

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 Haryana in 2018-19 and deficiencies therein are detailed in **Table 3.1**.

Table 3.1: Compliance to Accounting Standards

Sl. No.	Accounting Standard	Compliance by State Government	Compliance/deficiency
1	IGAS 1: Guarantees Given by the Government – Disclosure requirements	Complied (Statements 9 and 20 of Finance Accounts)	Detailed information like number of guarantees for each institution has been furnished.
2	IGAS 2: Accounting and Classification of Grants-in- Aid	Complied (Statement 10 of Finance Accounts)	(i) Certain Grants-in-Aid have been classified under Capital Section (ii) Information has been furnished in respect of Grants-in-Aid given in kind by the State Government.
3	IGAS 3: Loans and Advances made by Governments	Not Complied (Statement 18 of Finance Accounts)	Details not confirmed by the State Government. Detailed information of overdue Principal and interest was not furnished. Confirmation of balances of individual Loanee was not furnished.

Source: Indian Government Accounting Standards and Finance Accounts

3.2 Delay in furnishing utilisation certificates

Rule 8.14 of the Punjab Financial Rules, as applicable to Haryana, provides that utilisation certificates (UCs) for the grants provided for specific purposes, should be obtained by departmental officers from the grantees. After verification, these should be forwarded to the Accountant General (A&E) within a reasonable time, unless a specific time limit is fixed by the sanctioning authority. However, of the 25,792 UCs due for submission in respect of grants and loans aggregating ₹ 31,175.20 crore, 1,732 UCs for an aggregate amount

of ₹ 8,469.49 crore were in arrears. The department-wise break-up of UCs due, received and outstanding as on 31 March 2019 is given in *Appendix 3.1*. The year-wise delays in submission of UCs is summarised in *Table 3.2*.

Table 3.2: Year-wise arrears of Utilisation Certificates

(₹ in crore)

Year	Total grants paid		Utilisation certificates due		Utilisation certificates received		Utilisation certificates outstanding	
	Items	Amount	Items	Amount	Items	Amount	Items	Amount
Upto 2013-14	1,022	5,897.44	279	1,707.65	69	243.88	210	1,463.77
2014-15	4,907	4,068.87	166	1,107.81	65	678.07	101	429.74
2015-16	5,810	5,086.97	454	1,483.64	181	665.78	273	817.86
2016-17	6,381	8,014.08	616	3,290.12	217	1,229.31	399	2,060.81
2017-18	7,672	8,107.84	7,672	8,107.84	6,923	4,410.53	749	3,697.31
Total	25,792	31,175.20	9,187	15,697.06	7,455	7,227.57	1,732	8,469.49

During the year 2018-19, 749 Utilisation Certificates (UCs) amounting to ₹ 3,697.31 crore, which had become due, were not submitted by the bodies and authorities of the State against the grants-in-aid provided by 25 departments. In addition to this, 983 UCs amounting to ₹ 4,772.18 crore due for submission up to 2017-18 were also outstanding as on 31 March 2019. Thus, a total of 1,732 UCs amounting to ₹ 8,469.49 crore were due for submission as of 31 March 2019. Therefore, there is no assurance that the amount of ₹ 8,469.49 crore has actually been incurred for the purpose for which it was sanctioned/authorised by the Legislature. High pendency of UCs is fraught with risk of misappropriation of fund and fraud.

3.3 Non-submission/delay in submission of accounts

In order to identify the institutions which, attract audit under Sections 14 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act 1971 [CAG's (DPC) 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 total expenditure of the institutions.

A total of 166 annual accounts of 87 autonomous bodies/authorities are awaited as on 31 July 2019. The details of these accounts are given in *Appendix 3.2* and their age-wise pendency is presented in *Table 3.3*.

Table 3.3: Age-wise arrears of annual accounts due from bodies/authorities

Sr. No.	Delay in number of years	Number of accounts	Grants received (₹ in crore)
1.	0-1	83	298.74
2.	2-3	82	221.89
3.	4 and above	1	0.01
	Total	166	520.64

(Source: Figures obtained from Government Departments and Accountant General (A&E) Haryana)

In the absence of annual accounts, it could not be ascertained whether these bodies/authorities attract the provision of Section 14 of the CAG's (DPC)

Act, 1971. Out of 135 autonomous bodies/authorities which attract audit under Section 14 of the Act, audit of 43 bodies/authorities were conducted during 2018-19.

The Government may consider adopting appropriate measures to ensure receipt of accounts from the grantee institutions at the end of every year in order to enable identification of institutions attracting audit by CAG of India under Section 14 of the CAG's (DPC) Act, 1971.

3.4 Delays in submission of accounts of autonomous bodies for certification

Several autonomous bodies have been set up by the Government in the fields of Urban Development, Housing, Labour Welfare, Agriculture and Justice. The audit of accounts of 30 bodies in the State has been entrusted to the CAG. The status of entrustment of audit, rendering of accounts to audit, issuance of Separate Audit Reports (SARs) and its placement in the Legislature is indicated in *Appendix 3.3*.

District Legal Services Authority, Jhajjar had not submitted its annual accounts for the years 1996-97 to 2010-11 and had submitted annual accounts for subsequent years. Delay in respect of seven autonomous bodies ranged between one year and three years. Delay in finalization of accounts carries the risk of financial irregularities going undetected and, therefore, the accounts need to be finalized and submitted to Audit at the earliest.

SARs in respect of Haryana Building and Other Construction Workers Welfare Board, Chandigarh (2009-10 to 2017-18) have not been placed before the State Legislature.

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.

3.5 Departmentally managed commercial undertakings

The departmental undertakings of certain Government departments performing activities of quasi-commercial nature are required to prepare proforma accounts annually in the prescribed format showing the working results of financial operations so that the Government can assess their working. The final accounts reflect their overall financial health and efficiency in conducting their business. In the absence of timely finalisation of accounts, the investment of the Government remains outside the scrutiny of the Audit/State Legislature. Consequently, corrective measures, if any required, for ensuring accountability and improving efficiency cannot be taken in time. Besides, the delay is open to risk of fraud and leakage of public money.

As of June 2019, five such undertakings had not prepared their accounts since the years ranging between 1986-87 and 2014-15. Government funds amounting to ₹ 8,113.30 crore stood invested in these undertakings. Though the arrears in preparation of accounts have been repeatedly commented in the earlier Reports

on State Finances, no improvement had taken place in this regard. The department-wise position of arrears in preparation of proforma accounts and investment made by the Government are detailed in **Appendix 3.4**.

3.6 Misappropriations, losses, defalcations, etc.

Rule 2.33 of the Punjab Financial Rules, as applicable to Haryana, stipulates that every Government employee would be held personally responsible for any loss sustained by Government through fraud or negligence on his part or any loss arising from fraud or negligence on the part of any other Government employee to the extent that he contributed to the loss by his own action or negligence. Further, as per rule 2.34 *ibid*, the cases of defalcations and losses are required to be reported to the Accountant General (A&E).

State Government reported 75 cases of misappropriation and defalcation involving Government money amounting to ₹ 1.28 crore on which final action was pending as of June 2019. All the 75 cases were reported by departments concerned to police through first information reports (FIRs). The department-wise break up of pending cases and age-wise analysis is given in **Appendix 3.5** and nature of these cases are given in **Appendix 3.6**. The age-profile of the pending cases and the number of cases pending in each category-theft and misappropriation/loss as emerged from these appendices is summarised in **Table 3.4**.

Table 3.4: Profile of misappropriations, losses, defalcations, etc.

(₹ in lakh)

Age-profile of the pending cases			Nature of the pending cases		
Range in years	Number of cases	Amount involved		Number of cases	Amount involved
0 - 5	35	95.37	Theft Cases	60	110.75
5-10	4	1.61			
10-15	10	16.00	Misappropriation/loss of Government material	15	16.98
15 - 20	7	10.80			
20 - 25	3	0.24			
25 and above	16	3.71			
Total	75	127.73	Total pending cases as of June 2019	75	127.73

Reasons for pendency of cases are listed in **Table 3.5**.

Table 3.5: Reasons for outstanding cases of misappropriations, losses, defalcations, etc.

Reasons for the delay/outstanding pending cases		Number of cases	Amount (₹ in lakh)
i)	Departmental action initiated but not finalised	57	108.93
ii)	Criminal proceedings finalised but execution of criminal case for the recovery of amount pending	3	1.09
iii)	Awaiting orders for recovery or write off	9	3.88
iv)	Pending in the courts of law	6	13.83
Total		75	127.73

Out of the total loss cases, 80 *per cent* cases related to theft of Government money/store. Further, in respect of 76 *per cent* cases of losses, departmental action had not been finalized while 12 *per cent* cases were outstanding for want of orders of the competent authority for recovery or write off of losses. It was further noticed that out of 75 cases of losses due to theft/misappropriation, 40 cases were more than five years old, including 19 cases which were more than 20 years old. The lackadaisical approach of departments in finalisation of these cases had not only caused loss to the State exchequer but also led to non-accountability of the officers/officials.

The Government may consider preparing a time bound framework for taking prompt action in cases of theft, misappropriation, etc.

3.7 Misclassification in accounts

Operation of omnibus Minor Head-800

Booking under Minor Head ‘800-Other Receipts’ and ‘800-Other Expenditure’ should to be done 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 account opaque.

During 2018-19, expenditure aggregating ₹ 8,581.76 crore (9.28 *per cent* of total expenditure¹) was classified under Minor Head-800 under various revenue and capital Major Heads. Out of total revenue expenditure on power subsidy, medium irrigation, other social services and capital expenditure on tourism, more than 90 *per cent* was classified under omnibus Minor Head-800 instead of depicting under distinct heads of accounts.

This issue was pointed out in earlier Audit Reports on State Finances also. However, operation of omnibus Minor Head has continued at the same level. Classification of substantial amounts under omnibus Minor Head ‘800-Other Expenditure/Receipts’ affects the transparency in financial reporting.

The Government may consider depicting the amounts of expenditure incurred under various schemes distinctly instead of clubbing the expenditure of major schemes under the Minor head ‘800-Other Expenditure’.

3.8 Personal Deposit Accounts

Rules 12.16 and 12.17 of Punjab Financial Rules Volume I (as applicable to Haryana State), provide that with the approval of Principal Accountant General (A&E), the State Government is authorised to open Personal Deposit (PD) accounts by transfer of funds from the Consolidated Fund or otherwise for specific purposes. Transfer of funds to PD accounts is booked as expenditure from the Consolidated Fund under the concerned service Major Head. Rule 12.7 of Rules *ibid* provides that PD accounts are required to be closed on the last working day of the year and the unspent balances transferred back to the

¹ Excluding loans and advances.

Consolidated Fund and can be reopened next year, if necessary. Further provided that if a Personal Deposit Account is not operated upon for a considerable period and there is reason to believe that need for the Deposit Account has ceased, the same should be closed in consultation with the Officer in whose favour the Deposit Account has been opened.

The State had 143 Personal Deposit Accounts with a closing balance of ₹ 1,326.90 crore as on 31 March 2019. Out of this, an amount of ₹ 1,018.44 crore (76.75 per cent) relates to one Personal Deposit Account of Department of Urban Development (Major Head 2217) opened from the Consolidated Fund. The same was required to be closed at the end of financial year and the unspent balances transferred to the Consolidated Fund. Amounts lying in PD Accounts resulted in overstatement of expenditure to that extent. Moreover, the PD Administrators had not reconciled their balances with treasury figures. Non reconciliation of Personal Deposit Accounts periodically and not transferring the unspent balances lying in Personal Deposit Accounts to Consolidated Fund entails the risk of misuse of public funds, fraud and misappropriation.

3.9 Follow-up on Audit Reports

According to the instructions issued (October 1995) by the Government of Haryana, Finance Department and reiterated in July 2001, the administrative departments were to initiate *suo motu* positive and concrete action on all paragraphs and reviews featuring in the Comptroller and Auditor General's Audit Reports (ARs) regardless of whether the cases had been taken up for examination by the Public Accounts Committee (PAC) or not. The Administrative Departments were also required to furnish Action Taken Notes (ATNs) to PAC indicating the remedial action taken or proposed to be taken by them within three months of the presentation of the ARs to the Legislature.

The Audit Reports on State Finances from 2008-09 to 2015-16 have already been discussed in PAC on selective basis. One case pertaining to 2013-14 i.e. theft of two motors in PHED at Gohana amounting to ₹ 1.61 lakh was yet to be discussed in Public Accounts Committee (September 2019). The Audit Report on State Finances for the year 2017-18 was laid before State Legislature on 06 August, 2019.

3.10 Conclusions

There were substantial delays in submission of utilisation certificates which indicates lack of internal control of administrative departments and is an indication of the tendency on the part of the Government to disburse fresh grants without ascertaining proper utilisation of earlier grants. In the absence of annual accounts, it could not be ascertained whether certain autonomous bodies/authorities attract the provision of Section 14 of the CAG's (DPC) Act, 1971. A large number of autonomous bodies, and departmentally run commercial undertakings did not prepare their final accounts for considerable periods. As a result, their financial position could not be assessed. Further, in cases of theft of Government money, misappropriation, loss of Government

material and defalcation, departmental action was pending for long periods. 9.28 *per cent* of total expenditure was classified under omnibus minor head '800-Other Expenditure' during 2018-19.

The above points were referred (January 2020) to the Government of Haryana, for comments and replies. Response from the Government was awaited (May 2020).

Chandigarh
Dated: 14 July 2020


(FAISAL IMAM)
Accountant General (Audit), Haryana

Countersigned

New Delhi
Dated: 21 July 2020


(RAJIV MEHRISHI)
Comptroller and Auditor General of India