Chapter 4

Quality of Accounts and Financial Reporting Practices

Chapter 4 Quality of Accounts and Financial Reporting Practices

4.1 Introduction

A sound internal financial reporting system with relevant and reliable information contributes significantly to the 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 on the Quality of Accounts and compliance of the State Government in its financial reporting practices, with prescribed financial rules, procedures and directives with regard to completeness, transparency, measurement and disclosure.

4.2 Funds outside Government Accounts

Audit of Finance Accounts revealed that monies pertaining to a new Fund established by the State Government in the Public Account were lying outside the Public Account as detailed below.

4.2.1 State Compensatory Afforestation Fund

The Compensatory Afforestation Fund Act (CAFA), 2016 and Compensatory Afforestation Fund Rules, 2018 provide for administration of amounts received for compensatory afforestation activities by State Compensatory Afforestation Fund Management and Planning Authority (State CAMPA). The Authority is to administer the amount received and utilise the monies for undertaking compensatory afforestation activities.

As per the CAFA, the following shall be credited into the State Compensatory Afforestation Fund (SCAF) in the Public Account of the Government.

i. Unspent balances of all monies which have been transferred by Ad-hoc Authority to the State CAMPA (erstwhile State Authority during combined State of AP);
ii. All monies transferrable from National Fund;
iii. All monies realised from user agencies by the State towards Compensatory afforestation, additional compensatory afforestation, penal compensatory afforestation, Net Present Value, Catchment area Treatment plan etc.; and
iv. The funds recoverable from user agencies by State in case where forest land diverted falls within the protected areas.

Further, Grants-in-Aid received, loans taken or borrowing made or any other sums received by State CAMPA shall also be credited into SCAF. In accordance with the Act *ibid*, the Telangana Government established (February 2019) a new[1] Reserve Fund viz., "State Compensatory Afforestation Fund" (SCAF).

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[1] in interest bearing section under Major Head of Account 8121- General and other Reserve Funds followed with Minor Head of Account 129

Audit observations in this regard are as follows:

- During the year 2019-20, an amount of ₹3,110.38 crore[2] was credited (August 2019) into Telangana SCAF by Government of India (GoI). An amount of ₹501.26 crore, initially drawn (September 2019) from Consolidated Fund was later adjusted (March 2020) from the Telangana SCAF, leaving a balance of ₹2,609.12 crore in the Fund.

  The Government informed (November 2020) audit that out of the ₹501.26 crore drawn, ₹260.60 crore was spent by State CAMPA and the unspent balance of ₹240.66 crore was parked in Nationalised Banks, i.e., outside the purview of Government Accounts.

- As per the Compensatory Afforestation Fund Act, the unspent balances of all monies which have been transferred by Ad-hoc Authority to the State CAMPA would be credited to SCAF. However, as per the information furnished by the Government, an amount of ₹100.48 crore released by State CAMPA from National Ad-hoc Authority prior to inception of CAFA, was also deposited in a National Bank, instead of being credited into SCAF.

Thus, an amount of ₹341.14 crore pertaining to the State Compensatory Afforestation Fund was parked in banks i.e., outside the Government Accounts.

The Government, during the Exit Conference (March 2021), stated that in respect of several schemes, Government of India was not routing the funds through the State Government, and instead, was directly releasing the funds to the implementing agencies with instructions to place them in the National Banks.

The reply of the Government is not acceptable as State Compensatory Afforestation Fund Act, 2016 stipulates that the funds pertaining to State Compensatory Afforestation shall be placed in Public Account of the State.

4.2.2 State Compensatory Afforestation money yet to be transferred by National Fund

As per the Accounting procedure notified by the Controller General of Accounts (CGA) for SCAF, 90 *per cent* of the monies realised from user agencies by State towards Compensatory afforestation etc., were to be transferred to SCAF and the remaining 10 *per cent* to the National Fund. During 2019-20, however, the entire amount of ₹102.98 crore receivable from user agencies was remitted directly to the National Fund by the user agencies instead of crediting it to SCAF as the payment gateway at State level was under establishment. As a result, ₹92.68 crore (being 90 *per cent* of amount remitted by user agencies) was with National Fund and was yet to be transferred to SCAF as of end of March 2020.

[2] being 90 *per cent* of the funds, available with ad-hoc Authority prior to formation of the Fund, transferrable to SCAF as per the CAFA 2016. The remaining 10 *per cent* was to be with National Compensatory Afforestation Fund

4.3 Non - discharge of interest liability

Funds in Public Account under Reserve Funds and Deposits sections are of two categories viz., interest bearing and non-interest bearing. The State Government is, therefore, required to pay interest on un-invested balances lying under Reserve Funds and Deposits Bearing interest. During the year 2019-20, the State Government did not discharge interest liability of ₹22.62 crore[3] in respect of State Disaster Response Fund which had a balance of ₹353.48 crore as of 31 March 2019.

Further, the balances under Deposits of other Autonomous Bodies and Miscellaneous Deposits under Deposits of Local Funds (which are under the category of Deposits bearing interest) were ₹2,046.41 crore and ₹138.14 crore respectively, as of 01 April 2019. While the Government was to pay interest on these deposits, it had not done so during the past five years.

The undischarged liability in the current year increases the burden on the Government's revenue expenditure at a future date.

4.4 Funds transferred directly to State Implementing Agencies

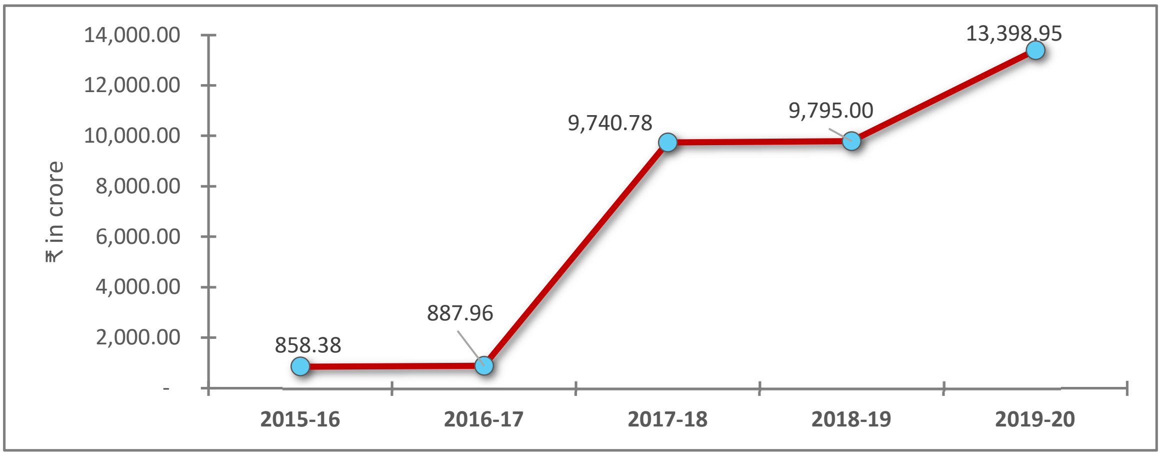
Government of India transfers substantial funds directly to State Implementing Agencies/ Non-Governmental Organizations for implementation of various schemes and programmes. These transfers are exhibited in Appendix VI of Volume II of the Finance Accounts. As these funds are not routed through the State budget/ State Treasury system, Finance Accounts do not capture the flow of these funds or the related expenditure.

During 2019-20 GoI released ₹13,398.95 crore directly to the implementing agencies. Major transfers in this regard pertained to Mahatma Gandhi National Rural Employment Guarantee Scheme (₹6,335.90 crore).

The details of direct transfer of funds to implementing agencies during the period 2015-20 are given in ***Chart 4.1***.

[3] As per SDRF guidelines the State Government shall pay interest to SDRF at the rate applicable to overdrafts under regulatory guidelines of RBI. The interest would be credited on a half yearly basis. The interest rate charged on overdraft was Bank rate plus two *percentage* points. The interest of ₹22.62 crore is calculated based on the minimum Repo rate during year i.e., 4.4 *per cent* per annum plus two *percentage* points on the opening balance of ₹353.48 crore (i.e,, ₹353.48 crore X 6.4 *per cent*)

Chart 4.1: Funds transferred directly to implementing agencies during 2015-20



Source: Finance Accounts

The significant increase of 37 *per cent* during 2019-20 was mainly on account of subsidy for decentralised procurement of food grains under National Food Security Act[4] (₹4,439.07 crore, 73 *per cent* increase in comparison to ₹2,559.31 crore in 2018-19), Pradhan Mantri Kisan Samman Nidhi (₹2,188.24 crore[5], 481 *per cent* increase in comparison to ₹376.85 crore in 2018-19) *etc.*

4.5 Deposits of Local Funds

Local Funds pertaining to Panchayat Raj Bodies (₹2,043.11 crore) and Urban Local Bodies (₹1,848.09 crore) are also maintained in State Government Accounts in Deposits section of Public Account. These accounts include the money realised under the Acts concerned as also monies received by these Local Bodies due to Grants from Finance Commissions of Central and State Governments. The details of Deposits of Local Funds are as under.

Table 4.1: Deposits of Local Funds

(₹ crore)

Fund	Head of Account		2015-16	2016-17	2017-18	2018-19	2019-20
Municipal Fund	(8448-102)	Opening Balance	7.62	707.84	942.52	1285.66*	1,677.95
		Receipts	21.50	1,202.75	1,251.23	1,739.88	2,199.67
		Expenditure	30.89	968.07	1,103.67	1,347.59	2,029.53
		Closing Balance	**(-)1.77**	**942.52**	**1,090.08**	**1,677.95**	**1,848.09**
Village Panchayat Fund	(8448-109-01)	Opening Balance	(-)18.82	229.11	568.98	923.81*	1,453.38
		Receipts	27.42	1,505.06	1,739.65	1,945.25	2,897.50
		Expenditure	34.98	1,165.19	1,788.25	1,415.68	2,772.18
		Closing Balance	**(-)26.38**	**568.98**	**520.38**	**1,453.38**	**1,578.70**

4 Transferred to Telangana State Civil Supplies Corporation Limited

5 ₹2,176.34 crore to Agriculture Department and ₹11.90 crore to Telangana State Industrial Infrastructure Corporation Limited

Fund	Head of Account		2015-16	2016-17	2017-18	2018-19	2019-20
Mandal Praja Parishad Funds	(8448-109-02)	Opening Balance	(-)19.55	(-)7.40	(-)45.62	101.31*	142.91
		Receipts	102.04	89.80	159.46	158.19	129.90
		Expenditure	90.11	128.02	92.10	116.59	181.19
		Closing Balance	**(-)7.61**	**(-)45.62**	**21.74**	**142.91**	**91.62**
Zilla Parishad Funds	(8448-109-03)	Opening Balance	(-)83.26	(-)22.58	-33.72	287.32*	364.09
		Receipts	154.45	139.36	206.90	203.15	265.66
		Expenditure	113.75	150.49	147.85	126.38	256.85
		Closing Balance	**(-)42.55**	**(-)33.72**	**25.33**	**364.09**	**372.90**
Mandal Gram Panchayat for Mandal Praja Parishad	(8448-109-04)	Opening Balance	0.00	(-)0.11	(-)0.11	(-)0.11	(-)0.11
		Receipts	0.00	0.00	0.00	0.00	0.00
		Expenditure	0.00	0.00	0.00	0.00	0.00
		Closing Balance	**(-)0.11**	**(-)0.11**	**(-)0.11**	**(-)0.11**	**(-)0.11**
Total Closing Balance of Panchayat Bodies Funds to the end of the year			**(-)76.66**	**498.53**	**567.34**	**1,960.27**	**2,043.11**

Source: Finance Accounts

* *Opening Balance differs with the Closing Balance of previous years due to apportionment of balances between Andhra Pradesh and Telangana and is under reconciliation*

An amount of ₹3,891.20 crore in the above mentioned five Heads of Account pertaining to Panchayat Bodies and Municipal local bodies is available with State Government in Public Account.

4.6 Delay in submission of Utilisation Certificates

Article 211-A.2 of TS Financial Code prescribes that where grants are sanctioned for specific purposes, the Departmental Officers concerned should obtain Utilisation Certificates (UC) from the grantees and submit to the Accountant General (A&E) after verification.

Utilisation Certificates for Grants in respect of 20 sanctions (amounting to ₹1,068.17 crore) of the year 2018-19 in respect of five schemes[6] pertaining to Municipal Administration and Urban Development Department have not been submitted as of October 2020. Details are shown in ***Table 4.2***:

Table 4.2: Age-wise arrears in submission of Utilisation Certificates

(₹ in crore)

Year	Opening Balance		Addition		Clearance		Due for submission	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Up to 2016-17	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
2017-18	Nil	Nil	17	1,276.11	9	847.85	8	428.26
2018-19	8	428.26	30	1,233.83	18	593.92	20	1,068.17
2019-20	20	1,068.17	Nil	Nil	Nil	Nil	20	1,068.17

Source: Information furnished by Accountant General (Accounts and Entitlements)

In the absence of the UCs, it could not be ascertained whether the recipients had utilised the grants for the purposes for which those were given. Pendency in submission of UCs is fraught with the risk of fraud and misappropriation of funds.

6 Swachh Bharat, AMRUT, IHSDP, JNNURM and Smart Cities

4.6.1 Recording of Grantee Institutions as 'Others'

Grants-in-Aid (GIA) during the year 2019-20 (₹44,966.92 crore) constitute 36 *per cent* of the total expenditure (Revenue and Capital) of ₹1,25,656.68 crore[7] of the State. Nearly 25 *per cent* of the GIA i.e., ₹11,204.46 crore pertained to a flagship scheme 'Investment Support Scheme' (Rythu Bandhu) alone, which aimed at supporting the farmers.

Audit noticed that there was no mechanism of giving separate code to each Institution (viz., various bodies and authorities) receiving Grants-in-Aid from the State Government and as a result, it would be difficult for the State Government and Accountant General (A&E) to monitor effectively the utilisation of GIA and the number of UCs outstanding against each Institution.

A few cases, where the details are mentioned as Others / Other GIA are shown in ***Table 4.3***:

Table 4.3: Cases of releases, where details are mentioned as 'Others / Other Grants-in-Aid' under Detailed Head 310 Grants-in-Aid

(₹ in crore)

Sl. No.	Sub-Head Description	Object Head Description	Amount
1	Assistance to Non-Governmental Institutions	GIA towards salaries	1.09
2	Assistance to Non-Government Aided Institutions	GIA towards salaries	40.68
3	Assistance to Private Aided Institutions	GIA towards salaries	117.13
4	Bonalu Festival	Other GIA	15.00
5	Economic Support Scheme and Land Purchase Scheme	Other GIA	1,164.00
6	Incentives for Industrial Promotion	Other GIA	145.19
7	Incentives for Livestock and Poultry Production	Other GIA	3.93
8	Incentives for Milk Production	Other GIA	55.46
9	Incentives for S.C. Entrepreneurs for Industrial Promotion	Other GIA	190.15
10	Industrial Infrastructure Development Scheme	Other GIA	2.29
11	Other Expenditure	Other GIA	0.12
12	Other Offices	GIA towards salaries	3.07
13	Power Subsidy for Industries	Other GIA	23.15
14	Providing quality Education for STs	Other GIA	50.25
15	Social Security Scheme for Transport Drivers	Other GIA	11.38
16	Tribal Sub-Plan	Other GIA	55.09
Total			**1,877.98**

Source: Finance Accounts

Government needs to institute an appropriate mechanism to identify each of the grantee Institutions uniquely, to ensure transparency in accounts.

4.7 Abstract Contingent Bills

Financial Rules[8] permit drawal of advances on 'Abstract Contingent' (AC) bills for the purpose of meeting contingent expenditure for specified purposes. Treasury Rules and Government orders[9] stipulate that all such advances drawn on AC bills should be adjusted

7 Revenue Expenditure:₹1,08,797.87 crore; and Capital Expenditure:₹16,858.81 crore

8 Article 102 of Telangana Financial code

9 GO No. 507, dt.10-04-2002

by submission of Detailed Countersigned Contingent (DCC) bills within three months from the drawal of AC bill.

There was an increase in the number of AC bills pending adjustment and the amount which was required to be adjusted as of 31 March, as shown in ***Table 4.4***:

Table 4.4: Year-wise details of drawal of AC bills and submission of DCC bills

	2017-18		2018-19		2019-20	
	Number	**Amount (₹ in crore)**	**Number**	**Amount (₹ in crore)**	**Number**	**Amount (₹ in crore)**
Opening Balance	1,212	177.08	1,678	186.94	2,342	319.12
Addition	2,970	142.98	6,102	607.11	4,279	463.55
Clearance	2,504	133.12	5,438	474.93	2,666	172.80
Closing Balance	1,678	186.94	2,342	319.12	3,955	609.87

Note: In respect of 2019-20, additions are AC bills drawn up to December 2019 while clearance and closing balance is as of March 2020 in view of the stipulated time of three months for submission of DCC bills

Source: Information furnished by Accountant General (Accounts and Entitlements)

As can be seen from above, there is a significant increase in pendency in number of bills to be submitted as well as amount outstanding. It can also be seen that clearance was less than additions in each of the years resulting in increase in the closing balance.

Non-adjustment of advances for long periods is fraught with the risk of misappropriation of funds and therefore, requires close monitoring by the respective Designated Disbursing Officers 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 to be correct.

Out of ₹102.39 crore drawn on AC bills during the last quarter of 2019-20, ₹78.31 crore (13.84 *per cent* of total drawal of ₹565.94 crore drawn during the year 2019-20) was drawn during the month of March alone. It was seen that 95 *per cent* (₹74.61 crore) of the AC bills pertaining to March were drawn on the last working day of the year. Expenditure against AC bills at the end of the year indicates poor public expenditure management and points to drawal of funds primarily to exhaust the budget provision.

Department-wise status of pending DCC bills as of end of March 2020 is given in ***Table 4.5***:

Table 4.5: List of Departments with substantial amounts of Abstract Contingent Bills pending adjustment

(₹ in crore)

Sl. No.	Name of the Department	No of items	Amount
1	Revenue Department	1,333	120.50
2	Panchayat Raj and Rural Development	762	88.01
3	Home	436	44.43
4	Youth Advancement Tourism and Culture	59	17.50
5	Higher Education	52	8.37
6	Health, Medical and Family Welfare	73	5.78
7	Backward Class Development	36	4.08
8	Law Department	09	2.11
9	Law Officers	29	1.27
10	Labour Employment, Training and Factories	09	1.10
	Total	**2,798**	**293.15**

Source: Information furnished by Accountant General (Accounts and Entitlements)

4.8 Personal Deposit Accounts

Personal Deposit (PD) Accounts are maintained in the treasuries in the nature of banking accounts. These are established in the following manner:

- Under statutory provisions of the Government or be created under any law or rule having force of law by transferring funds from Consolidated Fund of the State for discharging liabilities of the Government arising out of special enactments.
- PD Accounts may also be opened, in favour of specified Government Officers, by transferring funds from the Consolidated Fund of the State for discharging the liabilities of the State Government in respect of execution of various projects, schemes, *etc*.

As per the Telangana Financial Code, the purpose of PD Accounts is to enable the Drawing Officers to incur expenditure pertaining to a scheme, for which funds are placed at their disposal, by transfer from the Consolidated Fund of the State.

Ordinarily, Government accords permission for opening of a PD Account under intimation to the Accountant General (A&E), Telangana. Except where the PD Accounts are created by law or rules having the force of law for discharging liabilities arising out of special enactments, other PD Accounts shall be closed at the end of the financial year.

4.8.1 Status of PD Accounts

As per the List of Major and Minor Heads of Account of Union and States, Personal Deposits are covered under Major Head of Account 8443 and Minor Head of Account 106. As per the information furnished by the Directorate of Treasuries and Accounts (DTA), there were 237 Personal Deposit Accounts as of March 2020, under Head of Account 8443-106 as in ***Table 4.6***:

Table 4.6: Details of PD accounts

Sl. No.	Description	No. of Accounts	Amount (₹ in crore)
1	Number of PD Accounts existing at the beginning of the year	237	81.44
2	New PD Accounts opened during the year	--	--
3	Receipts into the PD Accounts during the year	60	692.96
4	**Total (Row Nos. 1+2 for Number of PD Accounts and 1+2+3 in respect of Amount)**	**237**	**774.40**
5	Payments during the year	34	681.46
6	Amount lapsed during the year	25	50.35
7	PD Accounts closed during the year	--	--
8	**PD Accounts existing at the end of the year (Row Nos. 4-7 for Number of PD Accounts and 4-(5+6+7) in respect of Amount)**	**237**	**42.59**

Source: Information furnished by Director of Treasuries and Accounts (DTA) to Accountant General (A&E)

- The DTA has informed that the difference between the Opening Balance of 237 for the year 2019 – 20 and the Closing Balance of 182 for the year 2018 -19 was due to detection of additional PD Accounts by the DTA on account of migration of data from the "Integrated Management of Pay and Accounts and Treasuries" software to the "Integrated Financial Management and Information System" software.

- DTA informed that there were 132 operative accounts and 105 inoperative accounts. Even out of the 132 accounts, which the DTA mentioned as operative, 26 accounts had both receipts and payments. There were only receipts in 34 PD accounts and only payments in 8 PD accounts. There were neither receipts nor payments in 64 accounts.
- As per Article 271 (iii) (4) of Financial Code, if a PD account is not operated for a considerable period, the same should be closed in consultation with the officer in whose favour the deposit account has been opened. However, as of March 2020, there were 105 inoperative PD accounts with a closing balance of ₹3.66 crore.

4.8.2 Transfer of funds from Deposit Accounts to Bank Accounts

Government instructions[10] (September 2012) stipulate that there shall not be any transfer of funds from PD accounts to Fixed Deposit Receipt account.

Audit noticed that seven Government Companies / Corporations have transferred an amount of ₹1,075.68 crore (initially credited to PD accounts) to other Bank Accounts outside Government Account.

Table 4.7: Companies / Corporations which have transferred amounts from PD accounts to other Bank Accounts outside Government Account

Sl. No	Name of the Company / Corporation	Amount (₹ in crore)
1	Telangana State Housing Corporation Limited	634.99
2	Telangana State Minorities Finance Corporation Limited	232.48
3	Telangana State Christian Minorities Finance Corporation Limited	131.61
4	Hyderabad Road Development Corporation Limited	50.00
5	Telangana State Police Housing Corporation Limited	24.92
6	Telangana State Film Development Corporation Limited	1.30
7	Photonic Valley Corporation	0.38
	Total	**1,075.68**

Source: Information furnished by Companies / Corporations concerned

Parking of Government Funds, which are to be maintained in Public Account, in Fixed Deposit Accounts not only affects the transparency of accounts, but is also fraught with the risk of misappropriation/misutilization.

4.8.3 Lapsing of amounts in PD Accounts

Article 202 of the Constitution of India provides for Legislative financial control over public expenditure through the Annual Financial Statement / Budget. Not transferring the unspent balances lying in PD Accounts to the Consolidated Fund before the closure of the financial year violates Legislative intent, which is to ensure that funds approved by it for the financial year are spent during the financial year itself. According to para 17.1 of Budget Manual, an appropriation authorised by the Legislature is operative only until the close of the financial year; any unspent balance lapses and is not available for utilisation in the

[10] Memo No.351/B1/DCM.II/2012, dated 04 September 2012

following year. As per Article 271 (iii) (4)[11] Financial Code, PD accounts are to be closed at the end of the financial year by minus debit of the balance to the relevant service heads in the Consolidated Fund of the State[12]. The account may be opened again in the following year, if necessary, in the usual manner[13].

The DTA informed that an amount ₹50.35 crore was lapsed during the year from out of 25 PD accounts. In the absence of release wise data for each PD Administrator, the accurate amount that is lapsable at the end of the year in respect of PD accounts in operation could not be verified in Audit.

4.9 Opaqueness in Accounts

Rule 29 of Government Accounting Rules, 1990, stipulates that as a general rule, the classification of transactions in Government accounts shall have closer reference to the function, programme and activity of the Government and the object of the revenue or expenditure, rather than the Department in which the revenue or expenditure occurs. Minor Head - 800 relating to Other Receipts and Other Expenditure is intended to be operated when the appropriate Minor Heads are not available. Routine operation of Minor Head - 800 is to be discouraged, as it renders the accounts opaque.

Transactions under this Minor Head during the years 2015-16 to 2019-20 are detailed in ***Table 4.8***.

Table 4.8: Receipts and Expenditure under Minor Head - 800

Year	Receipts[14] (₹ in crore)	No. of Major Heads in which Minor Head 800 is operated	Receipts under Minor Head 800 ₹ in crore (*per cent*)	Expenditure[15] (₹ in crore)	No. of Major Heads under which Minor Head - 800 is operated	Expenditure under Minor Head - 800 - ₹ in crore (*per cent*)
2015-16	76,134	47	10,370 (13.62)	89,486	47	11,359 (12.69)
2016-17	82,818	45	3,287 (3.97)	1,14,803	45	14,156 (12.33)
2017-18	88,824	47	3,555 (4.00)	1,09,267	45	13,214 (12.09)
2018-19	1,01,420	41	5,957 (5.87)	1,19,724	44	21,011 (17.55)
2019-20	1,02,544	46	8,090 (7.89)	1,25,657	39	22,045 (17.54)

Source: Finance Accounts

Audit observations in this regard are as follows:

- The use of omnibus Minor Head in monetary value has increased during the past two years considerably - by 67 *per cent* in 2018-19 and 36 *per cent* in 2019-20 in respect of Receipts and 59 *per cent* in 2018-19 in respect of Expenditure, despite the CAG pointing this out in his Reports in earlier years.

[11] Memo. No. 1596/Accts./5y-4, Dt. 31-12-1959

[12] except, where personal deposits are created by Law or rules having the force of law for discharging the liabilities arising out of special enactments

[13] Personal Deposit Accounts in connection with the working of schemes of commercial and quasi-commercial nature and schemes whose transactions spread over more than one financial year, need not be closed at the end of the financial year. Such Deposit Accounts should be closed when the need for them ceases

[14] Revenue Receipts

[15] Both Revenue and Capital Expenditure

- In respect of 13 Receipt Major Heads like Rural Development, Urban Development, Power etc, entire Receipts totalling ₹163.70 crore were classified under Minor Head - 800 – Other Receipts (details in ***Appendix 4.1***).
- Under three Expenditure Heads, the entire expenditure totalling ₹989.90 crore was classified under Minor Head 800–Other expenditure (details in ***Appendix 4.2***). Capital Outlay on Roads and Bridges alone was ₹956.63 crore under Minor Head - 800.
- In respect of 12 Major Heads, receipts amounting to ₹2,014.67 crore, (details in ***Appendix 4.3***) and in respect of 6 Major Heads, expenditure amounting to ₹15,473.88 crore, (details in ***Appendix 4.4***), substantial proportion *i.e.*, 50 *per cent* or more was classified under Minor Head 800 – Other Receipts / Expenditure.
- In respect of two receipt Major Heads *viz*., State Goods and Services Tax (₹3,841.15 crore) and Miscellaneous General Services (₹1,764.48 crore), Receipts classified under Minor Head 800 – Other Receipts were more than ₹1,000 crore in each case. Accounting for huge receipts under Other Receipts adversely impacts the quality of reporting of the Receipts.
- In respect of five[16] Revenue Expenditure Major Heads, the expenditure classified under Minor Head 800 – Other Expenditure was more than ₹1,000 crore in each case. Except in case of "Relief on account of natural calamities", under all the other Heads expenditure of more than ₹1,000 crore was classified under Minor Head 800 – Other Expenditure in previous year also.

Classification of large amounts under the omnibus Minor Head 800 affects transparency in financial reporting as it would not indicate disaggregated information on different activities of the Government separately in the accounts and distorts proper analysis of allocative priorities and quality of expenditure and receipts.

4.9.1 Use of omnibus Minor Head - 800 despite availability of specific Minor Heads

The omnibus Minor Head - 800 (with the relatable Sub-Head / detailed head) was operated despite availability of specific Minor Head in the following cases:

[16] (i) Crop Husbandry (₹9,339.19 crore), (ii) Power (₹3,954.87 crore), (iii) Welfare of SC and ST (₹2,701.03 crore), (iv) Nutrition (₹1,336.91 crore) and (v) Relief on account of Natural Calamities (₹1,186.58 crore)

Table 4.9: Use of Minor Head 800 with relatable Sub-Head despite availability of specific Minor Head

Sl. No.	Classification under Minor Head - 800	Description of Sub-Head used	Related specific Minor Head to be used	Related specific Minor Head Available	Amount (₹ in crore)
Receipts					
1	0056-00-**800**-02	Sale of Jail Manufactures	0056-00-**102**	Sale of Jail Manufactures	0.18
2	0070-60-**800**-25	Receipts under Right to Information Act, 2005	0070-60-**118**	Receipts under Right to Information Act, 2005	0.01
3	0202-04-**800**-01	Receipts of the Department of Archaeology	0202-04-**101**	Archives and Museums	0.52
Expenditure					
1	2403-00-**800**-08	Veterinary services and Animal Health	2403-00-**101**	Veterinary services and Animal Health	1.40
2	6700-01-800-05-001	Loans to Telangana State Water Resources Infrastructure Development Corporation Limited (TSWRIDCL)	6700-01-**190**	Loans to Public Sector and other undertakings	361.24

Source: Finance Accounts

In respect of loans to TSWRIDCL, an unauthorised Minor Head "250 – Loans to TSWRIDCL" which does not figure in the List of Major and Minor Heads of Account was operated for five months from October 2019 to February 2020 before transferring the expenditure to Minor Head 800, which was also not the correct Head of Account for Loans to Public Sector Undertakings.

Classification of receipts and expenditure under omnibus Minor Head - 800, despite availability of specific Minor Head does not aid in providing transparency in depiction of Receipts and Expenditure of the Government in Accounts.

4.10 Outstanding balances under Major Suspense and DDR Heads

Certain intermediary/adjusting Heads of Accounts known as 'Suspense Heads' are opened in Government Accounts to reflect transactions of receipts and payments which cannot be booked to a final Head of Account due to lack of information such as non-furnishing of Schedule of Settlement by the Treasuries/PAOs, Non-receipt of clearance memos from RBI, non-receipt of vouchers etc. 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.

Remittances embrace all transactions which are adjusting Heads of Account and the debits or credits under these heads are eventually cleared by corresponding credit or debit within the same or in another circle of accounting.

Table 4.10: Balances under Suspense and Remittance Heads

(₹ in crore)

Minor Head	2017-18		2018-19		2019-20	
Major Head 8658 - Suspense	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
101 - PAO suspense	6.62	(-) 0.34	143.45(+)4.88	104.21	87.55	128.10
Net Balance		**Dr.100.49**		**Dr.144.61**		**Dr.104.06**
102 - Suspense Account-Civil	(-)2.06	(-)2.07	181.53	412.35	648.37	622.21
Net Balance		**Dr.13.49**		**Cr.217.33**		**Cr.191.17**
109 - Reserve Bank Suspense - Headquarters	(-)0.39	2.57	5.06(+)0.25	(-)1.40	(-)0.07	(-)3.55
Net Balance		**Cr.6.27**		**Dr.0.45**		**Dr.3.91**
110 - Reserve Bank Suspense – CAO	(-) 1,392.71	(-) 1,349.12	(-)10.28	(-)28.90	(-)17.55	12.32
Net Balance		**Cr.12.07**		**Dr.6.54**		**Cr.23.33**
112 - Tax Deducted at Source (TDS) Suspense	--	53.83(+)78.20	0.00	(-)58.26	(-)0.02	251.04
Net Balance		**Cr.121.50**		**Cr.63.24**		**Cr.314.31**
123 - A.I.S Officers' Group Insurance Scheme	4.07	3.93	0.47	3.97	2.92	4.09
Net Balance		**Cr.0.84**		**Cr.4.34**		**Cr.5.51**
Major Head 8782-Cash Remittances						
102 - P.W. Remittances	20,268.72	20,054.91	17,490.29	17,436.90	13,236.43	13,236.16
Net Balance		**Dr.150.18**		**Dr.203.57**		**Dr.203.84**
103 - Forest Remittances	420.29	517.94	247.59	427.46	589.39	623.57
Net Balance		**Cr.173.41**		**Cr.353.28**		**Cr.387.45**

Source: Finance Accounts

Public Works Remittances and Forest Remittances had considerable balances during the past three years. Uncleared balances under these Heads at the end of the year would adversely affect depiction of Government's Receipts and Expenditure accurately.

4.11 Reconciliation of Departmental figures

Generally Accepted Accounting Principles state that the purpose of 'account reconciliation' is to provide accuracy and consistency in financial accounts for which it is necessary to carry out periodic and regular reconciliation of accounts. Reconciliation and verification of figures is an important tool of financial management and it enables the Chief Controlling Officers (CCOs) to exercise effective control over budget and expenditure. It also ensures accuracy of the accounts. Government Orders[17] and Financial Rules[18] stipulate that expenditure recorded in the books of CCOs of Departments is to be reconciled with the books of the Accountant General (Accounts and Entitlements) every month.

[17] GO Ms .No. 507 of Finance (TFR) Department, dated 10 April 2002

[18] Article 9 of State Financial Code

Table 4.11: Status of Reconciliation of Receipts and Expenditure figures

Year	Total No. of Controlling Officers	Fully Reconciled	Partially Reconciled	Not reconciled
Receipts				
2016-17	38	17	2	19
2017-18	26	8	0	18
2018-19	39	15	10	14
2019-20	38	9	23	6
Expenditure				
2016-17	173	90	41	42
2017-18	248	168	61	19
2018-19	281	191	51	39
2019-20	196	63	94	39

Note: Earlier figures up to 2018-19 were based on Major Head *wise details for CCOs. For 2019-20, the data was grouped based on* Major Head*s under each CCO*
Source: Finance Accounts

In monetary terms for 2019-20, receipts of ₹69,766.18 crore (68.03 *per cent* out of total Revenue Receipts) and expenditure of ₹93,628.14 crore (74.51 *per cent* out of Total Expenditure) were reconciled by the Controlling Officers.

- There were nine CCOs, who did not reconcile Receipts of ₹100 crore and above totalling ₹32,535.03 crore (***Appendix 4.5)***.
- There were 45 Chief Controlling Officers (CCOs), who did not reconcile expenditure of ₹100 crore and above totalling ₹29,374.03 crore (***Appendix 4.6)***. Out of this, there were six CCOs, who did not reconcile expenditure of ₹1,000 crore and above totalling ₹12,249.92 crore.
- There were four CCOs[19], who have not reconciled Receipts of ₹100 crore and above persistently for three years.

Non-reconciliation impacts the assurance that all the receipts/expenditure have been taken to the final Head of Account properly. Failure to exercise this check results in misclassification and incorrect booking of receipts and expenditure in the accounts. It also reflects poorly on the internal control system within the Government and raises concerns relating to accuracy of accounts.

4.12 Compliance with Indian Government 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 Telangana in 2019-20 and deficiencies therein are detailed in ***Table 4.12***.

[19] (i) Commissioner of Commercial Taxes (), (ii) Commissioner and Inspector General of Stamps and Registration, (iii) Commissioner of Industries and (iv) Commissioner of Prohibition and Excise

Table 4.12: Compliance with Accounting Standards

Sl. No.	Accounting Standard	Compliance by State Government	Deficiencies noticed in compliance
1	**IGAS 1**: *Guarantees Given by the Government – Disclosure requirements*	Not complied (Statements 9 and 20 of Finance Accounts)	Detailed information like number of Guarantees for each institution was not furnished. The Statements are incomplete to that extent.
2	**IGAS 2**: *Accounting and Classification of Grants-in-Aid*	Not complied (Statement 10 of Finance Accounts)	Certain Grants-in-Aid were classified under Capital section in contravention of the Accounting Standards.
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

Non-compliance to Accounting Standards would impact the objective of financial statements to present a true and fair view of the financial position and cash flows apart from hindering fiscal transparency.

4.13 Submission of Accounts / Separate Audit Reports of Autonomous Bodies

Certification of accounts of Autonomous Bodies (ABs) set up by the State Government is conducted under Section 19 or 20 of "Comptroller and Auditor General of India (Duties, Powers and Conditions of Service) Act 1971" (DPC Act).

There were 34 ABs under the audit purview of the CAG as per Section 19 or 20 of the DPC Act, which were required to submit their Annual Accounts to CAG before 30 June every year. Out of 34, only one AB i.e., Telangana State Electricity Regulatory Commission had submitted its accounts up to 2019-20.

Table 4.13: Age-wise details of delay in submission of Annual Accounts of Autonomous Bodies

Sl. No	Delay in Number of Years	No. of Bodies/ Authorities
1	1	7
2	2-3	15
3	4-5	3
4	6-7	3
5	8-9	0
6	10-11	4
7	12-13	1
Total		**33**

None of the remaining 33 ABs have submitted their Annual Accounts in time. There were delays ranging from 1 to 13 years in submission of Accounts.

- The Metropolitan Legal Services Authority and Integrated Tribal Development Agencies of Bhadrachalam, Eturunagaram and Utnoor, have not submitted their Annual Accounts for 10 years or more (December 2020).

- Hyderabad Metropolitan Water Supply and Sewerage Board (HMWSSB) had not submitted annual accounts from 2010-11 onwards. Despite non-rendering of accounts for 10 years, the Government has been providing loans and guarantees to HMWSSB. During 2019-20, the State Government has provided ₹825.00 crore as Loan to HMWSSB and the total loans outstanding as of March 2020 stood at ₹6,457.30 crore. Further, the value of Guarantees given by State Government to HMWSSB outstanding as of March 2020 was ₹3,481 crore.

Delay in submission of Annual Accounts dilutes accountability and impacts the purpose of preparation of accounts. State Government needs to ensure that the Autonomous Bodies receiving Loans, Guarantees or Grants prepare and submit their annual accounts in a timely manner, so as to ensure that financial misrepresentations or irregularities, if any, do not go undetected.

4.14 Departmental Commercial Undertakings / Companies / Corporations

According to Section 395 of the Companies Act, 2013, every State Government shall cause an annual report on the working and affairs of the Government Company to be prepared within three months of its Annual General Meeting and as soon as may be after such preparation, lay before the House or both Houses of the State Legislature together with a copy of the audit report and comments upon or supplement by the Comptroller and Auditor General of India to the Audit Report.

There were 59 Government Companies (including five Power Sector Companies) and 3 Statutory Corporations, which were to submit their Annual Accounts to Accountant General (Audit), Telangana.

- As per the information furnished by the 54 Companies[20] and 3 Statutory Corporations, the State Government has invested an amount of ₹1,936.16 crore prior to bifurcation of Andhra Pradesh with effect from 2 June 2014. The State Government has made an investment of ₹4,475.69 crore after formation of Telangana as a separate State (as of 31 March 2020). However, as per Finance Accounts, the investments in these Companies / Corporations were ₹2,366.56 crore and ₹2,778.14 crore (as of March 2020) respectively, before and after Andhra Pradesh Re-organisation Act 2014. Thus, there is a need for reconciliation of investments as per Government Accounts and as per the Balance Sheets of Government Companies and Statutory Corporations.

- Apart from this, Government Accounts also depict an amount of ₹4,396.20 crore and ₹18,489.64 crore invested in Power Companies before and after bifurcation respectively. Since this information was not furnished (December 2020) by the Power Companies, the details could not be verified.

[20] excluding five power companies, which did not provide information

- The following is the status of finalisation of Annual Accounts by these Government Companies and Corporations.
  - Out of the above, five Government Companies (one Government Company in Power Sector i.e., TS GENCO, and four other Government Companies[21]) have finalised their accounts up to 2019-20 and are up to date.
  - In respect of 14 Government Companies and 3 Statutory Corporations, even the first accounts have not been received (October 2020). It was noticed that Telangana State Mineral Development Corporation – Suliyari Coal Company Limited and Telangana State Industrial Development Corporation Limited were to finalise the Annual Accounts for seven and six years respectively.
  - In respect of the remaining 40 Government companies, delays in finalisation of Annual Accounts ranged from one to five years. There were four companies[22], which were to submit their annual accounts from 2015-16 onwards.

In the absence of timely finalization of accounts, results of the investment of the Government remain outside the purview of State Legislature and escape scrutiny by audit. Consequently, corrective measures, if any, required for ensuring accountability and improving efficiency cannot be taken on time.

4.15 Non-submission of details of 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 (DPC Act), information regarding financial assistance given by the Government in the form of Grants/ Loans is required. As per Regulation 88 of Regulations on Audit and Accounts, 2020, Governments and Heads of Departments (HoDs) which sanction Grants and/or Loans to bodies or authorities shall furnish to the Audit office, by end of July every year, a statement of such bodies and authorities to which grants and/or loans aggregating rupees ten 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.

No such information was furnished by Government /HoDs in spite of reminders. In the absence of information, the entities auditable under Section 14 and Section 15 could not be ascertained by Audit (December 2020).

[21] (i) Telangana Water Resources Development Corporation Limited, (ii) The Singareni Collieries Company Limited, (iii) Damodara Mineral Private Limited and (iv) Telangana Industrial Health Clinic Limited

[22] (i) Telangana State Trade Promotion Corporation Limited, (ii) Hyderabad Growth Corridor Limited, (iii) Pashamylaram Textile Park Limited and (iv) Telangana State Tourism Development Corporation Limited

4.16 Follow up action on State Finances Audit Reports

As per the instructions issued by Finance and Planning Department in November 1993, Administrative Departments are required to submit Explanatory Notes within three months of presentation of Audit Reports to Legislature, without waiting for any notice or call from Public Accounts Committee, duly indicating action taken or proposed to be taken.

Finance Department furnished Explanatory Notes for Audit Report on State Finances for the year 2016-17 in July 2018. However, it has not furnished the Explanatory Notes for Audit Reports on State Finances for the years 2014-15, 2015-16 and 2017-18 as of January 2021.

4.17 Conclusion

Funds pertaining to State Compensatory Afforestation Fund (SCAF), which should have been maintained in Public Account, were parked in banks in violation of the Rules governing the accounting and maintenance of such funds. Government did not discharge its interest liability over the funds lying in State Disaster Response Fund.

Operation of PD accounts lacked transparency and contrary to Government instructions, substantial funds from PD accounts were transferred to bank accounts and taken out of the Government accounts, and consequently, out of oversight of Legislature.

Indiscriminate operation of omnibus Minor Head 800 – Other Receipts and Other Expenditure affected transparency in financial reporting and obscured proper analysis of allocative priorities and quality of expenditure. Non-submission of UCs and DCC bills by Departments for funds drawn for specific developmental programmes/ projects was violative of prescribed financial rules and directives and point to inadequate internal controls and deficient monitoring mechanism of the State Government.

Non-reconciliation of receipts and expenditure booked by the Controlling Officers of the State with the figures of the Accountant General (A&E) reflects poorly on the internal control system within the Government and raises concerns relating to accuracy of accounts.

Delay in submission of Annual Accounts by the Government companies and Autonomous Bodies dilutes accountability and impacts the purpose of preparation of accounts. The State Government is yet to comply with Indian Government Accounting Standards.

4.18 Recommendations

i. *State Government should discourage the use of omnibus Minor Head 800 and chalk out a specific timeframe in consultation with the Accountant General (A&E), to identify appropriate Heads of Account to classify the transactions correctly in the books of accounts.*

ii. *Operation and maintenance of PD accounts need to be streamlined and Government instructions with regard to transfer of funds out of these accounts should be followed scrupulously.*

iii. *Government should also ensure that prescribed accounting procedure is complied with, with regard to funds related to SCAF and these funds are not parked in bank accounts.*

iv. *State Government needs to institute a rigorous monitoring mechanism to ensure that all the Departments comply with the prescribed rules and procedures with regard to submission of UCs and DCC bills to the Accountant General (A&E) within the stipulated timeframe.*

v. *State Government should ensure that all the Public Sector Undertakings and Autonomous Bodies clear the arrears in accounts within an agreed timeframe and render their annual accounts in a timely manner to bring in transparency and accountability in their functioning.*

vi. *Internal control mechanism needs to be strengthened and the Government needs to ensure that the Controlling officers reconcile their figures of receipts and expenditure with those of the Accountant General (A&E) at prescribed intervals to provide transparency and accuracy in accounting of Government transactions.*

Sudharajan

(SUDHA RAJAN)
Accountant General (Audit), Telangana

Hyderabad
The

Countersigned

(GIRISH CHANDRA MURMU)
Comptroller and Auditor General of India

New Delhi
The