bills against pending AC bills	3,090	90.84
Closing balance of Pending AC bills as on 31.03.2018	3,276	84.00

Table 3.3: Year-wise pendency Abstract Contingent Bills

(₹ in crore)

Year	No. of pending AC Bills	Amount
Up to 2015-16	1,437	37.73
2016-17	759	18.48
2017-18*	1,080	27.79
Total	**3,276**	**84.00**

Source: Finance Accounts

**excludes bills drawn during March 2018*

During March 2018, ₹39.94 crore was drawn on AC bills, out of which ₹1.94 crore was drawn on the last day of the financial year.

Most of the outstanding NDC bills pertain to Police - Major Head 2055 (₹38.47 crore– 46 *per cent*) Elections - Major Head 2015 (₹5.04 crore – six *per cent*), General Education – Major Head 2202 (₹4.20 crore – five *per cent).*

The withdrawal of money on an AC bill is accounted for against the functional Major Head in the Consolidated Fund. Unless the accounts are settled within the time allotted, the expenditure stands inflated. This impacts the fiscal indicators of the Government (Revenue surplus/fiscal deficit). Instructions were issued by the Finance Department to all Principal Secretaries/Secretaries to Government (August 2012) for settlement of accounts within the stipulated period, failing which action will be taken to stop the salary of the DDO concerned. However, it was observed in audit that the practice of drawal of salary by DDOs, who had substantial bills pending against them continued, indicating poor compliance with the instructions of the Finance Department.

PAC in its 5th Report (July 2015) took a serious note on this issue and stated that strict action should be taken for non-submission of NDC bills by the DDOs.

Vouchers in support of the claim for the amounts drawn on AC Bills should be submitted within the period stipulated in the Manual of Contingent Expenditure.

3.7 Personal Deposit Accounts

The Karnataka Financial Code (KFC) provides for opening of Personal Deposit (PD) accounts with permission from the Government in cases where the ordinary system of accounting is not suitable for transactions. PD accounts created by debit to the Consolidated Fund of the State should be closed at the end of the financial year. Administrators of the accounts should intimate the Treasury Officer the balance to be transferred to the Consolidated Fund. For continuation of PD accounts beyond the period of their currency, administrators are required to seek the permission of the Finance Department. Periodical reconciliation of PD accounts with treasury accounts is the responsibility of the administrators concerned.

3.7.1 Funds kept in PD Accounts

The transactions relating to PD accounts for the period 2013-14 to 2017-18 are detailed in **Table 3.4**.

Table 3.4: Funds in PD accounts

(₹ in crore)

Year	Opening Balance	Receipts/Deposits	Withdrawals	Closing balance
2013-14	2,086.18	3,782.85	3,571.93	2,297.10
2014-15	2,297.10	3,915.81	3,784.62	2,428.29
2015-16	2,428.29	6,368.39	6,061.07	2,735.61
2016-17	2,735.61	5,516.51	5,310.01	2,942.12
2017-18	2,942.12	4,194.46	4,395.06	2,741.52

Source: Finance Accounts

During the year 2017-18, out of ₹4,194.46 crore credited to PD Accounts, ₹864.21 crore was transferred to PD accounts during March 2018. Further, as seen from the above table, the balances in the deposit account were showing an increasing trend up to 2016-17 and there was a slight decrease in the balance during 2017-18.

The net closing balance in respect of some of the PD accounts having high balances is in **Table 3.5**.

Table 3.5: Closing balances in PD Accounts

(₹ in crore)

Sl. No.	Administrators	Amount
1	Personal Deposits - General	338.16
2	PD Accounts of Deputy Commissioners	6,158.66
3	PD Accounts of Director, Department of Scheduled Tribes	137.47

Source: DDR Ledger

Leaving significant balances in the Personal Deposit Accounts of the administrators is fraught with the risk of financial misappropriation and mismanagement**.**

Action is required as per the provisions of the Karnataka Financial Code for write back/cleaning up of balances in respect of funds, which have outlived their utility.

3.7.2 Non Remittance of unutilised amount to Government – ₹3.05 crore

On review of the Personal Deposit Account of the Director, Directorate of Municipal Administration, it was noticed that in respect of following schemes which were inoperative, an amount of ₹3.05 crore was lying unutilised as detailed below in **Table 3.6**.

Table 3.6: In-operative scheme balance

Sl. No.	Name of the schemes	Amount in ₹
1	Integrated Programme for Low Cost Sanitary (IPLCS) 1. Beneficiary Contribution amount 2. Grant payment	 27,348 24,87,792
2	Integrated Development of Small Medium Town (Srirampuram Co-operative Bank Refund amount against the grant deposited)	2,80,15,000
Total		**3,05,30,140**

The unspent amount was not remitted to the Government account till date, which was in violation of Article 286-A of the Karnataka Financial Code (KFC). It was replied (January 2019) that in case of Sl. No.1 the unutilised amount of ₹25.15 lakh will be remitted to Government account and in case of Sl. No.2 a case is pending in City Civil Court and after completion of the case suitable action would be taken.

3.7.3 Reconciliation of Personal Deposit Accounts

As per the Article 286 of the KFC, the Administrators of PD accounts are required to reconcile the cash book balances with reference to the monthly extracts of their accounts as appearing in the treasury records on the fifth of the succeeding month. Information on reconciliation of figures by the Administrators with the treasuries was not available.

As per Article 286 A of the KFC, the State Government is required to close all PD accounts remaining inoperative for more than three years. As brought out in Notes to Accounts of Finance Accounts 2018, out of 70 PD Accounts, 22 PD Accounts (with an outstanding credit balance of ₹4.75 crore in 11 PD Accounts and debit balance of ₹1.27 crore in nine PD Accounts and two PD accounts with nil balance) were inoperative (**Appendix 3.6**). Action may be taken by the administrators to analyze the balance and duly reconcile the balance before embarking upon the process of closure of accounts by writing back the transactions to the Consolidated Fund of the State.

3.8 Reconciliation of Receipts and Expenditure

To exercise effective budgetary control over revenue/expenditure and to ensure accuracy in accounts, all Controlling Officers are required to reconcile every month, the receipts and expenditure recorded in their books with the figures accounted for by the AG (A&E). Reconciliation of receipts was completed for a value of ₹1,45,344.52 crore (98.87 *per cent* of total receipts of ₹1,47,003.35 crore). Reconciliation of expenditure was completed for a value of ₹1,38,610.22 crore (80 *per cent* of total expenditure of ₹1,73,149.09 crore). No reconciliation was carried out in respect of receipts (₹136.93 crore) and disbursements (₹5,092.22 crore) under loans and advances. Necessary action for reconciliation in respect of receipts and expenditure under loans and advances is required to be taken.

PAC in its 5th Report (July 2015) instructed the Government to take strict action on implementation of circulars issued for reconciliation of Receipts and Expenditure.

3.9 Comments on Accounts

3.9.1 Non-remittance of compensation amount into Government Accounts

Article 4 of KFC stipulated that all moneys received by a Government Servant in his official capacity should be paid in full within two days into a Government Treasury, to be credited to the appropriate account and made part of the general treasury balance.

(i) Karnataka Text Book Society, Education Department

The Special Land Acquisition Officer (SLAO) and Competent Authority, National Highways, Bangalore acquired 4,356 Square feet of Government Land at Sy No. 54/2B and 54/3 of Bommanahalli Village towards Construction of Elevated Highway and widening of National Highway No.7 on Bommasandra-Hosur Road. The title of the land belonged to Education Department. The SLAO determined the compensation of ₹48.17 lakh and paid ₹42.71 lakh after deducting ₹5.46 lakh as Income Tax to the Assistant Director, Divisional Text Book Depot, Bangalore on 06.10.2008. Based on the resolution made by the Executive Committee of Karnataka Text Book Society (KTBS) dated 02.03.2009, the amount of ₹42.71 lakh was kept in fixed deposit in nationalized bank by the Society till date. The maturity value of the amount will be ₹82.85 lakh as at May 2019.

Further, the interest of ₹1.92 lakh on ₹42.71 lakh for the period from January 2008 to April 2010 was not reckoned at the time of investing the amount in the Fixed Deposit. Instead, it was credited (April 2011) to the account of Managing Director, KTBS, Bangalore as per the directions of MD, KTBS vide letter dated 25 March 2010. Hence, the compensation received and interest thereon towards land acquisition was retained by the Society without remittance to Government Account.

This was brought to the notice of the department during July 2017. The Society, while accepting the observation (December 2018) stated that the directions have been issued from the Principal Secretary, Education Department to remit the compensation amount along with the interest thereon to Government. Further, it was replied (March 2019) that the amount of ₹80.49 lakh (Principal ₹42.72 lakh+ interest ₹37.77 lakh) was remitted to Government account.

(ii) Bangalore Medical College and Research Institute.

The High Power Committee at its meeting held on 18 June 2011 approved construction of Metro Block/Ward at a cost of ₹13 crore in the premises of Vani Vilas Hospital towards land parted by the Hospital for metro construction work. Accordingly, a memorandum of understanding was entered (September 2011) into between Bangalore Medical College and Research Institute (BMCRI) and Bangalore Metro Rail Corporation Limited (BMRCL) for handing over a total area of approximately 11,970 square meters of land at the Hospital premises. Out of the area, an area of approximately 2,450 square meters was to be utilized for permanent purposes and remaining area of 9,520 sq.mtr. for temporary purposes. Further, it was agreed that the area of land taken up for temporary purpose shall be restored back to the Hospital after commissioning of the station. In compensation for land acquired for permanent purpose, BMRCL agreed to construct a metro block/ward at a cost of ₹13 crore which was completed and handed over to BMCRI. During the course of execution work, the BMRCL utilized excess land for permanent works measuring 1986 sq.mtr. for which a compensation of ₹17,21,86,200 (April 2018) was paid by them. This amount was however, credited to user fund account by BMCRI instead of crediting it to Government Account.

The retention of compensation paid for land amounting to ₹17.22 crore in the User Fund was in contravention of the Article 4 of KFC as the land belonged to Government as per land records. This was brought to the notice of the Institution and Finance Department (May 2018). In reply, the Finance Department stated (October 2018) that the Health and Family Welfare Department was requested to credit the compensation amount of ₹17.22 crore received by BMCRI into Consolidated Fund. Further action in this regard is awaited.

3.9.2 Non-remittance of departmental receipts to Government Account – ₹127.52 crore

Article 266 (1) of the Constitution of India provides that all revenues received by the State Government, all loans raised by the Government by issue of treasury bills, Loans or Ways and Means and Advances and all moneys received by the Government in repayment of loans shall form one Consolidated Fund to be entitled 'the Consolidated Fund of the State'. No money out of the Consolidated Fund of the State shall be appropriated except in accordance with law and for the purposes and in the manner provided in the Constitution.

Pursuant to the above Constitutional Provision, the Karnataka Financial Code issued in 1958 prohibited the retention of Government money by the Government Servant in his official capacity.

In GO dated 30.03.1996, Secretary in the Education Department constituted a 'Centralized Admission Cell (CAC)' for carrying out the admission process to courses of TCH and B.Ed. The Cell was also authorized to collect fee from aspiring students. The Government provided a grant of ₹25 lakh as seed money for establishing 10 computer units to handle admission processes. This amount was released from the Consolidated Fund.

The process of selection of candidates for the courses mentioned above went on from 1996 till date. The CAC instead of depositing the fees collected from the aspiring candidates for the purpose of examination kept the money in a Savings Bank Account outside the Government Books and met the administrative expenditure in connection with the process of selection of candidates from out of the money collected. The un-utilized balance remaining during the period were invested in Fixed Deposits which amounts to ₹127.52 crore (inclusive of interest) as on 31 March 2018.

The expenditure on the various activities connected with the recruitment process were in the nature of building repairs, constructions and modernization of computer room, purchase of computer, remuneration to examiners, advertisement and publicity, conducting exams, etc., which were in the nature of regular expenditure of the department for which distinct object heads were available. The Cell should have taken action to remit the fees realized to the Consolidated Fund and sought grants for the expenditure cited above, which was not done. Thus, money lying with the Cell should form part of the Consolidated Fund and non- remittance and appropriating the departmental receipts to meet departmental expenditure was in contravention with the provisions of the Constitution and KFC stated above.

The department in its reply (January 2019) stated that in addition to the activities stated above, the departmental examinations of other departments *viz*., KSRTC, BMTC etc. are being conducted by them. It also stated that the proposals for establishment of Examination Council or Recruitment Board are under examination.

The reply of the department is not tenable as it is silent on the issue of non-remittance of government revenues to Consolidated Fund as envisaged in Article 266(1) of the Constitution. Further, utilisation of departmental revenues for various activities without the approval of the Legislature was in violation of Article 202 of the Constitution.

3.10 Transparency in Accounts

3.10.1 Opaqueness of transaction under Revenue Account

The demands for grants placed before the Legislature for voting are for the gross amount required while the AFS placed before the Legislature shows the net expenditure on the Consolidated Fund for the year. While preparing demands for grants, the recoveries on account of certain Fund Transactions, detailed account of which is maintained in Public Account, are also reckoned. The expenditure relating to fund heads which are initially booked under the Consolidated Fund are shown through deduct entries in the demands for grants under the relevant functional heads. Thus, the net demand shown under the budget in AFS should only contain such transactions relating to fund account. However, it contained recoveries on account of over payment also.

During the year 2017-18 the gross demand as per the Appropriation Act (Act No.29 of 2017) showed a total amount of ₹1,94,917.19 crore while the net demand under the AFS was ₹1,86,561.09 crore. The recoveries accounted were ₹8,356.10 crore. A review of these recoveries shown in budget documents under various demands revealed the accounting of ₹4,029.15 crore under recoveries of overpayments spread across 15 grants under various functional major heads, which did not relate to fund account transactions (**Appendix 3.7**). Obtaining the budget under the omnibus Minor Head 911 – deduct recovery of overpayment was not in order and had the effect of compression of revenue expenditure to the extent of ₹4,029.15 crore as also leading to distortion of fiscal indicators like Revenue Surplus/Fiscal Deficit.

In the Entry Conference held on 15.11.2018, the Finance Department stated that a circular will be issued instructing not to take budget provisions under recovery of overpayments other than transactions relating to Fund Account.

3.10.2 Non-Transparency in Budget Allocation/Expenditure

Expenditure towards various objectives as contemplated in the Budget is to be booked under relevant heads of account to maintain accuracy and transparency in accounting of transactions.

During the year 2017-18, on a review of budget estimates including supplementary estimates presented by the State Government, it was noticed that a provision/expenditure of ₹3,400.67 crore was made under the HOA 6425-00-107-5-10-394, 422 and 423 (Loan, SCSP and TSP) towards the loan waiver scheme, in which short term loans up to ₹50,000/- due from the farmers to co-operative societies/co-operative banks as on 20.06.2017 were waived. Since the amount provided/expended was for the purpose of waiver of loans, accounting it under the capital/loan head was incorrect as the expenditure did not involve creation of a capital asset of a durable/permanent nature. This not only resulted in overstatement of capital expenditure to the tune of ₹3,400.67 crore, but had an effect on fiscal indicators like revenue surplus and affected the transparency in accounting of transactions as there was no capital/asset creation in this transaction.

While accepting the observation, the Finance Department during the Entry Conference held on 15.11.2018 stated that the observation is noted and will be avoided in future.

3.11 Important factors Affecting Accuracy of Accounts

The accounts of the Government are kept on cash basis. In case of certain transactions that arise in Government Account, for which the receipts and payments 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, these are to be booked temporarily under the suspense head. This head is cleared on receipt of relevant details/information.

Debt, Deposit and Remittances (DDR) are heads of account for such transactions where the Government, as a custodian of public money, receives and holds such money in trust.

The accuracy of the State Finance Accounts 2017-18 was adversely affected by factors like (i) large number of transactions under suspense heads awaiting final classification and (ii) increasing number and magnitude of adverse balances under DDR heads. On a general review of the transactions, the following were observed:

a) Outstanding balances under major suspense accounts

Certain intermediary/adjusting heads of accounts known as ‘Suspense Heads’ are operated in Government accounts to reflect transactions of receipts and payments, which cannot be booked to a final head of account due to lack of information as to their nature, or for other reasons. 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 the Government’s receipts and expenditure accurately. The balances under certain major suspense heads of accounts, as recorded in the ledger maintained by AG (A&E), are indicated in **Table 3.7**.

Table 3.7: Suspense Head (8658 – Suspense Accounts)

(₹ in crore)

Name of the Minor Head	2015-16		2016-17		2017-18	
	Dr.	**Cr.**	**Dr.**	**Cr.**	**Dr.**	**Cr.**
101-Pay and Accounts Office Suspense	86.90	0.68	118.86	0.45	189.66	0.25
Net	**Dr.86.22**		**Dr.118.41**		**Dr.189.41**	
102-Suspense Account (Civil)	24.29	34.42	17.22	60.78	17.37	175.77
Net	**Cr.10.13**		**Cr.43.56**		**Cr.158.40**	
110-Reserve Bank Suspense	20.20	57.56	41.02	148.41	44.53	151.18
Net	**Cr.37.36**		**Cr.107.39**		**Cr.106.65**	

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

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 Cheque/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 were 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 an increasing trend. On clearance/settlement of this, the cash balance of the State Government will increase. The transactions mainly related to National Highways, and payments made by State Government to Central Government Civil Pensioners.

❖ Suspense Account (Civil)

Transactions where full particulars of the classification are not available, or where the relevant vouchers/schedules in support thereof are not available or where there is some discrepancy between the figures reported in the Treasury Schedules of payment/cash accounts and those appearing in the supporting vouchers, schedules, etc., constitute the major portion of outstanding under this head.

Transactions taking place at State Treasuries on behalf of Railways, Defence and P&T are also initially classified under this head, pending settlement of claims by these authorities.

The net credit balance under this head increased by ₹114.84 crore during the year. However, in so far as accounts with Railways (₹3.15 crore) and accounts with Defence (₹0.81 crore) are concerned, the cash balance will increase on clearance. There is no impact on cash balance on the rest of the items on clearance.

❖ Reserve Bank Suspense, Central Accounts Office

This head is operated for recording inter-governmental transactions where monetary settlement between the cash balances of two Governments is done by sending advice to the Central Accounts Section of the Reserve Bank of India. This head is cleared by transferring the amount to the final head of account on receipt of intimation of the monetary settlement having been carried out by the RBI. The main transactions, which gets settled through this suspense head are grants/loans received from the Government of India and their repayments, discharge of securities and interest paid thereon by the Public Debt offices of RBI, and payments made by the Director General of Supplies and Disposals for materials supplied to Government Departments.

During 2017-18, the credit balance under this head was ₹106.65 crore, and has come down by ₹0.74 crore compared to previous year.

b) Adverse Balances under DDR Heads

Adverse balances are negative balances appearing under those heads of accounts, where there should not be a negative balance. For example, against the accounting head of any loan or advance, a negative balance will indicate more repayment than the original amount advanced. As revealed by Finance Accounts for the year 2017-18, adverse balance of E- Public Debt amounting to ₹128.51 crore (Major Head 6003-Internal Debt- debit) was on account of credits of the direct release of loans by National Co-operative Development Corporation (NCDC) to loanee entities without routing these loans through the Consolidated Fund of the State, while repayments are made through the Consolidated Fund.

The adverse balance of ₹23.66 crore - debit (Major Head 6004- Loans and Advances from Central Government) was on account of write-off of Central Loans on the recommendations of XIII FC (balances outstanding as per books of accounts as on 31 March 2010). The excess payments made during 2010-12 to various PAOs are to be adjusted against the dues of the Finance Ministry, Government of India. In respect of loans and advances, the adverse balance was ₹101.67 crore, which was on account of non-reconciliation/misclassification in accounts.

3.12 Conclusion

Non-payment Detailed Contingent (NDC) bills against Abstract Contingent (AC) bills were found wanting for a long period. Large sums of money were being retained in PD Accounts thereby going against the principle of legislative financial control. Non-submission of Utilisation Certificates by grantee institutions were noticed. Non-remission of Government money to the Consolidated Fund was noticed. Revenue expenditure was accounted under the Capital/Loan head of account thereby overstating the Capital Expenditure and Revenue Surplus.

3.13 Recommendations

- ***The Government should ensure adjustment of Abstract Contingent Bills within the stipulated period;***
- ***The Government needs to adopt a stringent follow-up mechanism to ensure that the department adhere to the rules and regulations in submission of UCs;***
- ***Cleaning up of balances in the PD Accounts which have outlived their utility needs to be examined and steps need to be taken for review of the status of PD accounts and closure of inoperative ones, in consultation with the Administrators and Treasury;***
- ***The departments of the Government should bring the revenues realized on behalf of the Government to the Consolidated Fund within the time stipulated in the Karnataka Financial Code; and***
- ***The transactions of Government account should be transparent to exhibit the correct nature of expenditure as there were instances of misclassification of expenditure between revenue and capital/loan heads.***

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The

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