

# **CHAPTER-IV**

## **QUALITY OF ACCOUNTS AND FINANCIAL REPORTING PRACTICES**



## CHAPTER IV: QUALITY OF ACCOUNTS AND FINANCIAL REPORTING PRACTICES

A sound internal financial reporting system with relevant and reliable information significantly contributes to efficient and effective governance by the State Government. Compliance with financial rules, procedures and directives as well as the timeliness and quality of reporting on the status of such compliance is, thus, one of the attributes of good governance. Reports on compliance and controls, if effective and operational, assist the Government in meeting its basic stewardship responsibilities, including strategic planning and decision-making.

### 4.1 Funds transferred directly to State implementing agencies

As per GoI decision, all assistance to Centrally Sponsored Schemes (CSS) and Additional Central Assistance (ACA) under various schemes would be released directly to the State Government and not to the State Implementing Agencies<sup>1</sup> and hence, these funds would be routed through the State budget from the year 2015-16 onwards. However, as per Appendix VI of Volume II of Finance Accounts, it was seen that GoI released ₹ 941.83 crore under 51 schemes (*Appendix 4.1*) directly to State Implementing Agencies during 2019-20, which were not routed through the budget of the State Government. Cases where the transfer of funds has exceeded ₹ 10 crores during 2018-19 and 2019-20 are shown in the table below:

**Table 4.1: Funds in excess of ₹ 10 crore transferred by Government of India directly to State implementing agencies**

(₹ in crore)

Sl. No.	Name of the Schemes of Government of India	Name of the Implementing Agencies	Government of India releases during 2018-19	Government of India releases during 2019-20
1.	MPs Local Area Development Scheme MPLADS	Deputy Commissioner	10.00	12.50
2.	Organic Value Chain Development of NE Region	Directorate of Horticulture	16.47	...
3.	Integrated Development of Tourism Circuits around specific themes (Swadesh Darshan)	Meghalaya Tourism Development Corporation Ltd.	34.70	25.49
4.	National Rural Employment Guarantee Scheme (MGNREGA) CS	State Rural Employment Society, Shillong, Meghalaya	572.67	604.89
5.	Rashtriya Gokul Mission	State Implementing Agency Meghalaya	10.26	...
6.	AID to Voluntary Organisation working for the Welfare of Scheduled Tribe	Ramakrishna Mission, Shillong, Meghalaya	...	14.41

<sup>1</sup> State Implementing Agency includes any organisation/institution including non-Governmental Organisation which is authorised by the State Government to receive the funds from the Government of India for implementing specific programmes in the State.

Sl. No.	Name of the Schemes of Government of India	Name of the Implementing Agencies	Government of India releases during 2018-19	Government of India releases during 2019-20
7.	Pradhan Mantri Kisan Sampada Yojana-Creation/ Reation/Expansion of Food Processing and Preservation Capacities	Department of Agriculture	...	51.20
8.	Universal Service Obligation Fund (USOF) Compensation	Bharti Hesacom Limited	...	135.29
9.	North East Road Sector Development Scheme	Public Works Department (Roads), Meghalaya	...	33.98

Source: Finance Accounts.

As these funds were not routed through the State budget/State treasury system, the Annual Finance Accounts did not capture these funds flow and to that extent, the State's receipts and expenditure as well as other fiscal variables/parameters derived from them did not present the complete picture.

#### 4.2 Funds lying unutilised in the current account of DDOs

The Drawing and Disbursing Officers (DDOs) are required to withdraw money from the Government Account/Consolidated Fund for making payment on behalf of the Government. As on 31 March 2020, an amount of ₹ 221.80 crore were lying in the current accounts of 16 DDOs out of 45.

During the Exit Conference (December 2020) held between the Accountant General (A&E) and the State Government, the representatives of the State Government stated that the DDOs were allowed to open current account due to Banking Cash Transaction Tax (BCTT) imposed by Government of India. The AG (A&E) insisted upon to close all the current accounts as BCTT has been rolled back and to follow the prescribed procedure of Treasury Rules, Receipts and Payments Rules *etc.* for drawal of money from Government Accounts. The treasury officers should be instructed not to pass any bill for payment which has been placed before them for drawal of money with the intention to transfer of balance to current account. The details of current accounts being operated by the 16 DDOs are given in the table below:

**Table 4.2: Funds lying in current account of 16 Drawing and Disbursing Officers**  
(₹ incrore)

Sl. No.	Drawing and Disbursing Officers	Amount
1	Director, Economics and Statistics	0.14
2	Director of Health Services (MI)	25.22
3	Chief Engineer, PWD (Roads)	44.45
4	Director of Industries	1.45
5	Director, Zila Sainik	0.81
6	Director of School Education and Literacy	2.45
7	Director of Social Welfare	99.52
8	Director of Educational Research and Training	5.97
9	Additional Commissioner of Taxes	0.80

Sl. No.	Drawing and Disbursing Officers	Amount
10	Director, Printing and Stationery	0.00 <sup>2</sup>
11	District Session Judge	0.02
12	Secretary, Meghalaya State Electricity Regulatory Commission	1.42
13	Chief Inspector of Boilers and Factories	0.01
14	Chief Electoral Officer	9.53
15	Director of Fisheries	29.71
16	Director of Accounts and Treasuries	0.30
	<b>Total</b>	<b>221.80</b>

The above funds were meant to incur expenditure on different heads *inter alia*, office expenses, committed liabilities, Central/State Scheme. Even though these amounts have already been accounted for as expenditure from the consolidated fund of the State, they are still lying idle parked outside the Government Accounts. Thus the expenditure shown in the Finance Accounts cannot be vouched as correct to that extent. Further, information from the remaining DDO's are still awaited (27.11.2020).

### 4.3 Delay in submission of Utilisation Certificates

Rule 515 (Appendix 14) of the Meghalaya Financial Rules, 1981, provides that unless otherwise ruled by the State Government, every grant made for a specified object is subject to the implied conditions that the grant will be spent upon that object within a reasonable time (one year from the date of issue of the letter sanctioning the grant, if no time-limit has been fixed by the sanctioning authority). Grantee Institutions receiving Grants-in-aid from Government are required to furnish Utilisation Certificates (UCs) to the Accountant General (Accounts & Entitlement) countersigned by the disbursing authority after thorough verification. The purpose for which the Grants-in-aid were utilised can be confirmed only on receipt of UCs which would safeguard against diversion of funds for other purposes. To the extent of non-receipt of UCs, the expenditure shown in the accounts can neither be treated as final nor can it be confirmed that the amount has been utilised for the intended purposes.

Non submission of the UCs means that the authorities have not explained as to how funds were spent over the years. There is also no assurance that the intended objectives of providing these funds have been achieved. This assumes greater importance if such UCs are pending against Grants-in-Aid meant for capital expenditure. The year-wise details of submission of UCs are given in the table below.

**Table 4.3: Age-wise arrears in submission of Utilisation Certificates**

(₹ in crore)

Year	Opening Balance		Addition		Clearance		Closing Balance	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Up to 2016-17	448	1483.35	265	1021.78	56	287.32	657	2217.81
2017-18	657	2217.81	208	732.20	100	150.20	765	2799.81
Up to 2018-19	765	2799.81	394	1566.03	49	66.22	1110	4299.62
2019-20	1110	4299.62	180*	1343.12*	285**	491.82**	1005	5150.92

\* Due only in 2020-21.

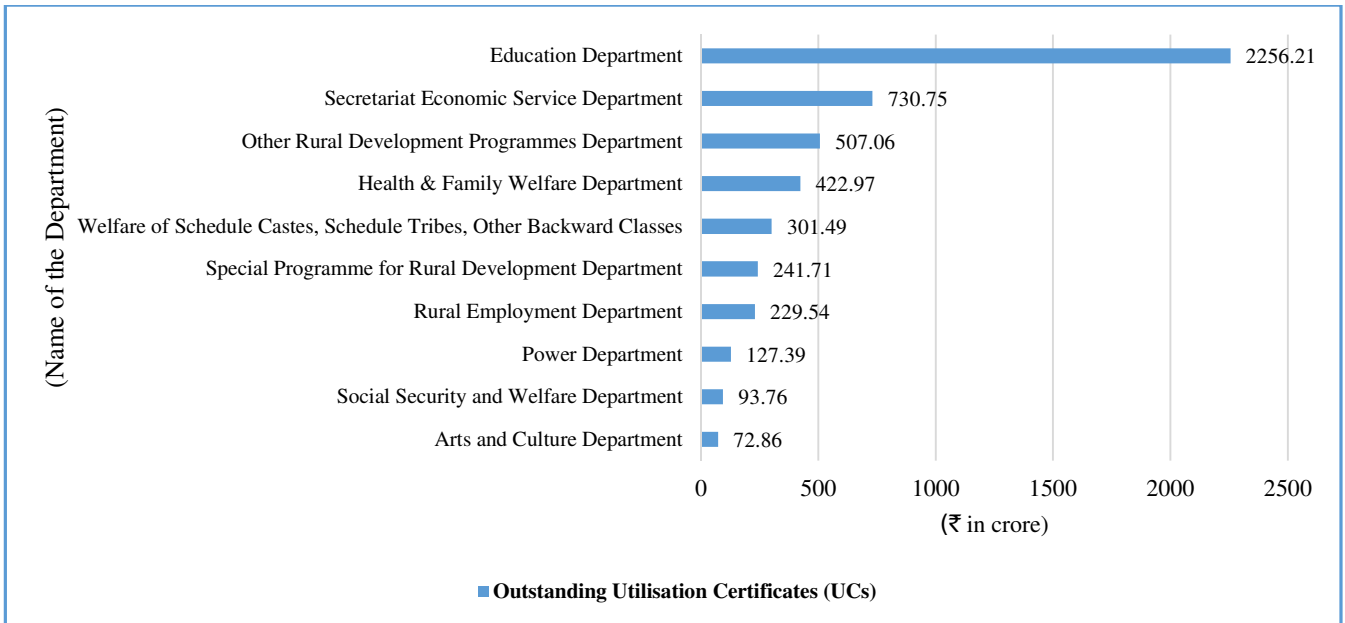
\*\* Includes clearance of 13 numbers of UCs involving ₹ 35.57 crore for the year 2019-20.

Source: Finance Accounts.

<sup>2</sup> Amount being ₹10, 948 only.

As on 31 March 2020, 838 UCs amounting to ₹ 3,843.37 crore remained outstanding in the books of the Accountant General (A&E).

**Chart 4.1: Outstanding UCs in respect of major Departments**



Major defaulting departments who have not submitted UCs and their percentage against total outstanding amount under Grants-in-Aid were Education Department (₹ 2,256.21 crore, 43.80 per cent); Secretariat Economic Service Department (₹ 730.75 crore, 14.19 per cent); Other Rural Development Programmes Department (₹ 507.06 crore, 9.84 per cent); Health & Family Welfare Department (₹ 422.97 crore, 8.21 per cent); Welfare of Schedule Castes, Schedule Tribes, Other Backward Classes (₹ 301.49 crore, 5.85 per cent); Special Programme for Rural Development Department (₹ 241.71 crore, 4.69 per cent); Rural Employment Department (₹ 229.54 crore, 4.46 per cent); Power Department (₹ 127.39 crore, 2.47 per cent); Social Security and Welfare Department (₹ 93.76 crore, 1.82 per cent) and Arts & Culture Department (₹ 72.86 crore, 1.41 per cent).

In the absence of UCs, it could not be ascertained whether the recipients had utilised the grants for the purposes for which these were disbursed. Further, it is likely that the funds received were not spent and were being held in the bank accounts of the respective departments. For example, **paragraph 3.2.1** of Chapter 3 it has been observed that the Education department had a savings of ₹ 565.55 crore (22.07 per cent) during 2019-20, out of which ₹ 369.66 crore received was on account of grants-in-aid for CSS. In the absence of UCs being submitted by the department it is impossible to gauge the implementation status of the scheme for which funds have been received.

Since huge pendency in submission of UCs is fraught with the risk of fraud and misappropriation of funds, it is imperative that the State Government should monitor this aspect closely and not only hold the concerned persons accountable for

submission of UCs in a timely manner but review disbursement of further Grants to defaulting Departments.

#### 4.3.1 Recording of Grantee Institution as “Others”

As per Appendix III of the Finance Accounts, an amount of ₹ 2881.35 crore was released as grants-in-aid during the year 2019-20. Details of the grantees, however were not provided in respect of grants-in-aid ₹ 580.34 crore (20.14 per cent) which was released to grantee institutions during the year. These grantee institutions were merely shown as type ‘others’. Since Grants-in-Aid constitute a significant portion of the total expenditure of the State, it is essential that the State Government provides the details and nature of the Grantee Institution to which it is providing funds, in the interest of transparency of accounts.

#### 4.4 Abstract Contingent bills

According to the Meghalaya Treasury Rules, 1985, the Controlling Officers are required to submit Detailed Countersigned Contingent (DCC) bills against the drawal of Abstract Contingent (AC) bills to the Accountant General (AG) within a month from the date of receipt of such bills in his office. As of March 2020, DCC bills amounting of ₹ 93.95 crore were outstanding as shown in the table below. Major defaulter in this regard is the Election Department where AC bills for ₹ 91.63 crore remained outstanding as of March 2020.

**Table 4.4: Year wise progress in submission of DCC bills against the AC bills**

(₹ in crore)

Year	Opening Balance		Addition		Clearance		Closing Balance	
	Amount	No.	Amount	No.	Amount	No.	Amount	No.
2017-18	-	-	35.60	10	-	-	35.60	10
2018-19	35.60	10	54.25	66	1.76	06	88.09	70
2019-20	88.09	70	28.04	233	22.18	227	93.95	76

**Table 4.5: Departments with pending DCC Bills**

(₹ in crore)

Department	Pending DCC Bills
Election	91.63
Commerce & Industries	0.02
Secretariat General Services	0.28
Secretariat Economic Services	0.01
Other Administrative Services	0.13
Public Service Commission	0.004
Police	1.87

Expenditure against AC bills at the end of the year indicates poor public expenditure management and may point to the drawal being done primarily to exhaust the budget provision. Non-adjustment of advances for long periods is fraught with the risk of misappropriation and therefore, requires close monitoring by the respective DDOs for ensuring submission of DC bills. Further, to the extent of non-receipt of DCC bills,

the expenditure shown in the Finance Accounts cannot be asserted as correct or final.

#### **4.5 Personal Deposit Accounts**

Personal Deposit (PD) Accounts are created for discharging the liabilities of the Government arising out of special enactment. As per Rule 392 of the Meghalaya Treasury Rules, 1985, if PD accounts are created by transferring funds from the Consolidated Fund for discharging liabilities of the Government arising out of the 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. Further, if a PD Account is not operated for a considerable period and there is reason to believe that the need for deposit account has ceased, the same should be closed in consultation with the officer in whose favour the deposit account had been opened.

As on 01 April 2019, there were six PD accounts with an opening balance of ₹ 16.38 crore. Ten new accounts were opened while one account was closed during 2019-20. As on 31 March 2020, there were 15 PD accounts with a closing balance of ₹ 16.31 crore and all of these accounts were operative.

Non-transfer of unspent balances lying in PD Accounts to Consolidated Fund entails the risk of misuse of public fund, fraud and misappropriation.

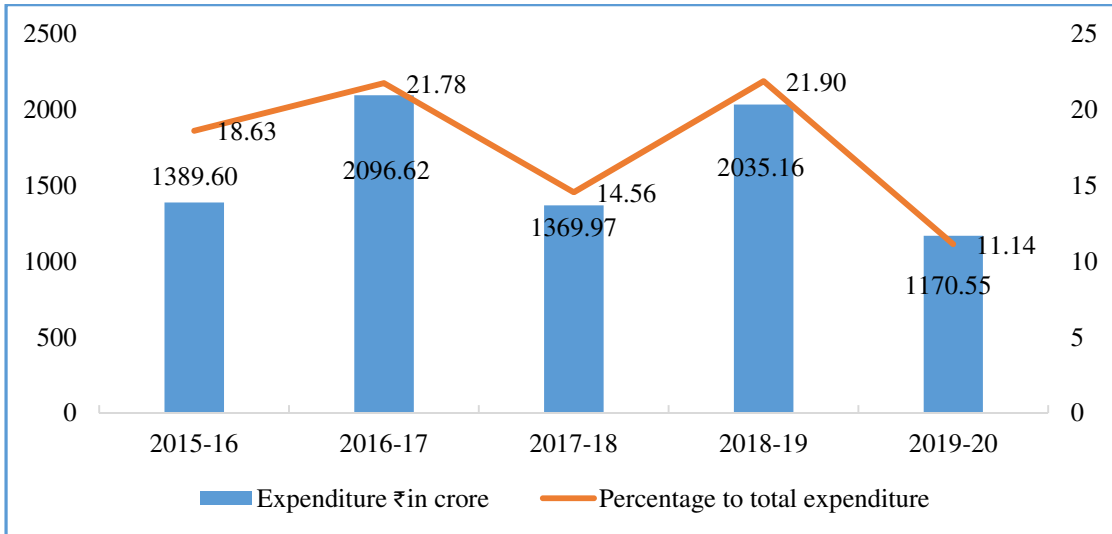
#### **4.6 Indiscriminate use of Minor Head 800**

Minor head 800 relating to Other Receipts and Other Expenditure is intended to be operated only when the appropriate minor head has not been provided in the accounts. Routine operation of minor head 800 is to be discouraged, since it renders the accounts opaque.

Government of Meghalaya has operated Minor Head 800 extensively during the five-year period 2015-20. Percentage expenditure booked under minor head 800 was 18.64 *per cent* in 2014-15 which reached almost 22 *per cent* in 2018-19 before coming down to 11.14 *per cent* in 2019-20 (**Chart 4.2**). During 2019-20, the State Government booked an expenditure of ₹ 1170.55 crore under Minor Head 800 under 39 Revenue and Capital Major Heads of Accounts, constituting 11.14 *per cent* of the total Revenue and Capital Expenditure of ₹ 10504.83 crore.

On the receipts side, however, the quantum of booking of receipts under Minor Head 800 has come down from 26.74 *per cent* of Total Receipts during 2016-17 to 0.85 *per cent* during 2019-20.



**Chart 4.2: Operation of Minor Head 800 - Other Expenditure during 2015-20**

Source: Finance Accounts of respective years.

Instances of substantial proportion (50 per cent or more) of the Expenditure within a given Major Head, classified under the Minor Head 800 – ‘Other Expenditure’, are given below:

**Table 4.6: Significant expenditure booked under Minor Head 800 – Other Expenditure during 2019-20**

Major Head	Description	Details of Expenditure		Per cent
		Total Expenditure	800 Expenditure	
2225	Welfare of Scheduled Caste, Scheduled Tribe, Other Backward Classes and Minorities	100.11	100.11	100.00
2552	North Eastern Areas	4.91	3.07	62.48
2575	Special Programmes for Rural Development	25.31	19.30	76.26
2853	Non Ferrous Mining and Metallurgical Industries	59.28	43.39	73.19
4202	Capital Outlay on Education, Sports, Arts and Culture	0.30	0.24	78.85
4552	Capital Outlay on North Eastern Areas	35.05	24.19	69.02
5054	Capital Outlay on Roads and Bridges	513.19	513.19	100.00
5055	Capital Outlay on Road Transport	2.11	2.11	100.00

Classification of large amounts under the omnibus Minor Head 800 affects transparency in financial reporting and distorts proper analysis of allocative priorities and quality of expenditure.

During the exit conference held (December 2020) between the Accountant General (A&E) and the Finance Department, GoM, the State Government stated that instructions had been issued to all the departments to reduce the percentage by shifting the schemes to other minor head wherever possible and also assured that they will closely monitor the matter and bring further improvement in it.

#### 4.7 Outstanding balance under major Suspense and DDR heads

Suspense heads are operated in Government accounts to reflect transactions that cannot be booked initially to their final Head of Account for some reason or the other. These are finally cleared by minus debit or minus credit when the amount is taken to its final Head of Account. If the amounts under suspense heads remain unadjusted, the balances under these heads get accumulated resulting in understatement of Government's receipts and payments. Remittances embrace all transactions which are adjusting Heads of Account and the debits or credits under these heads are eventually cleared by corresponding credit or debit within the same or in another circle of accounting.

The Finance Accounts reflect the net balances under Suspense and Remittance Heads. The outstanding balances under these heads are worked out by aggregating the outstanding debit and credit balances separately under various heads. Clearance of suspense and remittance items depends on the details furnished by the State Treasuries/ Works and Forest Divisions, *etc.* The position of gross figures under major suspense and remittance heads for the last three years is given in table below:

**Table 4.7: Balances under Suspense and Remittance Heads**

(₹ in crore)

<b>Major head 8658- Suspense Accounts</b>						
Name of Minor Head	2017-18		2018-19		2019-20	
	Dr	Cr	Dr	Cr	Dr	Cr
101- Pay and Accounts Office -Suspense	36.46	0.84	45.53	9.90	65.53	22.41
<b>Net</b>	Dr 35.62		Dr 35.63		Dr 43.12	
102- Suspense Account (Civil)	4.67	0.11	4.48	0.11	4.36	0.09
<b>Net</b>	Dr 4.56		Dr 4.37		Dr 4.27	
109- Reserve Bank Suspense -Headquarters	28.18	0.68	26.40	0.36	29.12	6.99
<b>Net</b>	Dr 27.50		Dr 26.04		Dr 22.13	
110-Reserve Bank Suspense -Central Accounts Office	23.27	44.77	35.58	37.18	133.23	133.84
<b>Net</b>	Cr 21.50		Cr 1.60		Cr 0.61	
112-Tax Deducted at source(TDS) Suspense	0.04	3.72	0.04	4.77	0.04	3.43
<b>Net</b>	Cr 3.68		Cr 4.73		Cr 3.39	
123- A.I.S Officers' Group Insurance Scheme	0.29	0.34	0.30	0.35	0.30	0.36
<b>Net</b>	Cr 0.05		Cr 0.05		Cr 0.06	
<b>Major Head 8782- Cash Remittances and adjustments between Officers rendering accounts to the same Accounts Officer</b>						
Name of Minor Head	2017-18		2018-19		2019-20	
	Dr	Cr	Dr	Cr	Dr	Cr
102- Public Works Remittances	19537.57	19679.27	21491.09	21633.52	23321.16	23460.11
103-Forest Remittances	2938.34	2895.96	3123.43	3083.33	3290.42	3246.95
<b>Net</b>	Cr 99.32		Cr 102.33		Cr 95.48	

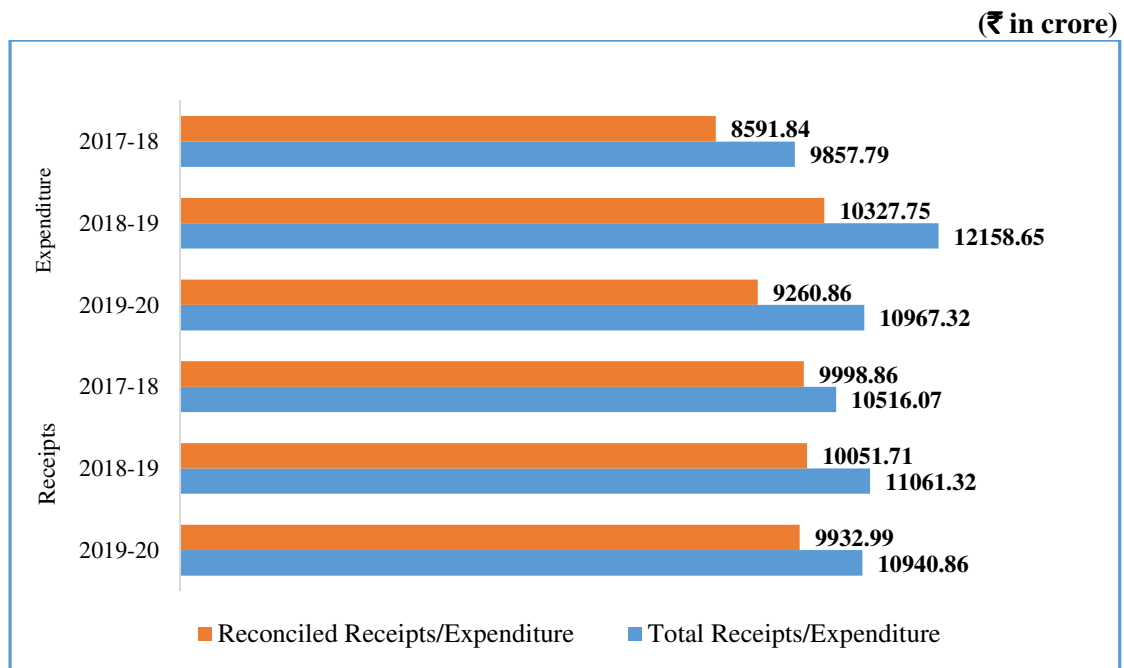
Source: Finance Accounts.

#### 4.8 Non-reconciliation of Departmental figures

To enable Controlling Officers (COs) of the Departments to exercise effective control over spending to keep it within the budget grants and to ensure accuracy of their accounts, the State Financial Rules stipulate that receipts and expenditure during the financial year recorded in their books be reconciled by them every month with that recorded in the books of the Accountant General (A&E).

The status of reconciliation of receipts and expenditure figures by the COs during the three year period 2017-20 is shown in the Chart and table below:

**Chart 4.3: Status of reconciliation during the three years 2017-20**



Source: Information furnished by AG (A&E), Meghalaya.

**Table 4.8: Status of Reconciliation of Receipts and Expenditure figures**

(₹ in crore)

Year	Total No. of Controlling Officers	Fully Reconciled	Partially Reconciled	Not reconciled at all	Total Expenditure/ Receipts	Percentage of reconciliation
Expenditure						
2017-18	59	8591.84	Nil	1265.95	9857.79	87
2018-19	59	10294.61	33.14	1830.90	12158.65	85
2019-20	62	9260.86	Nil	1706.46	10967.32	84
Receipts						
2017-18	59	9982.24	16.62	517.21	10516.07	95
2018-19	59	10051.38	0.33	1009.61	11061.32	91
2019-20	62	9932.99	Nil	1007.87	10940.86	91

Source: Information furnished by AG (A&E), Meghalaya.

It could be seen from the above table that the percentage of reconciliation of expenditure has come down from 87 per cent during 2017-18 to 84 per cent during 2019-20 while the percentage of reconciliation of receipts has come down from 95 during 2017-18 to 91 per cent during 2019-20.

Reconciliation and verification of figures is an important tool of financial management. Failure to exercise/adhere to the codal provisions and executive instructions in this regard not only results in misclassification and incorrect booking of receipts and expenditure in the accounts, but also defeats the very objective of budgetary process.

#### 4.9 Reconciliation of Cash Balances

As on 31 March 2020, there was a difference of ₹ 6.44 crore (debit) between the figures reflected in the accounts (- ₹ 234.39 crore credit) and that intimated by the Reserve Bank of India (₹ 240.83 crore debit). The difference was due to misclassification by bank/treasury and non-receipt of details of adjustment made by RBI as shown below:

**Table 4.9: Details of difference between the figures reflected in the accounts and RBI**

1.	Misclassification by Bank/Treasury	Dr. ₹ 40.44 crore
2.	Non-receipt of details of adjustments made by RBI	Cr. ₹ 34.00 crore
<b>Total</b>		<b>₹ 6.44 crore</b>

#### 4.10 Compliance with 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. Further, the Comptroller and Auditor General of India set up a Government Accounting Standards Advisory Board (GASAB) in 2002, for formulating standards for government accounting and financial reporting, to enhance accountability mechanisms. On the advice of the Comptroller and Auditor General of India, the President of India has so far notified three Indian Government Accounting Standards (IGAS). The details of these standards and the extent of compliance with these by the Government of Meghalaya in its financial statements for the year 2019-20 are given in table below:

**Table 4.10: Compliance with Indian Government Accounting Standards**

Sl. No.	Accounting Standards	Essence of IGAS	Compliance by State Government	Impact of deficiency
1.	<b>IGAS-1:</b> <i>Guarantees Given by the Government – Disclosure requirements</i>	This standard requires the government to disclose the maximum amount of guarantees given during the year in its financial statements along with additions, deletions, invoked, discharged and outstanding at the end of the year.	Partly Complied	While the government has disclosed the maximum amount <sup>3</sup> of guarantees given during the year, information like number of guarantees was not furnished.

<sup>3</sup> The maximum amount guaranteed (principal only) was ₹1369.80 crore.

Sl. No.	Accounting Standards	Essence of IGAS	Compliance by State Government	Impact of deficiency
2.	<b>IGAS-2:</b> <i>Accounting and Classification of Grants-in-Aid</i>	Grants-in-Aid are to be classified as revenue expenditure in the accounts of the grantor and as revenue receipts in the accounts of the grantee, irrespective of the end use.	Complied	The State government complied with the format prescribed by the Standard.
3.	<b>IGAS-3:</b> <i>Loans and Advances made by Government</i>	This Standard relates to recognition, measurement, valuation and reporting in respect of loans and advances made by the Government in its Financial Statements to ensure complete, accurate and uniform accounting practices.	Complied	The State government complied with the format prescribed by the Standard.

#### 4.11 Submission of Accounts/Separate Audit Reports of Autonomous Bodies

Several autonomous bodies have been set up by the State Government in the field of Khadi and Village Industries, Labour, *etc.* The position of annual accounts of three of the autonomous bodies whose audit was entrusted to the Comptroller and Auditor General of India (CAG) under Section 19 & 20 of DPC Act is given in the table below:

**Table 4.11: Position of outstanding annual accounts**

Name of Autonomous Body	Section of DPC Act under which audit is conducted	Due date for submission of Annual Accounts	Year of Annual Accounts received	Outstanding Annual Accounts
Meghalaya Khadi and Village Industries Board	19(3)	June every year	2016-17	2017-18 to 2019-20
Special Purpose Vehicle Society for Development of the Lafarge Umiam Mining Areas, Shillong	20(1)	-do-	2015-16	2016-17 to 2019-20
Meghalaya Building and Other Construction Workers' Welfare Board	19(2)	- do -	2015-16	2016-17 to 2019-20

In the absence of annual accounts and their audit, proper utilisation of the grants and loans disbursed to those Bodies/Authorities and their accounting cannot be vouched. The Administrative Departments may take steps to clear the arrears in accounts of these bodies.

#### 4.12 Arrears in finalisation of accounts by Public Sector Undertakings (PSUs)

The financial statements of the companies are required to be finalised within six months after the end of the financial year *i.e.* by September end in accordance with the provisions of Section 96(1) of the Companies Act. Failure to do so may attract penal provisions under Section 99 of the Act. Similarly, in case of Statutory

Corporations, their accounts are to be finalised, audited and presented to the Legislature as per the provisions of their respective Acts.

As on 30 September 2020, 28 accounts of 16 working PSUs were in arrears for one to four years (**Appendix 4.2**). Out of the total arrears of 28 accounts for 2019-20, Meghalaya Transport Corporation (MTC) and Forest Development Corporation of Meghalaya Ltd. has maximum accounts in arrears for four years each.

In addition to the above, there were arrears of two accounts (2018-19 and 2019-20) as on 30 September 2020 in respect of the sole non-working PSU (Meghalaya Electronics Development Corporation Limited), which became defunct in 2006 and had been in the process of liquidation since June 2011. The State Government needs to expedite the liquidation process to wind up the above mentioned non-working PSU. The Committee of Public Undertakings (COPU) in its tenth report which was presented to the Legislature on 5 November 2020 also recommended that the process of liquidation of the non working PSU should be completed forthwith, within six months.

State Government had invested an amount aggregating ₹ 340.79 crore in 16 working PSUs {equity: ₹ 87.21 crore (three PSUs), loans: ₹ 31.97 crore (three PSUs) and grants ₹ 221.61 crore (six PSUs)} during the years for which the accounts of these PSUs had not been finalised as detailed in **Appendix 4.3**. In the absence of finalisation of accounts and their subsequent audit, it cannot be verified if the investments made and the expenditure incurred have been properly accounted for and the purpose for which the amount was invested was achieved or not.

Timely finalisation of accounts is important for the State Government to assess the financial health of the PSUs, avoid financial misappropriation and mismanagement, ensure safety of Government equity, *etc.* Persistent delay in finalisation of accounts is fraught with the risk of fraud and leakage of public money going undetected apart from violation of the provision of the Companies Act, 2013.

The Heads of Departments in the Government are to ensure that the departmental undertakings prepare such accounts and submit the same to the Accountant General (Audit) within a specified time frame.

#### **4.13 Non-submission of details of grants / loans given to bodies and authorities**

In order to identify the institutions which attract audit under Sections 14 and 15 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 (DPC Act), the Government/ Heads of the Department are required to furnish to Audit every year detailed information about the financial assistance given to various institutions, the purpose of assistance granted and the total expenditure of the institutions.

Further, Regulation on Audit and Accounts (Amendments) 2020 provides that Governments and HODs, who sanction grants and/or loans to bodies or authorities shall furnish to Audit 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.

The annual accounts of 24 bodies/authorities due up to 2019-20 had not been received (November 2020) by the Accountant General (Audit). The details of these accounts are given in **Appendix 4.4** and their age-wise pendency is presented in table below: -

**Table 4.12: Age-wise arrears of Annual Accounts due from Government Bodies**

Sl. No.	Delay in number of years	Total No. of Accounts
1.	0 to 1 year	01
2.	Above 1 year to 3 years	10
3.	Above 3 years to 5 years	29
4.	Above 5 years to 7 years	33
5.	Above 7 years to 9 years	-
6.	Above 9 years	90
<b>Total</b>		<b>163</b>

In the absence of annual accounts and their audit, proper utilisation of the grants and loans disbursed to those bodies and their accounting cannot be vouched. The concerned Administrative Departments may advise these bodies to clear the arrears in accounts.

#### **4.14 Autonomous District Councils (ADCs)**

The United Khasi and Jaintia Hills District Council was set up in June 1952 under Article 244(2) read with the Sixth Schedule to the Constitution of India. The Council was bifurcated in 1967 and the Jowai District Council was carved out of it. In 1973, the United Khasi and Jaintia Hills District Council and the Jowai District Council were renamed as Khasi Hills Autonomous District Council (KHADC) and Jaintia Hills Autonomous District Council (JHADC) respectively. The Garo Hills Autonomous District Council (GHADC) was set up in June 1952 under Article 244(2) read with the Sixth Schedule to the Constitution of India.

#### **Non-submission of Annual Accounts**

As per the Fund Rules of JHADC and GHADC, the Annual Accounts were to be submitted to the AG (Audit) by 30<sup>th</sup> June of each year but no prescribed date was mentioned in the Fund Rules of the KHADC. The annual accounts of the ADCs were in arrears for two to four years, as indicated below:

**Table 4.13: Arrears in submission of Annual Accounts**

Name of the ADCs	Due date for submission of Annual Accounts	Year of Annual Accounts received	Outstanding Annual Accounts
KHADC	Not prescribed	2017-18	2018-19 & 2019-20
GHADC	30 June	2015-16	2016-17, 2017-18, 2018-19 & 2019-20
JHADC	30 June	2016-17	2017-18, 2018-19 & 2019-20

Persistent delay in finalisation of accounts is fraught with the risk of fraud and leakage of public money going undetected. The State Government may advise the ADCs to finalise the arrear accounts and submit them to the Accountant General.

**Utilisation of grants**

During the period 2015-16 to 2019-20, the ADCs received grants (Central and State) for implementation of various development schemes. The details of utilisation of such grants are as under:

**Table 4.14 : Utilisation of Central grants**

(₹ in crore)				
Name of the ADCs	Year	Name of the Central Grant	Amount Sanctioned	Amount for which UCs submitted
KHADC	2015-16	Construction Rural Market under NLCPR, Ministry of DoNER, GoI	0.78	0.78
	2016-17	Special Assistance released by the Ministry of Finance, GoI	133.12	120.20
		Construction of District Councils Building under Art.275(1)	1.20	1.20
	2017-18	Grant for Areas not included in Pt. IX & IXA of the Constitution from the Ministry of Finance	32.25	30.90
	2018-19		50.18	Nil
	2019-20		50.18	Nil
JHADC	2016-17	Special assistance released by the Ministry of Finance, GoI	33.57	30.72
		Construction of District Councils Building under Art.275(1)	1.81	1.81
	2017-18	Grant for Areas not included in Pt. IX & IXA of the Constitution from the Ministry of Finance	10.75	6.40
	2018-19		16.73	Nil
	2019-20		16.73	Nil
GHADC	2016-17	Special Assistance released by the Ministry of Finance, GoI	100.71	84.79
		Construction of District Councils Building under Art.275(1)	1.83	1.32
	2017-18	Grant for Areas not included in Pt. IX & IXA of the Constitution from the Ministry of Finance	28.66	24.01
	2018-19		44.60	Nil
	2019-20		44.61	Nil
<b>Total</b>			<b>567.71</b>	<b>302.13</b>

**Table 4.15: Utilisation of State grants**

(₹ in crore)				
Name of the ADCs	Year	Name of the State Grant	Amount Sanctioned	Amount for which UCs submitted
KHADC	2015-16	Financial Assistance for Rural Road Communication etc.	0.19	0.19
	2017-18		0.18	0.18
JHADC	2015-16		0.06	0.06
GHADC	2015-16		0.17	0.17
	2017-18		0.16	0.16
<b>Total</b>			<b>0.76</b>	<b>0.76</b>

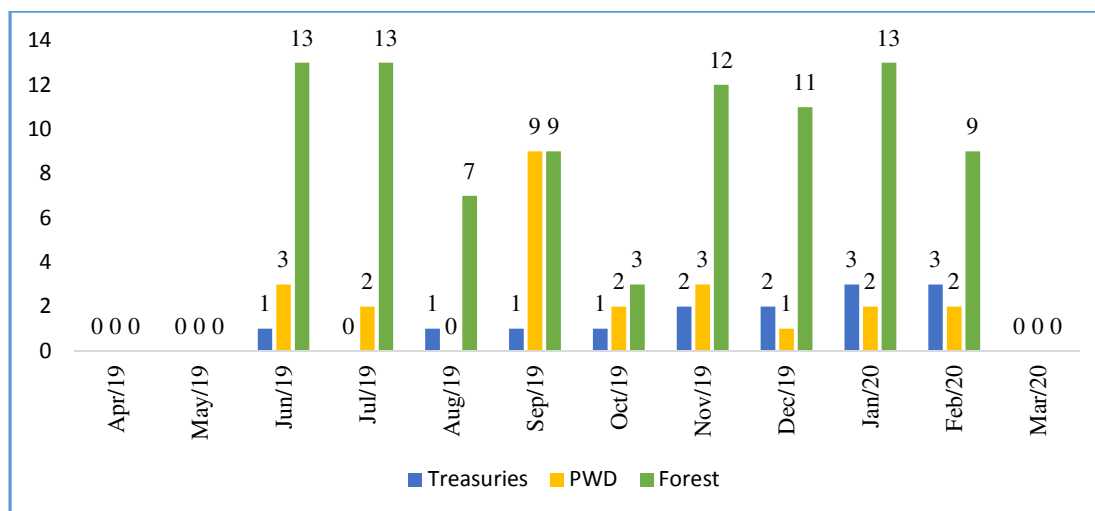
From the tables above it is seen that out of the grants of ₹ 567.71 crore received as Central Grant during 2015-20, the ADCs could utilise only ₹ 302.13 crore (53 per cent) of the total fund allotted. Non submission of the UCs means that the authorities have not explained as to how funds were spent over the years or they were not spent. The ADCs be advised to submit the pending UCs.



#### 4.15 Timeliness and Quality of Accounts

The accounts of the State Government are compiled by the Accountant General (A&E) from the initial accounts rendered by district treasuries, sub-treasuries, Resident Commissioner (New Delhi), cyber treasury, public works divisions (PWD) and forest divisions, apart from the RBI advices. There are often delays in rendition of monthly accounts. Due to the failure of the account rendering units to furnish accounts on time, some accounts are excluded from the monthly Civil Accounts by the Accountant General (A&E). The position of exclusion of monthly Civil Accounts during 2019-20 is shown in the Chart below: -

**Chart 4.4: Number of accounts excluded from monthly Civil Accounts during 2019-20**



As can be seen from above, zero to three accounts of treasury divisions, zero to nine accounts of PWD and zero to 13 accounts of forest divisions were excluded from monthly Civil Accounts during the year. Exclusion of accounts not only distorts the budgetary position of the Government, but also impacts its monitoring of fund flow to the last mile of implementation, its planned pacing of expenditure on developmental programmes, providing intended benefits to the targeted beneficiaries, functioning of departments *etc.* during the year. The State Government needs to monitor closely and ensure the rendition of accounts by all the account rendering authorities to the Accountant General (A&E) on a timely basis, to manage its own budget more effectively.

#### 4.16 Misappropriations, losses, thefts, etc.

According to Rule 112 of the Meghalaya Financial Rules, 1981, any defalcation or loss of public money or other property discovered in Government Treasury or other office or department, which is under the audit of the Accountant General, should be immediately reported to the Accountant General, even when such loss has been made good by the person responsible for it. Further, in all cases of theft, misappropriation, fraud and loss involving Government money, the First Information Report (FIRs) should invariably be lodged with the Police Department.

State Government reported 72 cases of theft, misappropriation and loss involving Government money amounting to ₹ 1.149 crore up to March 2020 on which final action was pending. A break up of pending cases and age-wise analysis is given in the table below:

**Table 4.16: Pending cases of misappropriation, losses, theft, etc.**

(₹ in crore)

Name of Department	Cases of misappropriation/ losses /theft of Government material		Reasons for the delay in final disposal of pending cases of misappropriation, losses, theft, etc.					
			Awaiting departmental and criminal investigation		Departmental action initiated but not finalised		Criminal proceedings finalised but recovery of the amount pending	
	Number of cases	Amount	Number of cases	Amount	Number of cases	Amount	Number of cases	Amount
Public Works	4	0.18	-	-	4	0.18	-	-
Horticulture	1	0.21	-	-	1	0.21	-	-
Community & Rural Development	1	0.03	-	-	1	0.03	-	-
Legislative Assembly	2	0.44	1	0.41	1	0.03	-	-
Land Record and Survey	1	0.02	-	-	1	0.02	-	-
Mining	1	0.17	-	-	1	0.17	-	-
Finance	1	0.02	1	0.02	-	-	-	-
Health	4	0.009	3	0.006	1	0.003	-	-
Public Health Engineering	57	0.07	56	0.06	1	0.01	-	-
<b>Total</b>	<b>72</b>	<b>1.149</b>	<b>61</b>	<b>0.496</b>	<b>11</b>	<b>0.653</b>	<b>-</b>	<b>-</b>

Source: Information furnished by the respective departments.

Out of ₹ 1.149 crore, the highest amount of misappropriation of ₹ 0.44 crore pertained to Meghalaya Legislative Assembly involving two cases.

#### **4.17 Follow up action on State Finances Audit Report**

The Audit Reports can achieve the desired results only if they evoke positive and adequate response from the administration itself. To ensure accountability of the executive about the issues contained in the Audit Reports, the Public Accounts Committee of Meghalaya Legislative Assembly issued instructions (July 1993) for submission of *suo motu* explanatory notes by the concerned administrative departments within one month of presentation of the Audit Reports to the State Legislature.

The State Finances Audit Report for the years from 2008-09 to 2018-19 were placed before the State Legislature in March 2010, March 2011, March 2012, April 2013, June 2014, March 2015, March 2016, March 2017, April 2018, September 2019 and November 2020 respectively. However, *suo motu* explanatory notes on the observations made in those Audit Reports were not furnished by the Departments. Some random replies on only certain portions of Appendices to these Reports were sent by some Departments after placing of these Reports in the Legislative Assembly.

#### 4.18 Conclusions

Audit observed various instances of non-observance of financial rules and procedures and absence of financial controls.

A substantial amount of GoI funds (₹ 941.83 crore) were received directly by the State implementing agencies, despite GoI decision of 2015 to route all assistance to CSS and ACA under various schemes, through the State Budget and treasury system. As a consequence, the actual State receipt and expenditure as well as other fiscal variables did not present a true picture to that extent.

A large number of UCs were pending for submission. It is observed that 838 UCs for ₹ 3843.37 crore were due for submission during 2019-20 and further there was an increase ₹ 851.30 crore over the previous year balance of ₹ 4299.62 crore in the pending amount of UCs. Since huge pendency in submission of UCs is fraught with the risk of fraud and misappropriation of funds, it is imperative that the State Government should monitor this aspect closely.

As of March 2020, DCC bills amounting to ₹ 94 crore were outstanding. Major defaulter in this regard is the Election Department where AC bills of ₹ 92 crore remained outstanding as of March 2020.

During the five-year period, there was an extensive use of Minor Head 800 under both expenditure and revenue, though it has come down in 2019-20 as compared to 2018-19. Classification of large amounts under the omnibus Minor Head 800 affects transparency in financial reporting and distorts proper analysis of allocative priorities and quality of expenditure.

In the absence of annual accounts and their audit, proper utilisation of grants and loans disbursed to bodies and authorities and their accounting cannot be assured. It is observed that annual accounts of three autonomous bodies were outstanding since 2016-17/2017-18. Similarly, accounts of 16 PSUs were in arrears for one to four years, ADCs for two to four years. This requires urgent intervention at the highest level in order to have a realistic and timely assessment of their financial position and review of financial assistance to these bodies due to arrears in their accounts.

There were also 72 instances theft, misappropriation and loss involving Government money amounting to ₹ 1.149 crore.

#### 4.19 Recommendations

- *Government may hold the concerned persons accountable for submission of UCs in a timely manner and review further disbursement of grants to defaulting Departments.*
- *The Finance Department should, in consultation with the Accountant General (A&E), conduct a comprehensive review of all items presently appearing under minor head 800 and ensure that all such receipts and expenditure are in future booked under the appropriate heads of account.*

- *Finance Department should consider evolving a system to expedite the process of compilation and submission of annual accounts by autonomous bodies and departmentally run undertakings in order to have a realistic and timely assessment of their financial position. They should review further financial assistance to PSUs/ ADCs who are in arrears of their Annual Accounts.*