

Chapter III

Financial Reporting

CHAPTER III

FINANCIAL REPORTING

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. 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 Compliance to Accounting Standards

As per Article 150 of the Constitution of India, the President of India may, on the advice of the Comptroller and Auditor General of India, prescribe the form of accounts of the Union and of the States. In accordance with this provision, the President of India has so far notified three Indian Government Accounting Standards (IGAS). Compliance to these Accounting Standards by Government of Punjab as well as deficiencies therein during 2018-19 are detailed in **Table 3.1:**

Table 3.1: Compliance to Accounting Standards

S. No.	Accounting Standards	Compliance by State Government	Compliance/Deficiency
1.	IGAS-1: <i>Guarantees Given by the Government – Disclosure requirements</i>	Complied (Statements 9 and 20 of Finance Accounts)	NIL
2.	IGAS-2: <i>Accounting and Classification of Grants-in- Aid</i>	Not complied (Statement 10 of Finance Accounts)	No information was available in respect of total value of Grants-in-Aid given in kind by the State Government.
3.	IGAS-3: <i>Loans and Advances made by Government</i>	Not complied (Statement 7 and 18 of Finance Accounts)	Disclosure on loans sanctioned without specific terms and conditions, rate of interest and moratorium period (if any) in respect of fresh loans and advances given during the year, those given to the loanee entities from whom repayments of earlier loans are in arrears could not be made as the requisite information was not provided by the State Government. (Refer to paragraph 1.8.4 for further audit findings on Loans and Advances).

Source: Indian Government Accounting Standards and information supplied by office of the Accountant General (A & E), Punjab.

3.2 Delay in submission of Utilisation Certificates

Rule 8.14 (b) of the Punjab Financial Rules Volume-I prescribes that the Utilisation Certificate (UC) should be submitted by the sanctioning authority to Accountant General (A&E) not later than eighteen months from the date of sanction of Grants-in-aid.

It was observed that 45 Utilisation Certificates (UC) amounting to ₹292.42 crore (grant drawn up to September 2017) in respect of 13 Departments were not furnished to the Accountant General (A&E) as on 31 March 2019.

The age-wise position of pendency in submission of UCs is summarised in **Table 3.2**.

Table 3.2: Age-wise pendency of utilisation certificates

(₹in crore)

Period of Grant	Year in which UC become due ¹	No. of UCs	Amount
Up to September 2015	2016-17	1	0.04
October 2015 to September 2016	2017-18	3	61.11
October 2016 to September 2017	2018-19	41	231.27
	Total	45	292.42

Source: Office of the Accountant General (A&E), Punjab.

As much as ₹235.32 crore (80.47 per cent) of the total outstanding amount of ₹292.42 crore pertained to Departments of Rural Development and Panchayats (₹81.49 crore), Revenue, Rehabilitation and Disaster Management (₹53.83 crore) and Excise and Taxation (₹50 crore) and Local Government (₹50.00 crore).

The State Government may review whether they should continue to give more grants to the departments with high pendency of UCs.

Further, a comparison with earlier year revealed that there was an increase in number and decrease in amount of pending UCs during 2018-19 as compared to 2017-18 as depicted in **Table 3.3**.

Table 3.3: Position of pending UCs during 2014-19

(₹in crore)

Year	Number of pending UCs	Amount
2014-15	29	24.21
2015-16	32	66.71
2016-17	05	4.47
2017-18	13	587.80
2018-19	45	292.42

Source: Finance Accounts

High pendency of UCs was fraught with the risk of misappropriation of funds and fraud.

¹ Calculated on the basis of 18 months from the date of drawal of grant-in-aid.

The Finance Department stated (February 2020) that efforts were being made to bring down the number of outstanding UCs.

The Government may ensure timely submission of utilisation certificates by the departments in respect of the grants released for specific purposes.

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

As on 31 March 2019, 17 accounts from 2006-07 to 2017-18 were pending in respect of five² out of eight autonomous bodies. Separate Audit Reports (SARs) which were required to be placed before Legislature were also pending in respect of six³ autonomous bodies. The details of delay in submission of accounts by the autonomous bodies to Audit and placement of the SARs in the Legislature as on March 2019 are given in *Appendix 3.1*.

The Punjab Labour Welfare Board had not rendered its accounts since the financial year 2006-07 despite repeated comments in the Reports of the Comptroller and Auditor General of India (CAG) on State Finances about the arrear in preparation of accounts.

The Government may 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 assess their financial position.

3.4 Departmental Commercial Undertakings

The departmental undertakings performing activities of commercial/quasi-commercial nature are required to prepare proforma accounts in the prescribed format annually, showing the working results of operations so that the Government can assess their working. In the absence of timely finalization of accounts, the results of the investment of the Government remained outside the purview of State Legislature and escaped scrutiny by audit. Consequently, corrective measures, if any, required for ensuring accountability and improving efficiency could not be taken in time. Besides, the delay in all likelihood also has the risk of fraud and mis-utilisation of public money.

The Heads of Departments in the Government are to ensure that the departmental undertakings prepare such accounts and submit the same to the Principal Accountant General (Audit) within a specified time frame. However, the Punjab Roadways (Transport Department) had not prepared its accounts since 2004-05 (as of September 2019), despite repeated comments in the earlier Reports of the CAG on State Finances about the arrears in preparation of accounts.

² (i) Punjab Legal Services Authority; (ii) Punjab Khadi and Village Industries Board; (iii) Punjab Labour Welfare Board; (iv) Punjab Building and Other Construction Workers Welfare Board; and (v) Punjab Bus Metro Society

³ (i) Punjab Legal Services Authority; (ii) Punjab Khadi and Village Industries Board; (iii) Punjab State Human Rights Commission; (iv) Punjab Labour Welfare Board; (v) Punjab Building and Other Construction Workers Welfare Board; and (vi) Punjab State Electricity Regulatory Commission.

3.5 Misappropriations, losses, thefts, etc.

Rules 2.33 to 2.35 of the Punjab Financial Rules lay down detailed instructions regarding responsibility for losses sustained through fraud or negligence of individuals, loss or destruction of Government property and report thereof to the Police/Accountant General.

As on 31 March 2019, 18 cases of misappropriation, losses, theft, etc. involving an amount of ₹3.91 crore were pending. Of these, First Information Report (FIR) had been lodged in only four cases. In remaining cases, the department may consider lodging of FIR, wherever feasible. The department-wise break-up of pending cases is given in **Appendix 3.2**. The age-wise profile of pending cases and nature of these cases is summarized in **Table 3.4**.

Table 3.4: Age-Profile of misappropriation, losses, theft, etc.

(₹in lakh)

Age profile of the pending cases			Nature of pending cases		
Range in years	Number	Amount	Nature of cases	Number	Amount
0-5	10	378.29	Misappropriation/Losses	10	378.29
			Theft	0	0
10 and above ⁴	8	12.25	Misappropriation/Losses	7	12.19
			Theft	1	0.06
Total	18	390.54	Misappropriation/Losses	17	390.48
			Theft	1	0.06
			Total	18	390.54

Source: Departmental records.

The reasons for the delay in finalization of these pending cases have been given in **Table 3.5**.

Table 3.5: Reasons for the delay in finalization of pending cases of misappropriation, losses, theft, etc.

(₹in lakh)

Reasons	Number of cases	Amount
Awaiting departmental and criminal investigation	8	359.09
Departmental action initiated but not finalised	2	5.83
Criminal Proceedings finalised but recovery of the amount pending	1	3.14
Total	11*	368.06

Source: Information as provided by concerned Sectors

* information in respect of remaining seven cases was awaited (November 2019) from the departments.

The State Government may devise an effective mechanism to ensure speedy and time-bound investigation and finalisation of cases relating to misappropriation/loss, theft, etc.

⁴ No outstanding cases of misappropriation/losses and theft were noticed for the period from 5 and 10 years.

3.6 Abstract Contingent bills

Drawing and Disbursing officers are authorized to draw sums of money by preparing Abstract Contingent (AC) bills by debiting Service Heads. They are required to present Detailed Countersigned Contingent (DC) bills duly countersigned by the Controlling Officer in all these cases within six months under Rule 274 of Punjab Treasury Rules as amended vide instructions issued by State Government on 11 November and 19 December 2016. Prolonged non-submission of supporting DC bills renders the expenditure under AC Bills opaque.

Twenty two Government Departments did not submit 320 Detailed Contingent (DC) bills amounting to ₹1,975.94 crore before closing of the accounts for the financial year 2018-19 and, therefore, there is no assurance that the expenditure of ₹1,975.94 crore has actually been incurred during the financial year for the purpose for which it was authorised by the Legislature. In addition to this, 469 AC bills amounting to ₹1,107.37 crore drawn upto 2017-18 were also outstanding as on 31 March 2019. Thus, a total of 789 AC bills involving ₹3,083.31 crore were outstanding as of March 2019. Advances drawn and not accounted for increased the possibility of wastage/ misappropriation/ malfeasance, etc.

Year-wise details of AC bills drawn upto September 2018, which remained unadjusted as on 31 March 2019 are given in **Table 3.6**.

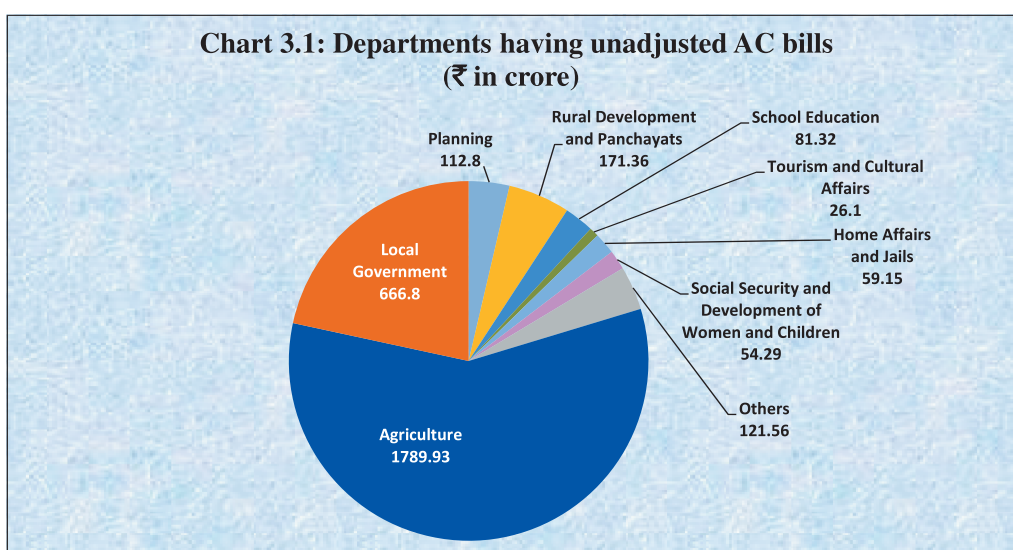
Table 3.6: Details of unadjusted AC bills as on 31 March 2019

(₹ in crore)

Year	Unadjusted AC bills	
	No. of Bills	Amount
Up to 2016-17	246	394.68
2017-18	223	712.69
2018-19 (drawn upto September 2018)	320	1,975.94
Total	789	3,083.31

Source: Finance Accounts

Out of 789 unadjusted AC bills amounting to ₹3,083.31 crore, 574 AC bills amounting to ₹2,961.75 crore (96.06 per cent) pertained to eight Departments as depicted in **Chart: 3.1**.



Source: Finance Accounts

The Finance Department stated (February 2020) that efforts were being made to bring down the number of outstanding AC bills.

The Government may consider carrying out adjustment of Abstract Contingent bills within stipulated period, as required under the Rules.

3.7 Outstanding balance under major suspense account affecting accuracy of accounts

Certain intermediary/adjusting heads of accounts known as ‘Suspense heads’ are opened in Government accounts to reflect transactions of receipt 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 accounts under them are booked to their respective final heads of accounts. If these amounts remain uncleared, the balance under the suspense heads would accumulate and would not reflect Government’s receipt and expenditure accurately.

The Finance Accounts reflect the net balances under these heads. The outstanding balance is worked out by aggregating the outstanding debit and credit separately. Suspense head 8658-101-Pay and Accounts Office suspense is intended for settlement of transactions between the Accountant General (AG) and the various separate Pay and Accounts Officers (PAO). The transactions initially recorded under this head in the books of the AG are cleared on receipt of the cheques/Demand Drafts in respect of amounts received in the PAOs on behalf of the State and on the issue of cheques/Demand Drafts in respect of amounts received in State on behalf of the PAOs. Outstanding debit balance under this head would mean that payments have been made by the State on behalf of a PAO, which were yet to be recovered. Outstanding credit balance would mean that payments have been received by the State on behalf of a PAO, which were yet to be paid.

It was observed that there was a net debit balance of ₹55.21 crore under suspense head 8658-101-Pay and Accounts Office suspense at the close of the year 2018-19. On clearance/settlement of the debit balance, the cash balance of the State Government will increase.

3.8 Follow up action on Audit Report

At the instance of the Public Accounts Committee (PAC), the Finance Department issued (August 1992) instructions to all the Departments to initiate *suo motu* action on all paragraphs and reviews featuring in the Audit Reports irrespective of whether the cases had been taken up for examination by PAC or not. The Departments were also required to furnish to PAC detailed notes, duly vetted by Audit, indicating the remedial action taken or proposed to be taken by them within a period of three months of the presentation of the Reports to the State Legislature.

As regards the Audit Reports relating to the period up to 2016-17 which have been laid before the State Legislature, the PAC took up (August 2015) Audit Report on State Finances for the year 2013-14 for discussion and directed the Finance Department for submission of reply to all paragraphs within three

weeks. However, no detailed note has been received in the Audit Office. The PAC has again directed (July 2019) the Finance Department for submission of reply.

3.9 Conclusions

As on 31 March 2019, 45 utilisation certificates in respect of grants amounting to ₹292.42 crore were pending for submission by the Departmental Officers. There was delay in submission of accounts to Audit and submission of Separate Audit Reports to the Legislature by the Autonomous Bodies. As on 31 March 2019, 18 cases of theft, loss and misappropriation involving an amount of ₹3.91 crore were pending finalisation. As many as 789 AC bills for ₹3,083.31 crore were pending for adjustment, most of which are more than a year old.

The above points were reported to the State Government in January 2020; reply was awaited (June 2020).

CHANDIGARH
The 29 July 2020


(PUNAM PANDEY)
Principal Accountant General (Audit), Punjab

Countersigned

NEW DELHI
The 31 July 2020


(RAJIV MEHRISHI)
Comptroller and Auditor General of India

