

Chapter-III
Financial Reporting

CHAPTER – III

FINANCIAL REPORTING

A sound internal financial reporting 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 compliances are thus attributes of good governance. The reports on compliance and controls, if effective and operational, assist the State Government in meeting its basic stewardship responsibilities, including strategic planning and decision making.

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 the Government of Jammu & Kashmir in 2018-19 and deficiencies therein are given below:

Table 3.1: Compliance to Accounting Standards

Sl. No.	Accounting Standard	Compliance by State Government	Compliance/deficiency
1	IGAS 1: <i>Guarantees Given by the Government – Disclosure requirements</i>	Partially Complied (Statements 9 and 20 of Finance Accounts)	Detailed information like maximum amount of guarantee, addition, deletions of guarantees during the year, sector and class of guarantees for each institution has been furnished but number of guarantees for each institution has not been furnished.
2	IGAS 2: <i>Accounting and Classification of Grants-in- Aid</i>	Not Complied (Statement 10 of Finance Accounts)	(i) Certain Grants-in-Aid to be classified under Revenue Section have been classified under Capital Section (ii) Information has not been furnished in respect of Grants in Aid given in kind by the State Government (March 2019).
3	IGAS 3: <i>Loans and Advances made by Governments</i>	Not Complied (Statement 18 of Finance Accounts)	Details of recoveries in arrears and accrued interest thereon not furnished by State Government.

Source: Indian Government Accounting Standards and Finance Accounts

3.2 Pendency in submission of Detailed Countersigned Contingent (DC) Bills against Abstract Contingent (AC) Bills

In terms of Para 7.10 of the Jammu & Kashmir Financial Code Vol-I, the bills which are countersigned after payment, are drawn as advance payments on Abstract Contingent (AC) Bills. The subordinate officers are required to submit the DC bill by the end of the month following that in which AC Bill is drawn to the Controlling Officer and the Controlling Officer is required to submit the same to the Accountant General, duly countersigned, within one month of its receipt.

(i) In contravention there to, against a total amount of ₹5,178.56 crore (**Appendix 3.1**) comprising of 2,257 bills drawn on AC bills by various drawing and disbursing officers up to 31 January 2019, corresponding DC bills were not submitted to the Accountant General (A&E), Jammu & Kashmir. Out of 2,257 number of outstanding AC bills, 1,840 bills amounting to ₹1,159.89 crore pertains upto 2016-17, 144 bills amounting to ₹1,306.35 crore pertains to 2017-18 and the balance 273 bills valuing ₹2,712.32 crore pertains to the year 2018-19. There is no assurance that the expenditure of ₹2,712.32 crore during 2018-19 has actually been incurred for the purpose for which it was authorized by the Legislature. Majority of the DC bills were awaited (March 2019) from the following departments, as given below:

Table-3.2: Awaited DC bills from Departments

Sl. No.	Name of the Department	Amount outstanding (₹ in crore)	Percentage
1	Education Department	2,420.23	46.74
2	Rural development Deptt.	925.92	17.87
3	Revenue Department	211.80	4.09
4	Medical Department	161.23	3.11
5	Home Department	221.31	4.27
6	Agriculture Department	321.58	6.21
7	Industries Department	142.64	2.75

Source: Finance Accounts

(ii) Further, 268 number of AC bills amounting to ₹3,105.63 crore were drawn during the year 2018-19, out of which 93 AC bills amounting to ₹1,003.82 crore (32.32 per cent) were drawn in March 2019 alone and 50 AC Bills amounting to ₹691.03 crore (22.25 per cent) was drawn on the last day of the financial year. Out of 93 AC bills amounting to ₹1,003.82 crore drawn in March 2019, 23 bills amounting to ₹356.26 crore (35.49 per cent) were drawn by Department of Education, 16 bills for ₹411.80 crore (41.02 per cent) by Rural Development Department, 11 bills for ₹108.56 crore by Home Department, 15 bills for ₹61.48 crore by Planning

Department, 10 bills for ₹33.20 crore by Industries Department, 08 bills for ₹19.61 crore by General Administration Department, 04 bills for ₹12.12 crore by Agriculture Department, 02 bills for ₹0.04 crore by Revenue Department, 01 bill for ₹0.15 crore by Tourism Department, 01 bill for ₹0.12 crore by Law Department, 01 bill for ₹0.23 crore by Finance Department and 01 bill for ₹0.25 crore by Department of Social Welfare. Expenditure against AC Bills in March indicates that the drawals were primarily to exhaust the Budget Provisions and reveals inadequate budgetary control.

The matter has continually been brought to the notice of the Government/Finance Department, from time to time. Despite issuance of instructions in this regard by the State Finance Department, the DDOs did not furnish the pending DC bills to the Accountant General (A&E).

Advances drawn and not accounted for increased the possibility of wastage/ misappropriation/ malfeasance, etc. The Government may take necessary steps to ensure adjustment of the advances drawn on the contingent bills within the stipulated period as required under the extant rules.

3.3 Delay in furnishing of Utilization Certificates

Autonomous Bodies/authorities not having sufficient resources of their own are assisted financially by the Government through release of Grant-in-Aid (GIA) to be spent on specific purposes. The position of GIA provided by the State to Autonomous Bodies/ Authorities during 2014-15 to 2018-19 is given below:

Table-3.3: Grant-In-Aid provided by the State to Autonomous Bodies/Authorities

(₹ in crore)

Sl. No.	Body/Authority	2014-15	2015-16	2016-17	2017-18	2018-19
1	Srinagar Municipal Corporation	161.16	158.18	285.02	108.47	108.53
2	Jammu Municipal Corporation	108.64	98.54	134.49	163.42	73.80
3	Urban Local Bodies (Kashmir)	87.36	56.03	1.95	105.17	61.63
4	Urban Local Bodies (Jammu)	62.94	76.65	69.61	76.29	46.00
5	SKUAST* – Kashmir	100.54	132.18	166.75	94.62	228.60
6	SKUAST* – Jammu	59.48	54.61	81.00	146.38	101.00
7	Kashmir –University	114.67	156.80	145.84	160.00	211.00
8	Jammu –University	76.14	85.80	124.00	137.00	158.94
9	J&K Sports Council	16.93	19.52	24.55	33.65	34.87

Sl. No.	Body/Authority	2014-15	2015-16	2016-17	2017-18	2018-19
10	J&K Academy of Art and Culture	17.16	15.18	23.97	24.29	18.67
11	Institute of Management & Public Administration (IMPA)	10.47	10.13	12.14	13.70	16.50
12	Khadi and Village Industries Board	7.48	17.47	13.11	18.00	23.00
13	Others	446.28	641.59	646.72	1,673.12	2,243.04
	Total	1,269.25	1,522.68	1,729.15	2,754.11	3,325.58

**Sher-e-Kashmir University of Agriculture Sciences & Technology Jammu/Kashmir*

Source: *Finance Accounts*

Financial Rules provide that for the grants provided for specific purposes, Utilization Certificates (UCs) should be obtained by the departmental officers from the grantees and after verification, these should be forwarded to the Accountant General (A&E), Jammu and Kashmir within 18 months from the date of their sanction, unless specified otherwise.

The position of outstanding Utilization Certificates (UCs) at the end of 2018-19 is given below:

**Table-3.4: Position of outstanding Utilization Certificates:
Status as on 31 March 2019**

Year	Utilization Certificates Outstanding	
	Number of items	Amount (₹ in crore)
Upto 2016-17	822	2,709.41
2017-18	548	3,263.58
2018-19	404	2,246.91
Total	1,774	8,219.90

Source: *Finance Accounts*

A total number of 1,774 UCs involving ₹8,219.90 crore were outstanding as on 31 March 2019. Out of the 1,774 outstanding UCs, 404 UCs amounting to ₹2,246.91 crore were outstanding for more than one year and 548 UCs amounting to ₹3,263.58 crore were outstanding for more than two years. Majority of the outstanding UCs are awaited from Education Department (₹4,741.49 crore), Housing and Urban Department (₹1,137.64 crore), Agriculture Department (₹679.42 crore), Health and Family Welfare Department (₹344.09 crore) and Tourism Department (₹239.71 crore).

Non submission of UCs results in non-assurance that the money was actually utilized for the purpose for which it was sanctioned/authorized by the Legislature. High pendency of UCs is fraught with the risk of misappropriation of funds and fraud. State Government may review whether they should continue to give more grants to departments with high pendency of UC's.

3.4 Non-submission/delay in submission of Annual accounts

Audit of 55 Autonomous Bodies has been entrusted to the Comptroller and Auditor General (C&AG) of India under Section 14 of the CAG's (DPC) Act 1971. A total 821 number of annual accounts were awaited from these Autonomous Bodies as detailed in (*Appendix-3.2*) as on 31 March 2019. The matter has been taken up with these bodies time and again for submission of annual accounts for audit.

Certification audit of accounts of Autonomous Bodies (AB's) set up by the State Government is conducted under Section 19(3) and 20(1) of Comptroller and Auditor General of India (DPC) Act 1971. The AB's coming under the audit purview as per the above section are required to submit the annual accounts to audit before 30 June every year. In respect of ten Autonomous Bodies which were to render annual accounts to C&AG, 84 number of accounts were not rendered for the period ranging between one to 24 years as tabulated below:

Table 3.5: Non-submission of accounts by Autonomous Bodies

(₹ in crore)

Name of Body/Authority	Delay in number of years	No of accounts	Grants during 2018-19
Ladakh Autonomous Hill Development Council, Leh (LAHDC-L)	1-24	24	546.24
Ladakh Autonomous Hill Development Council, Kargil (LAHDC-K)	1-16	16	597.95
Compensatory Afforestation Management and Planning Authority (CAMPA)	1-10	10	Nil
Sher-i-Kashmir University of Agricultural Science and Technology, (SKUAST) Srinagar Kashmir	1-09	09	228.60
Sher-i-Kashmir University of Agricultural Science and Technology, (SKUAST) Jammu	1-03	03	101.00
EPF Board, Srinagar	1-04	04	Nil
Jammu & Kashmir State Housing , Board	1-07	07	Nil
Khadi and Village Industries Board (KVIB)	1-04	04	23.00
Building and Other Construction Workers Welfare Board (BOCWFB)	1-06	06	Nil
State Legal Service Authority (SLSA)	1-01	01	12.48
Total		84	

The audit of Ladakh Autonomous Hill Development Council (LAHDC), Leh and LAHDC, Kargil has been entrusted to the C&AG of India. LAHDC, Leh has failed to submit accounts for audit since its inception i.e. 1995-96, although substantial sums are being released to the Council and unspent balances at the end of the year remain credited in a Non-lapsable Fund in the Public Account of the State. Same is the position in respect of LAHDC, Kargil which came into existence in the year 2004-05 and the accounts are in arrears since inception. Compensatory Afforestation Management and Planning Authority (CAMPA) has also not submitted the accounts for audit since its inception i.e. November-2009. Similarly SKUAST, Kashmir, SKUAST, Jammu, EPF Board, Srinagar, KVIB, BOCWWB and SLSA have also not submitted their accounts for audit for the period ranging between one to nine years.

Non-submission/delay in submission of accounts by these Bodies receiving substantial funding from the State Budget is a serious financial irregularity persisting for years. In view of this non-compliance, the audited accounts of these Statutory Bodies have not so far been presented to the State Legislature, as required under the Statutes under which these Bodies were created. Delay/Arrears in finalization of accounts carries the risk of financial irregularities going undetected and entails possibility of fraud and mis-appropriation. This has also deprived the State Legislature the opportunity to get a feedback on their activities and financial performance.

The Government may take up the matter with the bodies for timely preparation and submission of accounts for presentation to the State Legislature.

3.5 Departmentally Managed Commercial Undertakings

The departmental undertakings of certain Government departments performing activities of commercial nature are required to prepare *proforma* accounts in the prescribed format annually. The finalised accounts of departmentally managed commercial and quasi-commercial undertakings reflect their overall financial health and efficiency in conducting their business. In the absence of timely finalisation of accounts, the investment of the Government, corrective measures, if any required, for ensuring accountability and improving efficiency cannot be taken on time. Besides, the delay is fraught with risk of fraud and leakage of public money.

The Heads of the Government Departments are required to ensure that the undertakings prepare such accounts and submit the same to the Accountant General (Audit), Jammu and Kashmir for audit, within a specified time frame. The Government has two such departmental undertakings: (a) Government Printing Presses at Srinagar and Jammu and (b) Public Distribution System (PDS) under the Consumer Affairs and Public Distribution Department. The *proforma* accounts of the commercial operations of both these undertakings are in arrears. The two Government Presses have not prepared their *proforma* accounts from 1968-69 to 2018-19 (July 2019). In Kashmir and Ladakh Divisions, the PDS operations are

carried out by departmentally run PDS shops as well as Fair Price Shops (FPS) i.e 55 per cent through departmental shops and 45 per cent through FPS. The *proforma* accounts have not been prepared in these two Divisions from 1975-76 to 2018-19 (July 2019). In Jammu Division, the PDS operations are mainly through network of private dealers (about 91 per cent) and the *proforma* accounts have not been prepared from 1973-74 to 1997-98 and 1999-2000 to 2018-19. Due to non-compliance with the basic requirements of the preparation of annual *proforma* accounts by the Departmentally Managed Commercial Undertakings, financial reporting may not be accurate and reliable.

Year wise position of the *proforma* account of PSUs in the State is given in the **Appendix 3.3**. Out of the 24 PSUs, accounts of 20 PSUs were pending finalization for the period ranging between 1 to 21 years. The reasons for delay in finalization of accounts have not been furnished.

3.6 Opaqueness in Government Accounts

Minor Head 800-Other Receipts/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 for budgeting and accounting renders the accounts opaque without identifying the receipt/expenditure to its appropriate object of expenditure or revenue. During the year 2018-19, ₹4,220.87 crore [including Revenue Receipt of ₹3,246.49 crore (represents ₹2,033.23 crore collection from consumers, ₹1,200 crore subsidy by debit to Major Head 2801 –“Power” on account of sale of power by Electricity Department and ₹13.26 crore Misc. Power Receipts) for which no appropriate Minor Head is prescribed in the list of Major and Minor Heads of Account] under 35 Revenue Major Heads of Accounts constituting about 8.24 per cent of the total Revenue Receipts of ₹51,230.71 crore, was recorded under the Minor Head 800-‘Other Receipts’. Similarly, expenditure of ₹3,662.17 crore under 55 Major Heads of Accounts constituting about 5.68 per cent of Total Expenditure of ₹64,503.55 crore was booked under Minor Head 800-‘Other Expenditure’. Classification of large amounts booked under the Minor Head 800-‘Other Receipts’ does not give the fair picture in accounts.

The Government may consider depicting the amounts received and expenditure incurred under various schemes distinctly, instead of clubbing the Receipts and Expenditure of major schemes under the Minor Head 800-Other Expenditure and 800-Other Receipts, for better clarity in Accounts.

3.7 Outstanding Liability to Contractors

The committed liability of the State for the year 2018-19 amounts to ₹4,041.11 crore (₹2,098.06 crore in 2017-18) comprising Major Works and Contracts (₹319.63 crore), Land Acquisition Charges (₹2,514.98 crore) and unpaid bills on Works/Supply (₹1,206.50 crore). The committed liabilities as against the previous year

has increased by ₹1,943.05 crore. The State Government is getting work done by the contractors without provision of funds by the legislature and the contractors are not getting paid and has thus resulted in creation of liability on this account.

3.8 Follow-up on Audit Reports

To ensure accountability of executives to the issues dealt with in various Audit Reports, the State Government (Finance Department) issued instructions in June 1997 to the administrative departments to furnish to Public Accounts Committee (PAC)/Committee on Public Undertaking (COPU), *suo-motu* Action Taken Notes (ATNs) on all the audit paragraphs featuring in the Audit Reports, irrespective of the fact that these are taken up for discussion by these Committees or not. These ATNs are to be submitted to these Committees duly vetted by the Accountant General (Audit), within a period of three month from the date of presentation of Audit Reports in the State Legislature.

Report of the Comptroller and Auditor General of India on State Finances is being prepared since 2008-09 and Reports till the year 2015-16 have been tabled in the State Legislature along with the other Audit Reports. Action Taken Notes on these Reports were not furnished by the State Government. The State Finance Audit Report for the year ended 31 March 2017 was forwarded on 06 April 2018 to the State Government. Report has not been tabled in State Legislature as the State has been under Governors/Presidents rule since 20 June 2018. The State Finances Audit Reports for the year 2016-17 and 2017-18 have been forwarded to the Ministry of Finance, Government of India and President of India for presentation in the Parliament.

3.9 Conclusions

Against the total amount of ₹5,178.56 crore drawn on AC bills by various drawing and disbursing officers up to 31 January 2019, corresponding DC bills were not submitted to the Accountant General (A&E) J&K. Advances drawn and not accounted for increased the possibility of wastage/misappropriation/malfeasance etc.

A total number of 1,774 UCs involving a total amount of ₹8,219.90 crore remained outstanding as on 31 March 2019. State Government may review whether they should continue to give more grants to departments with high pendency of UC's.

A total of 821 number of Annual Accounts for the period ranging from 1972-73 to 2018-19 in respect of 54 Autonomous Bodies were awaited for audit as on 31 March 2019.

Due to non-compliance with the basic requirements of the preparation of annual *proforma* accounts by the Departmentally Managed Commercial Undertakings, financial reporting by these entities may not be accurate and reliable.

Classification of large amounts booked under the Minor Head '800'- Other Receipts and Other Expenditure affects transparency in financial reporting and does not give fair picture in accounts.

Srinagar/Jammu
The 21 July 2020



(ILA SINGH)

Principal Accountant General (Audit)
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Countersigned

New Delhi
The 31 July 2020



(RAJIV MEHRISHI)

Comptroller and Auditor General of India

