

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.

Issues related to completeness of accounts

4.1 Funds transferred directly to State implementing agencies

The GoI transfers substantial funds directly to State Implementing Agencies/ Non-Governmental Organisations for implementation of various schemes and Programmes. Since these funds are not routed through the State Budget, these are not reflected in the Accounts of the State Government. These transfers are exhibited in Appendix VI of Volume II of the Finance Accounts.

During the year 2019-20, GoI funds amounting to ₹ 497.07 crore were directly transferred to the Implementing Agencies. Details of major amount of funds transferred directly to Implementing Agencies are shown in **Table 4.1**.

Table 4.1: Funds transferred by GoI directly to State implementing agencies

(₹ in crore)

Name of the Schemes/Programmes of GoI	Name of the Implementing Agencies	GoI releases during 2019-20
North East Road Sector Development Scheme	Chief Engineer PWD (R&B) Nagaland	191.71
Pradhan Mantri Kishan Samman Nidhi	Department of Agriculture, Nagaland	91.92
Support to National Institute of Technology (NITs) and IEST	National Institute of Technology Nagaland	37.00
National AIDS and STD Control Programme (NACO)	Nagaland State AIDS Control Society	28.40
Organic Value Chain Development of North East Region	Nagaland Organic Mission	20.15
Solar Power-off grid	Nagaland Renewable Energy Development Agency (NREDA)	13.45
Scheme of North Eastern Council Special Development Projects	Nagaland University	8.08
Support to Academies	North East Zone Cultural Centre	7.94
Pilgrimage Rejuvenation and Spiritual Heritage Augmentation Drive (PRASHAD)	Nagaland Tourism Board	7.53
Research Training and Studies and Other Road Safety Schemes	Motor Vehicles Department	7.09
Development of Museums (Culture)	Directorate of Art and Culture Kohima Nagaland	6.05

Name of the Schemes/Programmes of GoI	Name of the Implementing Agencies	GoI releases during 2019-20
Khelo India National Programme	Nagaland State Sports Council	5.70
Others	Other 220 implementing Agencies against 92 schemes	72.05
Total		497.07

Source: Public Financial Management System (PFMS) portal of Controller General of Accounts for the State Accounts (2019-20).

It can be seen from the table above that out of ₹ 497.07 crore transferred directly by GoI during 2019-20, ₹ 425.02 crore (85.51 per cent) was given for implementation of 12 major Schemes during the year.

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

The Finance Department, in its reply stated (March 2021) that PFMS cell established as per GoI guidelines was functioning under it and was actively working to get Departments on board to the PFMS portal. However, the reply was silent on existence of monitoring mechanism like involvement of any agency/authority to monitor these funds.

Issues related to transparency

4.2 Delay in submission of Utilisation Certificates

The General Financial Rules provide that every order sanctioning a grant would specify its objective clearly and time limit within which the grant is to be spent. The departmental officers drawing the grants-in-aid would be primarily responsible for certifying to the Accountant General, where necessary, the fulfillment of the conditions attached to the grant and submission of certificate (Utilisation Certificate) in such form and at such interval as may be agreed between the Accountant General (Accounts and Entitlement) and the Head of the Department concerned.

Rule 238 (1) of General Financial Rules, 2017 stipulates that a grantee Organisation or Institution getting non-recurring grants is required to submit a certificate of actual utilisation of the grants received for the purpose for which it was sanctioned in Form **GFR 12-A** within twelve months.

Non-submission of the Utilisation Certificates (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. Since non-submission of UCs is fraught with the risk of misappropriation, it is imperative that the State Government should monitor this aspect closely and hold the concerned persons accountable for submission of UCs in a timely manner.

During the year 2019-20, 91 grants involving ₹ 77.61 crore were provided to 20 departments for which UCs are due for submission during the year 2020-21. As on March 2020, there were 104 UCs worth ₹ 378.59 crore which were due for submission for periods pertaining up to 2018-19. High pendency of UCs is fraught with risk of misappropriation of fund.

Tables 4.2 and 4.3 represent the age-wise arrears and department-wise break-up of outstanding UCs. Outstanding UCs in respect of ten major Departments is also given in **Chart 4.1**. Details of department-wise outstanding UCs up to 2019-20 is shown in **Appendix 4.1**.

Table 4.2: Age-wise arrears in submission of UCs

Year	Opening Balance		Addition		Clearance		Due for submission	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Up to 2017-18	286	909.61	55	328.40	86	372.71	255	865.30
2018-19	255	865.30	70	167.06	138	271.64	187	760.72
2019-20	187	760.72	91	77.61	83	382.13	195	456.20

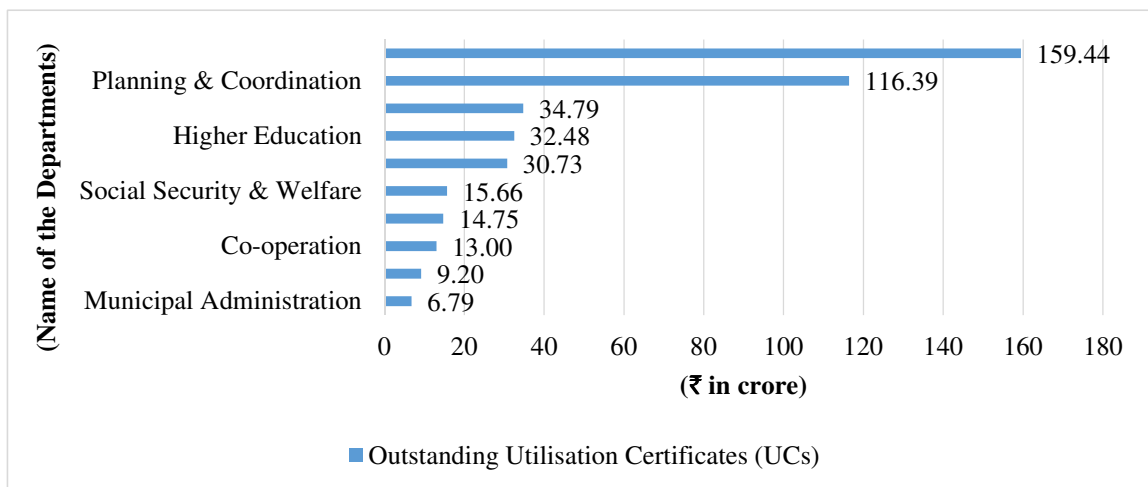
*UCs for the GIA disbursed during 2019-20 become due only during 2020-21.
Source: Finance Accounts, 2019-20

Table 4.3: Year-wise break up of outstanding UCs

Year	Number of UCs	Amount
2011-12	4	29.95
2012-13	7	55.94
2013-14	8	126.95
2014-15	16	85.65
2015-16	14	30.92
2016-17	12	9.74
2017-18	18	13.26
2018-19	25	26.18
2019-20	91	77.61
Total	195	456.20

Source: Information furnished by PAG (A&E)

Chart 4.1: Outstanding UCs in respect of 10 major Departments for the grants paid up to 2019-20



Source: Information furnished by the Office of the PAG (A&E), Nagaland

As can be seen from the chart above, major defaulting departments, which had not submitted the UCs, were Rural Development, Planning and Co-ordination, Industries and Commerce, Higher Education and School Education.

4.2.1 Grants to Other Grantee Institutions

There is a mechanism in some States of giving institute code to various bodies and authorities receiving Grants-in-Aid (GIA) from Government. These grants are also recorded in VLC system of Accountant General (A&E) office and submission of UCs is monitored against outstanding amount against each institute. Needless to say, for this system to work, grantee institute should be recorded properly. In absence of proper code, outstanding amounts against all institutes cannot be worked out.

If GIA constitutes a significant portion of the total expenditure of the State, it is essential that the Government provides the details and nature of the Grantee Institution to which it is providing funds, in the interests of transparency of accounts.

Out of the total GIA of ₹ 160.71 crore during the financial year, an amount of ₹ 67.76 crore (42.16 per cent) was shown as disbursed to Grantee Institutions of type “Others”. The trend of such disbursement during 2015-20 is given in **Table 4.4**.

Table 4.4: Trend of GIA/assistance to Grantee Institutions of type “Others” during 2015-20

	(₹ in crore)				
Year	2015-16	2016-17	2017-18	2018-19	2019-20
Total GIA during the year	120.63	170.87	328.40	167.06	160.71
Grant to the type “Others”	108.53	152.39	250.00	86.74	67.76
Percentage to the Total GIA	89.97	89.18	76.13	51.92	42.16

Source: Finance Accounts of respective years

As can be seen from the above table, the percentage of Grants to Grantee Institutions of type “Others” showed a decreasing trend from ₹ 89.97 crore in 2015-16 to ₹ 42.16 crore in 2019-20.

4.3 Abstract Contingent Bills

The drawal of contingent charges on items of expenditure by a State Government, for which final classification and supporting vouchers is not available at the time of drawal are made on ‘Abstract Contingent’ (AC) Bills. Initially made as advance, its subsequent adjustments are ensured through submission of Detailed Countersigned Contingent (DCC) bills within a stipulated period of drawal of AC bill. DCC bill consists of abstract of expenditure along with sub-vouchers for amount drawn through AC bill. DDOs are required to present DCC bills duly countersigned by the Controlling Officer in all these cases within period prescribed in the State Treasury Rules.

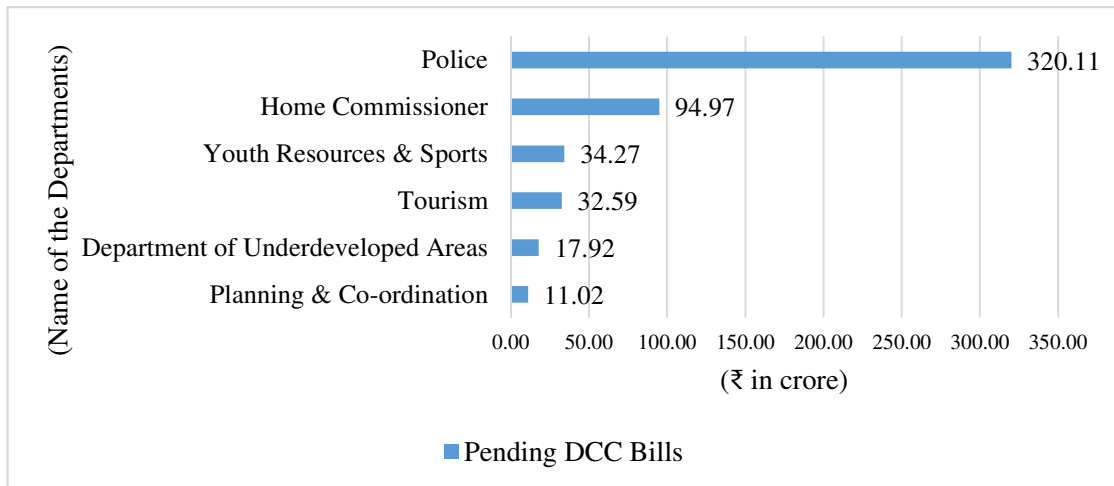
Expenditure against AC bills at the end of the year indicates poor public expenditure management and may point to the drawal being done primarily to exhaust the budget provision. Non-adjustment of advances for long periods is fraught with the risk of

misappropriation and therefore, requires close monitoring by the respective DDOs for ensuring submission of DCC 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.

Sixteen Government Departments did not submit DCC bills against the drawal of 125 AC bills amounting to ₹ 96.22 crore before the closing of the accounts for the financial year 2019-20 and, therefore, there is no assurance that the expenditure of ₹ 96.22 crore has actually been incurred during the financial year for the purpose for which it was authorised by the Legislature. In addition to this, 254 AC bills amounting to ₹ 452.47 crore drawn up to 2018-19 were also outstanding as on 31 March 2020. Thus, 379 AC bills involving ₹ 548.69 crore were outstanding as of March 2020. Advances drawn and not accounted for increases the possibility of wastage/ misappropriation/ malfeasance, etc.

Department-wise pending DCC bills for the years up to 2019-20 is detailed in **Appendix 4.2**. Status of pending DCC bills (amount above ₹ 10 crore) in respect of six major departments is given in **Chart 4.2**.

Chart 4.2: Pending DCC Bills in respect of major Departments



Source: Information furnished by PAG (A&E)

Year-wise details of pendency of DCC bills for the years up to 2019-20 are given in **Table 4.5**.

Table 4.5: Year wise progress in submission of DCC bills against the AC bills
(₹ in crore)

Year	Opening Balance		Addition		Clearance		Closing Balance	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Up to 2017-18	107	194.85	103	166.26	43	40.17	167	320.94
2018-19	167	320.94	144	225.13	20	19.30	291	526.77
2019-20	291	526.77	125	96.22	37	74.30	379	548.69

Source: Finance Accounts, 2019-20 and information furnished by PAG (A&E)

Table 4.6 reveals that during 2019-20, 125 AC bills were drawn for an amount of ₹ 96.22 crore. It was observed that out of 125 AC bills, 70 AC bills for an amount of

₹ 17.47 crore (18.16 *per cent*) were drawn in March 2020. Out of the drawal in March 2020, four AC bills for ₹ 0.48 crore were drawn on the last two days of the financial year.

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

4.4 Personal Deposit Accounts

4.4.1 Inoperative and non-reconciled PD Accounts

If there is no transaction in any PD accounts for three-five years, the treasury officer would make written request to the competent authority for closure of such account, and if no reply is received within three months, PD Accounts would be closed after transfer of the balance, if any, to the corresponding head of account on the advice of Accountant General.

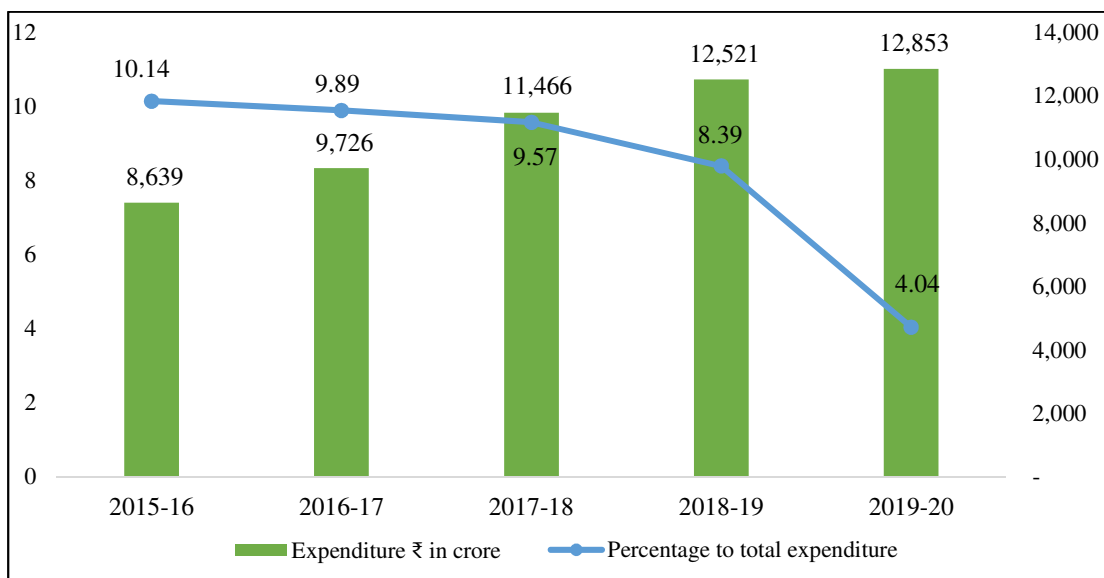
During 2019-20, there was a PD account with a balance of ₹ 0.02 crore, which remained inoperative prior to 1974-75. The State Government had closed (June 2020) the PD account transferring the balance amount of ₹ 0.02 crore to Major Head 8226-102.

4.5 Indiscriminate use of Minor Head 800

Minor Head 800- Other Expenditure/Other Receipts 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. During the year, expenditure of ₹ 519.36 crore under 60 Revenue and Capital Major Heads, constituting about 4.04 *per cent* of total expenditure of ₹ 12,843.34 crore was booked under Minor head 800-Other Expenditure. Similarly, receipts of ₹ 381.77 crore under 47 Revenue Major Heads, constituting about 3.34 *per cent* of the total Revenue receipts of ₹ 11,423.29 crore was booked under Minor Heads 800-Other Receipts under concerned Major Heads.

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 Nagaland has operated Minor Head 800 extensively during the five-year period 2015-20. The quantum of expenditure booked under this Minor Head showed a mixed trend over the years. The extent of operation of Minor Head 800 for Other Expenditure, as a percentage of Total Expenditure during 2015-20 is given in **Chart 4.3**.

Chart 4.3: Operation of Minor Head 800 - Other Expenditure during 2015-20

Source: Finance Accounts of the respective years

Chart 4.3 shows that there has been large scale operation of 800 for Other Expenditure, with its share in total expenditure ranging from 4.04 to 10.14 per cent during the five-year period. 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 in **Table 4.6**.

Table 4.6: Significant expenditure booked under Minor Head 800 – Other Expenditure during financial year

(₹ in crore)				
Major Head	Description	Expenditure under Minor Head 800	Total Expenditure	Percentage
2013	Council of Ministers	13.90	18.43	75.42
2216	Housing	11.16	11.16	100.00
2552	North Eastern Areas	12.77	20.85	61.25
2575	Other Special Areas Programmes	8.26	16.46	50.18
3055	Road Transport	57.57	68.52	84.02
4215	Capital Outlay on Water Supply and Sanitation	43.79	76.69	57.10
4220	Capital Outlay on Information and Publicity	1.59	1.59	100.00
4235	Capital Outlay on Social Security and Welfare	24.47	24.47	100.00
4401	Capital Outlay on Crop Husbandry	12.16	12.16	100.00
4408	Capital Outlay on Food, Storage and Warehousing	1.89	1.89	100.00
4552	Capital Outlay on North East Areas	45.13	45.13	100.00
4575	Capital Outlay on Other Special Areas Programmes	136.00	136.00	100.00
4702	Capital Outlay on Minor Irrigation	30.67	30.67	100.00
4801	Capital Outlay on Power Projects	48.46	49.96	97.00
5053	Capital Outlay on Civil Aviation	2.73	2.73	100.00
5425	Capital Outlay on Other Scientific and Environment Research	2.66	2.66	100.00
Total		453.21	519.37	87.26

Source: Finance Accounts, 2019-20

In the case of receipts, the operation of Minor Head 800 has been higher compared to expenditure, and ranged between 3.05 *per cent* of total receipts in 2018-19 to a high of 59.49 *per cent* of total receipts during 2015-16. Instances of substantial proportion (50 *per cent* or more) of the expenditure within a given Major Head, classified under the Minor Head 800 – ‘Other Receipts, are given in **Table 4.7**.

Table 4.7: Significant receipts booked under Minor Head 800 – Other Receipts during financial year

(₹ in crore)

Sl. No.	Major Head	Receipt under Minor Head- 800	Total Receipt under Major Head concerned	Percentage
1.	0029- Land Revenue	0.93	1.04	89.42
2.	0030- Stamps and Registration Fees	2.20	2.79	78.85
3.	0039- State Excise	3.23	3.24	99.69
4.	0041- Taxes on Vehicles	104.07	113.93	91.35
5.	0042- Taxes on Goods and Passengers	17.94	18.09	99.17
6.	0043- Taxes and Duties on Electricity	0.08	0.08	100.00
7.	0049- Interest Receipts	3.59	5.73	62.65
8.	0055- Police	36.56	36.56	100.00
9.	0058- Stationery and Printing	0.04	0.04	100.00
10.	0070- Other Administrative Services	2.11	2.86	73.78
11.	0071- Contributions and Recoveries towards Pension and Other Retirement Benefits	0.77	0.83	92.77
12.	0210- Medical and Public Health	0.31	0.31	100.00
13.	0217- Urban Development	0.01	0.01	100.00
14.	0230- Labour and Employment	0.24	0.24	100.00
15.	0401- Crop Husbandry	0.10	0.10	100.00
16.	0403- Animal Husbandry	0.59	0.63	93.65
17.	0405- Fisheries	0.03	0.03	100.00
18.	0406- Forestry and Wildlife	13.36	13.72	97.38
19.	0425- Co-operation	1.41	1.41	100.00
20.	0515- Other Special Areas programmes	1.05	1.06	99.06
21.	0552- North Eastern Areas	0.02	0.02	100.00
22.	0801- Power	159.31	159.31	100.00
23.	0851- Village and Small Industries	0.08	0.08	100.00
24.	0853- Non-ferrous Mining and Metallurgical Industries	0.90	0.90	100.00
25.	1053- Civil Aviation	8.79	8.79	100.00
26.	1055- Road Transport	8.43	8.43	100.00
27.	1425- Other Scientific Research	0.04	0.04	100.00
28.	1452- Tourism	0.45	0.45	100.00
29.	1475- Other General Economic Services	0.27	0.27	100.00
Total		366.91	380.99	96.30

Source: Finance Accounts, 2019-20

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.

4.6 Collection of Labour Cess

As per Rule 5 of “The Building and Other Construction Workers’ Welfare Cess Rules, 1998”, the proceeds of the cess collected under Rule 4 shall be transferred by such government office, public sector undertakings, local authority, or cess collector, to the Board along with the form of challan prescribed (and in the head of account of the Board) under the accountings procedures of the State, by whatever name they are known.

The State Government notified (August 2011) the enforcement of Levy and Collection of cess for the purpose of the Building and Other Construction Workers (Regulation of Employment and Conditions of Service) Act, 1996. The levy and collection of such cess is at the rate of one *per cent* of the cost of construction incurred by an employer. In compliance with this notification, Finance Department instructed (February 2012) the DDOs to ensure that deduction of the cess as prescribed is made against all civil construction works involving employment of labour and to deposit the same into the account of the Nagaland Building and Other Construction Workers’ Welfare Board (NBOCWWB) by Demand Draft/Cheque. As such, the board had been receiving the cess from 2011-12 onwards.

During the year 2019-20, Public Works Department had collected the Labour Cess amounting to ₹ 23.46 crore and booked the collected Cess amount under MH 8443 Civil Deposit-108-Public Works and did not remit the money to the Board before close of the financial year, thereby violating the accounting procedure for the Cess and the instructions of the Finance Department of the State Government.

As of end of 2019-20, a total of 30,334 workers were registered with the Board. Details of amount collected and actual expenditure incurred during the period from 2015-16 to 2019-20 are shown in **Table 4.8**.

Table 4.8: Statement of Cess Collection and Expenditure incurred (2015-16 to 2019-20)

(₹ in crore)

Year	Opening Balance	Receipt during the year	Available Fund	Expenditure	Balance at the end of the year
2015-16	12.88	7.22	20.10	2.00	18.10
2016-17	18.10	9.23	27.33	1.40	25.93
2017-18	25.93	9.45	35.38	7.56	27.82
2018-19	27.82	18.30	46.12	9.84	36.28
2019-20	36.28	23.46	59.74	12.66	47.08

Source: Information furnished by NBOCW Welfare Board.

As is evident from the table above, the NBOCWWB received ₹ 23.46 crore during the year 2019-20 and expended ₹ 12.66 crore (Administrative expenses: ₹ 0.47 crore, Welfare schemes: ₹ 12.19 crore).

4.6.1 Non-preparation of Accounts and non-submission of audited statement in the State Legislature

As per Section 27 of the Building and Other Construction Workers’ (Regulation of Employment and Conditions of Service) Act, 1996, the Board has to maintain proper

accounts and other relevant records and prepare an Annual Statement of Accounts. Further, the Board has to furnish the audited copy of accounts together with the auditor's report to the State Government, who shall cause it to be laid before the State Legislature. The Board, however, has not prepared the accounts, which were in arrears since 2019-20.

On this being pointed out, the Secretary, NBOCWBB replied (March 2021) that the accounts were never been laid in the State Legislature Assembly. However, the preparation of accounts for 2019-20 was under process.

In the absence of annual accounts, a true and fair view of the financial position and performance and the veracity of the expenditure incurred under various heads during 2019-20 could not be ascertained.

Further, due to non-submission of audited copy of the accounts (annual report) and Annual statement, the state of affairs and activities of the Board remained out of the scrutiny of the State Legislature.

4.7 Outstanding balance under major Suspense and DDR heads

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 4.9**.

Table 4.9: Balances under Suspense and Remittance Heads

(₹ in crore)

Minor Head	2017-18		2018-19		2019-20	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Major Head 8658 - Suspense						
101 - PAO suspense	111.97	85.44	135.29	109.48	156.44	141.10
Net	Dr. 26.53		Dr. 25.81		Dr. 15.34	
102 - Suspense Account-Civil	18.79	1.57	18.94	1.69	18.94	1.69
Net	Dr. 17.36		Dr. 17.25		Dr. 17.25	
107 - Cash Settlement Suspense Account	34.87	0.00	34.87	0.00	34.87	0.00
Net	Dr. 34.87		Dr. 34.87		Dr. 34.87	
109 - Reserve Bank Suspense -Headquarters	12.14	14.16	12.14	14.16	12.14	14.16
Net	Cr. 2.02		Cr. 2.02		Dr. 2.02	
110 - Reserve Bank Suspense - CAO	50.94	10.01	50.94	10.01	50.63	10.01
Net	Cr. 40.93		Cr. 40.93		Cr. 40.62	
129 - Material Purchase Settlement Suspense Account	194.41	210.71	209.30	223.15	209.30	223.15
Net	Cr. 16.30		Cr. 13.85		Cr. 13.85	
Major Head 8782-Cash Remittances						
102 - P.W. Remittances	12645.14	12559.76	14634.53	14550.75	16253.73	16170.20
Net	Dr. 85.38		Dr. 83.78		Dr. 83.53	

Minor Head	2017-18		2018-19		2019-20	
103 - Forest Remittances	1746.34	1370.45	1884.24	1508.49	2084.33	1708.73
Net	Dr. 375.89		Dr. 375.75		Dr. 375.60	
105 – R.B.I Remittances	6.26	0.00	6.26	0.00	6.26	0.00
Net	Dr. 6.26		Dr. 6.26		Dr. 6.26	
112 – Nagaland and Manipur Remittances	0.00	0.70	0.00	0.70	0.00	0.70
Net	Cr. 0.70		Cr. 0.70		Cr. 0.70	

Source: Finance Accounts of respective years

As can be seen from the table above, there was significant decrease in closing balance under 101 - PAO suspense. These balances impacted on cash balance of the State. On clearance of these balances, cash balance of the State would increase.

4.8 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).

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.

The details of receipts and expenditure for the State during the last three years are shown in **Table 4.10**.

Table 4.10: Status of Reconciliation of Receipts and Expenditure figures

(₹ in crore)

Year	No. of COs	Receipts	Expenditure	Remarks
2017-18	82	25381.77	25269.68	Fully Reconciled
2018-19		26894.56	27070.08	
2019-20		25501.48	25654.57	

Source: Finance Accounts, 2019-20

During the past three years, all the 82 COs had reconciled their figures (both Receipts and Expenditure) in full with the books of Principal Accountant General (A&E) of the State.

4.9 Reconciliation of Cash Balances

There should be no difference between the Cash Balance of the State as per the books of Accounts of the Accountant General (A&E), and the Cash Balance as reported by the Reserve Bank of India.

The difference in cash balances for the previous five years from 2015-16 to 2019-20 is shown in **Table 4.11**.

Table 4.11: Difference in cash balances from 2014-15 to 2018-19

Year	Cash Balance		Adjustment by RBI	Difference in cash balance
	RBI figures	AG figures		
2015-16	98.45(Dr)	156.34 (Cr)	7.03 (Dr)	50.86 (Cr)
2016-17	67.82(Dr)	226.92 (Cr)	6.61 (Dr)	152.49 (Cr)
2017-18	5.96(Dr)	339.01 (Cr)	2.06 (Dr)	330.99 (Cr)
2018-19	93.36(Dr)	163.49 (Cr)	18.99 (Dr)	51.14 (Cr)
2019-20	115.13(Dr)	223.90(Cr)	1.49 (Dr)	107.28 (Cr)

Source: Information furnished by the Office of PAG (A&E), Nagaland

It can be seen from the table above that there was a net difference of ₹ 108.77 crore (Credit) between the Cash Balance of ₹ 223.90 crore as determined by the Principal Accountant General (A&E) and the figures of ₹ 115.13 crore reported by the Reserve Bank of India as on 31 March 2020. This was mainly due to incorrect reporting by Agency Banks to the RBI and misclassification by Banks/Treasuries. After reconciliation, the difference is reduced and stands at ₹ 107.28 crore (Credit) due to adjustment of ₹ 1.49 crore (net debit) from previous year balance.

Issues related to disclosure

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 three standards and the extent of compliance with these by the Government of Nagaland in its financial statements for the year 2019-20 are given in **Table 4.12**.

Table 4.12: Compliance to Accounting Standards

Sl. No.	Accounting Standards	Essence of IGAS	Compliance by State Government	Impact of deficiency
1.	IGAS-1:Guarantees Given by the Government – Disclosure requirements	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.	Not complied	While The Government has disclosed the maximum amount of guarantees given during the year along with additions, deletions, invoked, discharged and outstanding at the end of the year, however, information concerning class or sector of Guarantees on other materials details was not furnished.

Sl. No.	Accounting Standards	Essence of IGAS	Compliance by State Government	Impact of deficiency
2.	IGAS-2: <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	
3.	IGAS-3: <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.	Not complied While the State government complied with the format prescribed by the Standard, the details of recoveries in arrears, interest received, written off loans etc., in respect of loans and advances have not been provided to the Accountant General (A&E).	Due to absence of information on interest received, the Revenue receipt may be understated.

4.11 Submission of Accounts/Separate Audit Reports of Autonomous Bodies

Fourteen Autonomous Bodies have been set up by the State Government, of which, only the audit of accounts of the Nagaland Khadi and Village Industries Board (NKVIB) up to 2018-19 was entrusted to the Comptroller and Auditor General of India under Section 19 (3) of the DPC Act. The entrustment had not been given for 2019-20 onwards. However, the annual accounts of the Board since 2015-16 were not furnished to Audit (December 2019). The status of entrustment of audit, issuance of Separate Audit Report (SAR) and its placement in respect of NKVIB in the Legislature is indicated in **Table 4.13**.

Table 4.13: Delay in Submission of Accounts and Tabling of Separate Audit Reports

Year of SAR	Period of entrustment	Date of issue of SAR	Date of placement in the Legislature	Delay in placement in the Legislature (Years)
2011-12	2009-14	09-06-2015	18.08.2017	2
2012-13	2009-14	09-06-2015	18.08.2017	2
2013-14	2009-14	09-06-2015	18.08.2017	2
2014-15	2014-19	18-07-2016	18.08.2017	1
2015-16	2014-19	Accounts not yet received	Not applicable	Not applicable
2016-17	2014-19	Accounts not yet received	Not applicable	Not applicable
2017-18	2014-19	Accounts not yet received	Not applicable	Not applicable
2018-19	2014-19	Accounts not yet received	Not applicable	Not applicable
2019-20	Yet to be entrusted	Accounts not yet received	Not applicable	Not applicable

Source: Information furnished by the O/o the PAG (Audit), Commercial Wing, Nagaland

However, the Comptroller and Auditor General of India has not given a qualified or adverse opinion on financial statements of NKVIB so far.

Four out of 14 Autonomous Bodies, established under the State Legislative Act. As per the Acts, the audit of the accounts of the following four ABs is to be audited by the CAG of India.

Table 4.14: Details showing the Section of Entrustment of audit of Autonomous Bodies

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

Source: Relevant Acts

Although the Annual Accounts of these Bodies were due for submission to the Accountant General (Audit) every year, yet the Accounts were not furnished by those authorities since their inception due to which CAG could not conduct the audit and submit Separate Audit Report to the State Legislature.

A total of 165 Annual Accounts in respect of 22 Bodies/Authorities due up to 2019-20 had not been received as of December 2020 by the Principal Accountant General (Audit). The details of those accounts are given in **Table 4.15**.

Table 4.15: Arrears of accounts of bodies or authorities

Sl. No.	Name of the Body/Authority	Accounts pending since	No. of Accounts pending up to 2019-20
1.	DRDA, Tuensang.	2013-14	7
2.	DRDA, Mon.	2013-14	7
3.	DRDA, Kohima.	2013-14	7
4.	DRDA, Wokha	2012-13	8
5.	DRDA, Longleng.	2013-14	7
6.	DRDA, Peren	2010-11	10
7.	DRDA, Kiphire	2013-14	7
8.	DRDA, Zunheboto	2013-14	7
9.	DRDA, Dimapur	2013-14	7
10.	DRDA, Mokokchung	2013-14	7
11.	DRDA, Phek	2013-14	7
12.	NSLS Authourity Kohima	2013-14	7
13.	NBSE, Kohima	2013-14	7
14..	SIRD, Kohima	2012-13	8
15.	DAN, Dimapur	2012-13	8

Sl. No.	Name of the Body/Authority	Accounts pending since	No. of Accounts pending up to 2019-20
16.	KVIC, Dimapur	2012-13	8
17.	NPCB, Dimapur	2010-11	10
18.	NB & OCWWB, Kohima	2014-15	6
19.	NSAMB, Dimapur	2011-12	9
20.	NHK, Kohima	2013-14	7
21.	KMC, Kohima	2013-14	7
22.	MMC, Mokokchung	2013-14	7
Total			165

Note: cut-off date of the pendency of any previous Financial Year (FY) is to be taken on 30 September of succeeding FY

Further, the age-wise pendency is presented in **Table 4.16**.

Table 4.16: Age-wise Arrears of Annual Accounts due from Government Bodies/Authorities

Sl. No.	Delay in number of years	No. of the Bodies/ Authorities	Grants received (₹in Lakhs)
1.	5 – 6	1	Details not Available
2.	>7 – 9	21	Details not Available

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

Thus, proper utilisation of Grants and Loans disbursed to these Bodies/Authorities and their accounting remained unverified in audit. The non-submission/delay in submission of Annual Accounts dilutes accountability. The reasons for non-preparation of the Accounts were not intimated. Such inaction was also indicative of the failures of the management at the level of such Bodies/ Authorities and proper monitoring at Government's level, which is a matter of concern.

4.12 Departmental Commercial Undertakings/Corporations/Companies

According to Section 394 and 395 of the Companies Act, 2013, Annual Report on the working and affairs of a Government Company is to be prepared within three months of its Annual General Meeting (AGM). As soon as may be after such preparation, the Annual Report should be laid before the Houses or both the Houses of State Legislature together with a copy of the Audit Report and any comments upon or supplement to the Audit Report, made by the CAG. Almost similar provisions exist in the respective Acts regulating Statutory Corporations (including Departmental undertakings). Departmental undertakings perform activities of commercial/quasi-commercial nature. They 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.

The above mechanism provides the necessary legislative control over the utilisation of public funds invested in the companies and corporations from the Consolidated Fund of the State.

Further, Section 96 of the Companies Act, 2013, requires every company to hold AGM of the shareholders once in every calendar year. It is also stated that not more than 15 months shall elapse between the date of one AGM and that of the next. Section 129 of the Act stipulates that the audited Financial Statement for the financial year has to be placed in the said AGM for their consideration. Section 129(7) of the Act provides for levy of penalty like fine and imprisonment on the persons including directors of the company responsible for non-compliance with the provisions of Section 129 of the Act.

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 period of six months from the date of closing of the financial year *i.e.* within 30 September.

The status of the working Public Sector Undertakings on the submission/pendency of accounts as on 31 March 2020 is given below:

Table 4.17: Arrears of Annual Accounts due from working Public Sector Undertakings

Sl. No.	Name of PSU	Accounts received upto	Arrears in finalisation	Remarks
1.	Nagaland Industrial Development Corporation Ltd. Dimapur	2017-18	2	Certified upto 2017-18
2.	Nagaland Industrial Raw materials & Supply Corporation Ltd. Dimapur	2017-18	2	Certified upto 2017-18
3.	Nagaland Handloom & Handicrafts Development Corporations Ltd. Dimapur	2009-10	10	Certified upto 2009-10
4.	Nagaland Hotel Ltd. Dimapur	2014-15	5	Certified upto 2014-15
5.	Nagaland State Mineral Development Corporation Ltd. Kohima	2017-18	2	Certified upto 2017-18
Total			21	--

Source: Information furnished by the Office of the PAG (Audit), Commercial Wing, Nagaland

As can be seen from the above table, two PSUs had highest arrears of ten and five accounts as these PSUs submitted their accounts upto the accounting year 2009-10 and 2014-15 respectively. Due to non-preparation/ finalisation of Accounts upto 2019-20, details of receipt and utilisation of grant/loans from State Government was not available.

Further, as on 31 March 2020, there were 27 departmentally managed Government Commercial Undertakings under eight Departments. The department-wise position of the year up to which Proforma Accounts were not finalised in those undertakings are given in **Appendix 4.3**.

A mention was made in the Report of the Comptroller and Auditor General of India on State Finances for the year 2012-13 about delay in preparation of Proforma Accounts of those undertakings. Despite this, Accounts were in arrears for periods ranging between three and 39 years as of March 2020.

The finalised Accounts of departmentally managed Commercial Undertakings reflect their overall financial health and efficiency in conducting their business. In the absence of timely finalisation of Accounts, Government's investment remains outside the scrutiny of the Audit/State Legislature. Consequently, corrective measures required, if any, could not be taken in time. Besides, delay in preparation and submission of Proforma Accounts also exposes the system to risk of fraud and leakage of public money.

4.13 Grants / loans given to bodies and authorities

In order to identify institutions/organisations which attract audit under Sections 14 and 15 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act 1971 (CAG's DPC Act), the Government/ Head of the Departments(HoDs) are required to furnish to Audit every year

- detailed information about the financial assistance given to various institutions;
- the purpose for which the assistance is granted; and
- total expenditure of the institutions.

Further, Regulation on Audit and Accounts, 2007 (Regulation 84) 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.

As per Finance Account, grants/assurances were given to Urban bodies, Public Sector Undertakings, Autonomous Bodies, Non-Government Organisations every year. The details of such grants/assistance (₹ 10 lakh or more in each case) given during 2018-19 and 2019-20 are shown in **Table 4.19**.

Table 4.19.: List of Recipient of grants/assistance from the State Government during 2018-19 and 2019-20

Recipient	2018-19		2019-20	
	No of Recipients	Amount	No of Recipients	Amount
Urban Local Bodies	Not specified	1.62	Not specified	1.62
	Not specified	0.00	Not specified	6.11
Public Sector Undertakings	7	23.81	7	24.22
Autonomous Bodies	6	51.38	6	58.04
Non-Government Organisations	3	3.50	2	2.95
Others	21	86.23	29	67.20
Total		166.54		160.14

Source: Finance Accounts of respective years

As can be seen from the **Table 4.19** above that an amount of ₹ 166.54 crore and ₹ 160.14 crore were given as grants/assistance during the years 2018-19 and 2019-20 respectively by the State Government to various bodies and authorities. However,

the name of the bodies and authorities to whom grants and/ or loans aggregating ₹ 10 lakh or more were paid during the years, indicating (a) the amount of assistance, (b) the purpose for which the assistances was sanctioned and (c) the total expenditure incurred by the body or authority, who receive the grants/assistances during the years 2018-20 was not disclosed by the State Government.

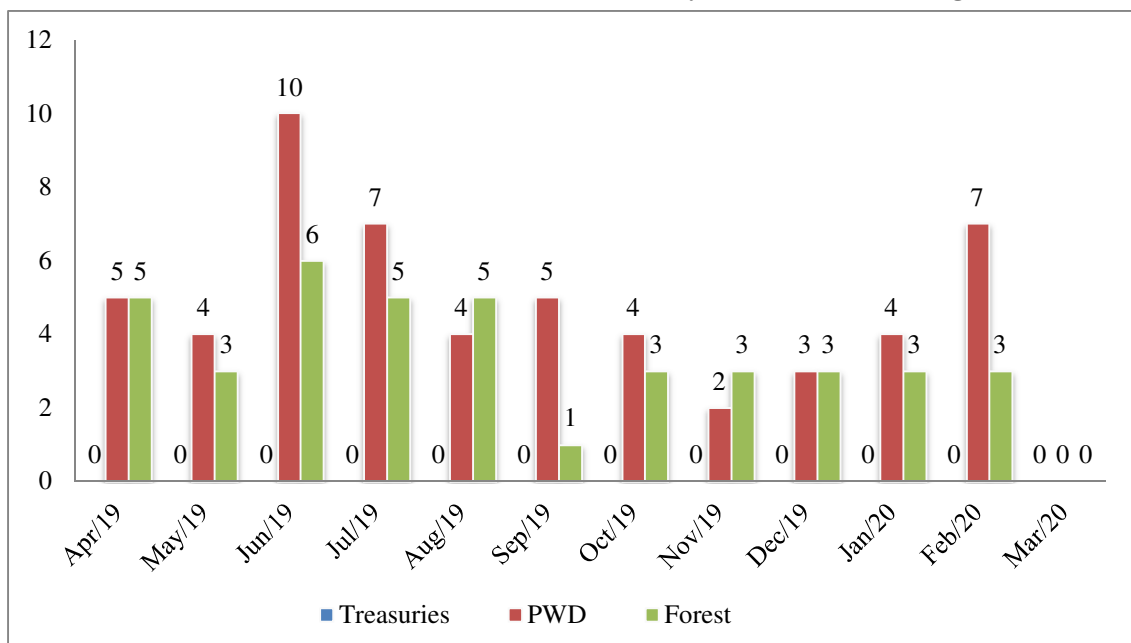
4.14 Timeliness and Quality of Accounts

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, cyber treasury, public works divisions 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).

In Nagaland, the Principal Accountant General (A&E) is required to compiled the accounts of the State Government, from the initial accounts rendered by the 11 District Treasuries, nine Sub-Treasuries, Principal Resident Commissioner (New Delhi), Deputy Resident Commissioners (Guwahati, Shillong and Kolkata), 88 Public Works Divisions and 26 Forest Divisions, apart from the RBI advices.

During the financial year 2019-20, there were delays in rendition of monthly accounts that resulted in accounts excluded from the monthly Civil accounts. Details of accounts excluded from the monthly Civil Accounts works divisions are given below:

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



Source: Information furnished by the Office of the PAG (A&E), Nagaland

As can be seen from the **Chart 4.4** above, during the year 2019-20, Public Works Divisions were the major units that delayed the rendition of monthly accounts. Consequently, receipts and expenditure relating to these divisions/units could not be incorporated in the Civil Accounts in the month of their occurrence of the transaction.

Due to the failure of the accounts rendering units to furnish accounts on time, these accounts were excluded from the Monthly Civil Accounts by the Principal Accountant General (A&E) throughout the year 2019-20, except for March 2020. Therefore, the monthly accounts indicating the receipts and disbursements of the State during the month, rendered by the PAG (A&E) to the State Government were incomplete in all the months, except for the month of March 2020.

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. In short, 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.

4.15 Misappropriations, losses, thefts, *etc.*

State 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.

There were 26 cases of misappropriation, losses *etc.*, involving Government money of ₹ 207.25 crore up to the period ending 31 March 2020 on which final action was pending. Out of these 26 cases, 5 cases involving ₹ 22.87 crore were reportedly pending in the court of law. The Department-wise break up of pending cases and the reasons for delay in final disposal are summarised in **Table 4.20**.

Table 4.20: Pending cases of misappropriation, losses, theft, *etc.*

Sl. No.	Name of the Department	Cases of Misappropriation/ Losses/ Theft of Government materials#		Reasons for delay in final disposal of pending cases of misappropriation, loss theft, <i>etc.</i>					
				Awaiting departmental and criminal investigation		Departmental action initiated but not finalised		Criminal Proceedings finalised but recovery of the amount pending	
		No. of cases	Amount (₹ in crore)	No. of cases	Amount (₹ in crore)	No. of cases	Amount (₹ in crore)	No. of cases	Amount (₹ in crore)
1.	School Education	2	82.79	1	70.00	0	0.00	0	0.00
2.	Power	1	25.48	1	25.48	0	0.00	0	0.00
3.	Rural Development	3	3.07	2	2.76	0	0.00	0	0.00
4.	Public Works Department (R&B)	3	23.79	3	23.79	0	0.00	0	0.00
5.	Health & Family Welfare	4	13.70	4	13.70	0	0.00	0	0.00
6.	Tourism	2	14.20	2	14.20	0	0.00	0	0.00
7.	Public Health Engineering	2	5.05	2	5.05	0	0.00	0	0.00
8.	Municipal Affairs	2	4.11	0	0.00	0	0.00	0	0.00
9.	Taxes	2	6.45	1	0.80	0	0.00	0	0.00
10.	Planning and Co-ordination	1	20.23	1	20.23	0	0.00	0	0.00
11.	Land Records and Survey	1	1.24	1	1.24	0	0.00	0	0.00

Sl. No.	Name of the Department	Cases of Misappropriation/ Losses/ Theft of Government materials#		Reasons for delay in final disposal of pending cases of misappropriation, loss theft, etc.					
				Awaiting departmental and criminal investigation		Departmental action initiated but not finalised		Criminal Proceedings finalised but recovery of the amount pending	
		No. of cases	Amount (₹ in crore)	No. of cases	Amount (₹ in crore)	No. of cases	Amount (₹ in crore)	No. of cases	Amount (₹ in crore)
12.	Technical Education	1	1.08	1	1.08	0	0.00	0	0.00
13.	Various Departments	2	6.06	1	1.72	1	4.34	0	0.00
Total		26	207.25	20	180.05	1	4.34	0	0.00

Source: Nagaland Lokayukta, Directorate of Investigation, Nagaland) # including 5 cases involving ₹22.87 crore

Further, as per the information furnished by Nagaland Lokayukta, Directorate of Investigation, Nagaland, there are four cases of loss to Government due to theft, misappropriations, loss of Government materials etc. involving ₹ 2.77 crore, out of which an amount of ₹ 2.54 crore has been recovered.

4.16 Follow up action on State Finances Audit Report

In Nagaland, the Departments concerned are required to furnish a *suo motu* Explanatory Note (EN) on the paragraphs featuring in the Audit Reports within one month of placing the Reports in the Legislature. The Government should without waiting for any notice or call from the Public Accounts Committee submit a *suo motu* Explanatory Note (EN) on the paragraphs featuring in the Audit Reports indicating the action taken or proposed to be taken within a period of three months from the date of laying of the Audit Reports.

The Government Departments shall invariably submit action taken notes (ATNs) on the recommendation of the PAC within a period of six months from the date of receipt of the PAC's report from the Secretary/ Commissioner Secretary, Assembly. This timeframe was further reduced by the PAC to two months.

The Audit Reports on State Finances for the years from 2008-09 to 2018-19 were placed before the State Legislature are shown in **Table 4.21**.

Table 4.21: Follow up status of State Finances Audit Reports for 2008-09 to 2018-19

Year of State Finances Audit Report	Date of placement in State Legislature	Remarks
2008-09	27.03.2010	The ATNs, on the recommendations of the Public Accounts Committee on the Report of State Finances, for the year 2011-12 have been received and ATNs for the years from 2012-13 to 2018-19 were yet to be received (March 2021).
2009-10	28.03.2011	
2010-11	22.03.2012	
2011-12	18.03.2013	
2012-13	25.07.2014	
2013-14	17.03.2015	
2014-15	19.03.2016	
2015-16	28.03.2017	
2016-17	20.09.2018	
2017-18	15.02.2020	
2018-19	19.02.2021	

Source: Information furnished by the Nagaland State Legislative Assembly Secretariat

4.17 Conclusion

During the year 2019-20, 91 grants involving ₹ 77.61 crore were provided to 20 Departments for which Utilisation Certificates (UCs) were due for submission during the year 2020-21. As on March 2020, there are 104 UCs worth ₹ 378.59 crore which are due for submission for periods pertaining up to 2018-19. Pending UCs violate prescribed financial rules and directives, and reflects poor monitoring mechanism of the State Government. Moreover, high pendency of UCs is fraught with risk of misappropriation of funds. The State would also lose out on central funds for want of UCs not submitted.

There were 379 Abstract Contingent (AC) Bills involving ₹ 548.69 crore pending for adjustment by submission of Detailed Countersigned Contingent (DCC) Bills, as of March 2020. Out of these, 125 AC bills amounting to ₹ 96.22 crore pertained to the year 2019-20. The non-adjustment of AC Bills is fraught with the risk of misappropriation and therefore, requires close monitoring by the respective DDOs for ensuring submission of Detailed Countersigned Contingent (DCC) bills. Further, there is no assurance that the expenditure of the State Government reflected in the Finance Accounts is correct or final due to non-receipt of DCC bills to that extent.

During the year, expenditure of ₹ 519.36 crore under 60 Revenue and Capital Major Heads, constituting about 4.04 *per cent* of total expenditure of ₹ 12,843.34 crore was booked under Minor head 800-Other Expenditure. Similarly, receipts of ₹ 381.77 crore under 47 Revenue Major Heads, constituting about 3.34 *per cent* of the total Revenue receipts of ₹ 11,423.29 crore was booked under Minor Heads 800-Other Receipts under concerned Major Heads. Indiscriminate operation of omnibus Minor Head 800 – Other Expenditure affected transparency in financial reporting and obscured proper analysis of allocative priorities and quality of expenditure.

The State Government notified (August 2011) the enforcement of Levy and Collection of Cess for the purpose of the Building and Other Construction Workers (Regulation of Employment and Conditions of Service) Act, 1996. At the end of 2019-20, a total of 30,334 workers were registered with the Nagaland Building and Other Construction Workers' Welfare Board (NBOCW WB). The NBOCW WB received ₹ 23.46 crore during the year 2019-20 and expended ₹ 12.66 crore (Administrative expenses: ₹ 0.47 crore, Welfare schemes: ₹ 12.19 crore).

During the year 2019-20, Public Works Divisions were the major units that delayed the rendition of monthly accounts. Delayed rendering of accounts by the account rendering units/ authorities distorted the accurate depiction of monthly transactions of the State and impacted effective budgetary management.

A total of 165 Annual Accounts in respect of 22 Bodies/Authorities due up to 2019-20 had not been received as of December 2020 by the Principal Accountant General (Audit), although the Annual Accounts of these Bodies were due for submission every year.

4.18 Recommendations

- State Government may ensure timely submission of all utilisation certificates due by the recipients of grants and of DCC Bills within the prescribed timeline as required under the Rules.
- The Finance Department should, in consultation with the Principal 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 detailed /object 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 assess their financial position. Persistently defaulting bodies may be given further financial assistance by the State Government only on submission of final accounts.
- The State Government should ensure that the Controlling Officers render the monthly accounts in time to the AG (A&E) in the interest of financial discipline and better budget management.