

CHAPTER-III
FINANCIAL REPORTING

Chapter III 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 187 cases involving an amount of ₹ 760.72 crore were outstanding for submission as on March 2019 as detailed in **Table 3.1**. The department-wise break-up of outstanding UCs is given in **Chart 3.1** and **Appendix 3.1**

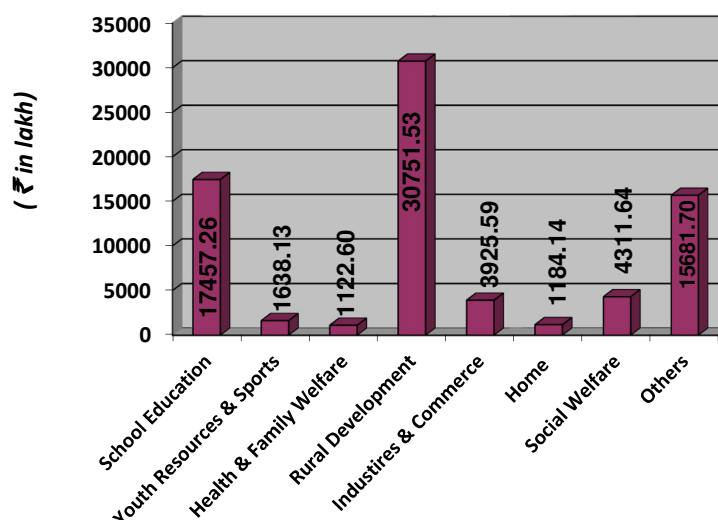
Table 3.1: Year-wise break up of pending Utilisation Certificates in respect of Grants-in-Aid

(₹ in crore)

Years	Number of cases / Amount of Grant		Number of UCs submitted		Number of UCs Outstanding as of March 2019	
	Number of cases	Amount	Number of cases	Amount	Number of cases	Amount
Up to 2016-17 (Oldest case 2010-11)	365	1302.46	261	672.84	104	629.62
2017-18	55	328.40	31	313.19	24	15.21
2018-19	70	167.06	11	51.17	59	115.89
Total	490	1797.92	303	1037.20	187	760.72

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

Chart 3.1: Department wise Outstanding position of UCs as on March 2019



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

Eighteen Government Departments did not submit 59 Utilisation Certificates (UCs) involving ₹ 115.89 crore which were due to be submitted during the year 2018-19 and, therefore, there is no assurance that the expenditure of ₹ 115.89 crore was actually incurred for the purpose for which it was authorized. In addition to this, 128 UCs worth ₹ 644.83 crore due for submission up to 2017-18 were also outstanding as on 31 March 2019. Thus, 187 UCs worth ₹ 760.72 crore were due for submission as of March 2019. Huge pendency in submission of UCs is fraught with risk of fraud and misappropriation of funds.

3.2 Pendency in Submission of Detailed Countersigned Contingent Bills against Abstract Contingent Bills

As per rule 309 of Central Treasury Rules, every drawing officer is required to certify in each Abstract Contingent (AC) Bill that detailed bills for all contingent charges drawn by him/her prior to the first of the current month have been forwarded to the respective controlling officers for countersignature and transmission to the Accountant General (Accounts & Entitlement). The total amount of Detailed Countersigned Contingency (DCC) Bills received up to the period 2018-19 was only for ₹ 453.68 crore (46.27 per cent) against ₹ 980.45 crore drawn on AC Bills, leading to pendency of DCC Bills of ₹ 526.77 crore as on 31 March 2019. Year wise details are given in **Table 3.2**:

Table 3.2 : Pendency in Submission of Detailed Countersigned Contingent Bills against Abstract Contingent Bills

(₹ in crore)

Year	AC Bills drawn		DCC Bills submitted		Outstanding DCC Bills	
	Number	Amount	Number	Amount	Number	Amount
Up to 2016-17	426	589.06	319	394.21	107	194.85
2017-18	103	166.26	43	40.17	60	126.09
2018-19	144	225.13	20	19.30	124	205.83
Total	673	980.45	382	453.68	291	526.77

Source: Principal Accountant General (A&E).

Details of the pending bills are given in **Appendix 3.2**. Out of 124 bills (₹ 205.83 crore) drawn through AC Bills pending for submission of DCC Bills at the end of 2018-19, 34 bills (₹ 7.91 crore) were drawn in the last month of the financial year.

Fifteen Government Departments did not submit 124 Detailed Countersigned Contingent Bills amounting to ₹ 205.83 crore before closing of the accounts for the financial year 2018-19 and, therefore, there is no assurance that the expenditure of ₹ 205.83 crore has actually been incurred during the financial year for the purpose for which it was authorized by the Legislature. In addition to this, 167 AC Bills amounting to ₹ 320.94 crore drawn up to 2017-18 were also outstanding as on 31 March 2019. Thus, 291 AC bills involving ₹ 526.77 crore were outstanding as of March 2019. Advances drawn and not accounted for increases the possibility of wastage/ misappropriation/ malfeasance, etc.

The above details clearly indicate that the Drawing & Disbursing Officers and Treasury Officers concerned failed to ensure compliance with the extant Central Treasury Rules and that AC Bills were drawn without adjustment of previously drawn AC Bills. Thus, there was an environment of financial indiscipline, which calls for action against the officers responsible for the lapse in this regard.

3.3 Personal Deposit (PD) Account

Personal Deposit (PD) Accounts are created for discharging the liabilities of the Government arising out of special enactment. Such accounts should be closed at the end of the financial year and the unspent balance should be transferred to the Consolidated Fund. The amount credited to these accounts will be debited to the Consolidated Fund of the State and booked as expenditure of the year.

As on 01 April 2017, there was only one PD account with a balance of ₹ 0.02 crore and no transaction was done during the year 2018-19. Thus, on 31 March 2019, one PD account involving ₹ 0.02 crore which was required to be closed, was still in existence. Non-transfer of unspent balances lying in PD Accounts to Consolidated Fund of the State entails the risk of misuse of public fund, fraud and misappropriation.

3.4 Balances Lying Unspent in Civil Deposits

The State Government provides its share to various Departments/Agencies for the implementation of Centrally Sponsored/State schemes. During 2018-19 an amount of ₹ 44.75 crore was sanctioned in favour of 12 Departments/Agencies which were instead kept in Civil Deposit and retained outside the Government account. This indicated that the funds were not immediately required for utilization.

The details of funds drawn and kept in Civil Deposits in respect of 12 departments/agencies are presented in the **Table 3.3**:

Table 3.3: Non-utilisation of Funds during the year 2018-19

(₹ in crore)

Sl. No.	Name of the Department/Directorate	Amount drawn	Expenditure incurred	Amount kept in Civil Deposit
1	New & Renewable Energy	1.77	0.00	1.77
2	Planning & Co-ordination Department	18.85	0.00	18.85
3	Nagaland State Transport	4.77	0.00	4.77
4	Youth Resources and Sports	2.23	0.00	2.23
5	Nagaland State Lotteries	0.15	0.00	0.15
6	Motor Vehicles Transport	0.88	0.00	0.88
7	Water Resources Department	0.60	0.00	0.60
8	Directorate of Evaluation	0.23	0.00	0.23
9	Election Department	1.00	0.00	1.00
10	Land Resources	3.27	0.00	3.27
11	Agriculture	10.00	0.00	10.00
12	Art and Culture	1.00	0.00	1.00
Grand Total		44.75	0.00	44.75

Source: Departmental Figures.

The above table shows that an amount of ₹ 44.75 crore was drawn by twelve departments during the year 2018-19 for implementation of different schemes. However, the entire amount of ₹ 44.75 crore was kept in Civil Deposits. The funds drawn and kept in Civil Deposits were shown as utilized (expenditure) by the respective DDOs and thus, the expenditure of the respective year(s) were inflated to that extent, without actual expenditure having been incurred under the programme/scheme, in contravention of financial rules.

3.5 Outstanding Balances under the Head ‘Cheques and Bills’

Major Head 8670 Cheques and Bills is an intermediary accounting head for initial record of transactions which are eventually to be cleared. There would normally be a credit balance outstanding under this head, representing cheques not encashed. The accounts of the State Government, however, showed an outstanding debit balance of ₹ two lakh as on 31 March 2019, which needs to be reconciled by the State Government.

3.6 Delay in Submission of Accounts/Separate Audit Reports of Autonomous Bodies

(i) Delay in submission of Accounts of Autonomous Bodies

Fourteen Autonomous Bodies have been set up by the State Government, of which, only 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 since 2015-16 were not furnished to Audit (December 2019). 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 3.4:**

Table 3.4: 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
2018-19	2018-19	Accounts not yet received	Not applicable	Not applicable

(ii) Non-Submission of accounts for preparation of Separate Audit Reports

Four out of 14 Autonomous Bodies, established under the State Legislative Act, the audit of whose accounts was entrusted to the Comptroller and Auditor General of India are given in **Table 3.5**:

Table 3.5: Details showing the Section of Entrustment of audit of Autonomous Bodies

Sl. No.	Name of the Autonomous Bodies	Provision for Audit under Section
1	Nagaland Electricity Regularity Commission	Section 104 and 105 of Central Electricity Act 2003
2	Nagaland State Legal Services Authority	Section 18 of National Legal Services Authority Act.
3	Nagaland Pollution Control Board	Section 40 of Water (Prevention and Control of Pollution) Act 1974
4	Nagaland Building and Other Construction Worker's Welfare Board	Section 27 of Building and Other Construction Workers Act 1996.

Source: Relevant Acts

Although the Annual Accounts of these 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 Separate Audit Report to the State Legislature. Besides, non-furnishing of accounts and absence of audit was fraught with the risk of misappropriation etc.

3.7 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 2019, 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 38 years as of March 2019.

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.

3.8 Non-Submission/Delay in Submission of Accounts of Bodies/Authorities

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 143 Annual Accounts in respect of 22 Autonomous Bodies/Authorities due up to 2018-19 had not been received as of August 2019 by the Accountant General (Audit). The details of those accounts are given in **Appendix 3.4** and their age-wise pendency is presented in **Table 3.6**:

Table 3.6: 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 (₹ in Lakhs)
1	5 – 6	15	Details not Available
2	>7 – 9	7	Details not Available

It may be seen from the table above that delay in submission of Accounts ranged between five and nine years in respect of the Autonomous Bodies/Authorities.

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 accountability. 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 proper monitoring at Government's level, which is a matter of concern.

3.9 Funds Transferred Directly to Implementing Agencies

Government of India (GoI) decided that transfer of funds to the Implementing Agencies in the states for implementation of the Centrally Sponsored Schemes would be done through the State Consolidated Fund with effect from 2014-15 (BE). However, audit noticed that some funds were directly transferred to Implementing Agencies in the State outside the State Budget/State Treasury System contrary to the decision taken by the GoI.

During the year 2018-19, central funds amounting to ₹ 269.47 crore were directly transferred to the Implementing Agencies (**Appendix 3.5**). Details of major amount of funds transferred directly to Implementing Agencies are shown in **Table 3.7**:

Table 3.7: Funds Transferred Directly to Implementing Agencies

(₹ in crore)

Programme/Scheme	Implementing Agency in the State	Funds transferred directly by GoI during 2018-19
Support to National Institute of Technology (NIT) including Ghani Khan Institute	National Institute of Technology	29.43
Swadesh Darshan-Integrated Development Theme	Nagaland Tourism Board	34.10
Pradhan Mantri Kishan Samman Nidhi	Department of Agriculture	5.57
National AIDS and STD Control	Nagaland State AIDS Control Society	20.10
Infrastructure Development and Capacity Building	Nagaland Tool Room & Training Centre	5.50
Support of Academies	North East Zonal Cultural Centre	7.94
Health and Family Welfare	State Health Society	6.89
Pradhan Mantri Kishan Sampa Yojana MEGA Food Parks	DOYS Agri Resources Pvt. Ltd.	14.78
Organic Value Chain Development of NE Region	Nagaland Organic Mission	27.45
Electronic Governance	Nagaland State E-Governance Society	5.55
Pradhan Mantri Kishan Sampada Yojana Integrated Cold Chain and Value Addition Infrastructure	Nagaland Integrated Cold Chain	5.27
Others	Other 146 implementing Agencies against 62 Schemes	106.89
Total		269.47

Source: 'Central Plan Scheme Monitoring System' portal in Controller General of Account's website.

There is no single agency in the State to monitor the funds directly transferred by the GoI to the Implementing Agencies and no data readily available as to how much money has actually been spent in a particular year on major flagship schemes and other important schemes which are being implemented by Implementing Agencies and funded directly by the GoI.

3.10 Reconciliation of Departmental figures

During the year 2018-19, all the 82 Controlling Officers (COs) had reconciled their figures (both Receipt and Expenditure) in full with the books of Principal Accountant General (A&E) of the State.

3.11 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 is at the 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 from 2011-12 onwards.

The details of amount collected and actual expenditure incurred during the period from 2014-15 to 2018-19 are shown in **Table 3.8:**

Table 3.8: Statement of Cess Collection and Expenditure incurred (2014-15 to 2018-19)

(₹ in crore)

Year	Opening Balance	Receipt during the year	Available Fund	Expenditure	Balance at the end of the year
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
2018-19	27.82	18.30	46.12	9.84	36.28

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.

The Board received ₹ 46.12 crore as cess during the year, the Receipt was not deposited in the Consolidated Fund of the State and the expenditure out of the fund was also not accounted under the respective head of the Appropriation Account, in contravention of provisions envisaged under Article 266 (1) of the Constitution of India. Instead of depositing to the Consolidated Fund of the State, the fund was kept in a dedicated bank account and day to day transactions were being made out of the bank account.

3.12 Misappropriation, Loss, Defalcation, etc.

There were 36 cases of misappropriation, losses etc., involving Government money of ₹ 215.89 crore (Amount involving ₹ 218.56 crore out of which ₹ 2.67 crore was recovered) up to the period ending 31 March 2019 on which final action was pending. The Department-wise break up of pending cases and age wise analysis is given in **Appendix 3.6** and nature of the cases are given in **Appendix 3.7**. The age-profile of the pending cases and the number of cases pending in each category are summarised in **Table 3.9:**

Table 3.9: 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 (₹ in crore)
0-5	34	Theft	4	0.18
		Misappropriation/ Losses	30	210.37
5-10	2	Defalcations	2	8.01
Total	36		36	218.56

Source: Nagaland Lokayukta and Department records.

A further analysis indicates the reasons for which the cases were outstanding as detailed in **Table 3.10:**

Table 3.10: 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	26	203.61
ii)	Departmental action initiated but not finalized	6	0.93
iii)	Awaiting orders for recovery or write off	2	0.11
iv)	Pending in the Court of law	2	13.91
Total		36	218.56

Source: Nagaland Lokayukta and Department records.

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 ₹ 0.57 crore had been recovered (December 2019).

3.13 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. 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 are shown in **Table 3.11**:

Table 3.11: Placement of State Finances Audit Report 2008-09 to 2017-18

Year of State Finances Audit Report	Date of placement in State Legislature
2008-09	27.03.2010
2009-10	28.03.2011
2010-11	22.03.2012
2011-12	18.03.2013
2012-13	25.07.2014
2013-14	17.03.2015
2014-15	19.03.2016
2015-16	28.03.2017
2016-17	20.09.2018
2017-18	15.02.2020

Explanatory notes on the observations made in the respective Audit Reports had not been furnished by the departments.

3.14 Conclusion


- ❖ *Utilisation Certificates were not furnished in 187 cases involving ₹ 760.72 crore since the last one to eight years. There were delays in submission of Annual Accounts by 22 Autonomous Bodies/Authorities, which diluted accountability and defeated the very purpose of preparation of Accounts.*
- ❖ *Detailed Contingent (DC) Bills were not submitted for an amount of ₹ 526.77 crore drawn on 291 Abstract Contingent (AC) Bills by various Departments. In the absence of DC Bills, it was not possible to ascertain whether expenditure had actually taken place or not. Non-adjustment of AC Bills for long periods in violation of prescribed Rules and Regulations was fraught with the risk of embezzlement/ misappropriation of funds.*
- ❖ *An amount of ₹ 44.75 crore was lying in Civil Deposits at the end of the year. Paying interest at higher rates on borrowings while keeping amounts in Civil Deposits which did not bear any interest showed poor cash and financial management by the State Government.*
- ❖ *The accounts of the State Autonomous Bodies and Departmental Commercial Undertakings were not submitted to Audit for the last two to 38 years due to which audit by C&AG of India could not be conducted.*
- ❖ *As on 31 March 2019, 36 cases of misappropriation, defalcation etc., involving ₹ 215.89 crore were pending for final action by 18 Departments.*

3.15 Recommendations

- ❖ *The Government needs to enforce strict compliance to the timelines for submission of the UCs by the recipients. Action against erring officials needs to be initiated.*
- ❖ *Monitoring mechanism may be put in place to ensure that DC Bills are submitted within the prescribed time. Disciplinary action should be initiated against the Drawing & Disbursing Officers and Treasury Officers for not complying with provisions of extant rules by allowing subsequent AC Bills without ensuring submission of DC Bills against already drawn AC Bills.*
- ❖ *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 for the Autonomous Bodies, are placed in the Legislature in time.*
- ❖ *The Government may ensure timely preparation of accounts by Departmental Commercial Undertakings and Autonomous Bodies and monitor the same. Effective steps are required to be taken by the State Government for clearance of arrears of accounts on priority.*

- ❖ *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.*

Kohima
Dated: 29 July 2020


(E. Mhombemo Patton)
Principal Accountant General (Audit)

Countersigned

Place: New Delhi
Dated: 30 July 2020


(RAJIV MEHRISHI)
Comptroller and Auditor General of India

