
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 outside Consolidated Fund or Public Account of the State

Article 266 (1) subject to the provisions of Article 267, provides that all revenues received by the Government of a State, all loans raised by that Government by the issue of treasury bills, loans or ways and means advances and all moneys received by that Government in repayment of loans shall form one consolidated fund to be entitled the Consolidated Fund of the State. Article 266 (2) provides that all other public moneys received by or on behalf of the Government of a State shall be credited to the public account of the State, as the case may be.

It was observed that funds meant to be credited to consolidated fund or public account are not credited or credited to bank accounts. The instances are discussed below:

4.1.1 Collection/ utilisation of Petroleum cess

The State Government imposed the Covid-19 Cess on Petroleum and its products (Diesel: ₹five per litre and Petrol and other Motor Spirit: ₹six per litre) with effect from 28 April 2020 and revoked the same from the midnight of 24 September 2020. The purpose of the fund was to mobilise additional revenue to combat Covid-19 pandemic in the State.

As per information furnished by the Finance Department, the total Covid-19 cess collection was ₹13.14 crore and was booked under the MH 0040- Taxes on Sales, Trade *etc.* in the Consolidated Fund of the State. The expenditure was incurred under Departments and the same was subsumed under the additional expenditure of ₹90.00 crore incurred by the State for fighting Covid-19 pandemic during 2020-21.

4.1.2 Funds of regulators outside Government Account

The Regulatory Authorities, are 'State' within the meaning of Article 12 of the Constitution. Money being received by them are on account of discharge of functions 'on behalf of the Government'. Hence, their Funds need to be housed in the Public Account of India/ States. This is the settled position of the CAG, Ministry of Finance and Ministry of Law for the GoI.

The status of funds of Nagaland State Electricity Regulatory Commission (NSERC) is shown in **Table 4.1**.

Table 4.1: Details of Regulator and the Funds

Name of the Regulatory Authority	Constitution of Fund under Nagaland Electricity Regulatory Commission Fund Rules, 2008	Amount outstanding towards Government
NSERC	The Fund shall be maintained with the State Bank of India, Kohima as the main accounts and subsidiary accounts at such other branches of said bank. The Fund shall comprise of all revenues including the grants and loans from the State Government, the fees and other sum.	As per the latest finalised accounts for the year 2017-18, the total amount of the Fund was ₹13.53 lakh, which remained outside Government Account.

Source: Latest finalised accounts

4.2 Non-discharge of interest liability towards interest bearing deposits

The State Government is liable to pay/ adjust interest of balances under category J-Reserve Funds (a. Reserve Funds bearing interest) and K-Deposits and Advances (a. Deposits bearing interest), and for this purpose, specific Sub-Major Heads are provided in the List of Major and Minor Heads of Account issued by Controller General of Accounts, Department of Expenditure, Ministry of Finance, GoI.

As on 1 April 2020, the balance under K-Deposits (8342-117 Defined Contribution Pension Scheme for Government Employees) was ₹170.35 crore. The interest to be paid for 2020-21 by the State Government worked out to be ₹12.09 crore¹¹. However, the State Government paid only ₹4.31 crore resulting in non-payment/ short payment of the interest of ₹7.78 crore. This resulted in overstatement of Revenue Surplus and understatement of Fiscal Deficit.

4.3 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. These transfers are exhibited in Appendix VI of Volume II of the Finance Accounts.

During the year 2020-21, GoI funds amounting to ₹370.64 crore were directly transferred to the Implementing Agencies. Details of major amount of funds transferred directly to Implementing Agencies are shown in **Table 4.2**.

Table 4.2: Funds transferred by GoI directly to State implementing agencies

Name of the Schemes/ Programme of GoI	Name of the Implementing Agencies	GoI releases during 2020-21
Pradhan Mantri Kishan Samman Nidhi	Department of Agriculture, Nagaland	122.62
Pilgrimage Rejuvenation and Spiritual Heritage Augmentation Drive (PRASHAD)	Department of Tourism Board, Nagaland	5.96
National AIDS and STD Control Programme (NACO)	Nagaland State AIDS Control Society	40.80
Khelo India National Programme	Directorate of Youth Resource and	16.50

¹¹ Interest calculated at the rate of 7.10 per cent notified by the Government/ payable to General Provident Fund

Name of the Schemes/ Programme of GoI	Name of the Implementing Agencies	GoI releases during 2020-21
	Sports	
Swadesh Darshan-Integrated Development Theme based Tourism Circuits	Nagaland Tourism Board	19.97
Scheme of North Eastern Council Special Development Projects	Nagaland Tourism Board	5.55
Organic Value chain Development of North East Region	Nagaland Organic Mission	22.59
Solar Power-off Grid	Nagaland Renewable Energy Development Agency (NREDA)	10.69
Support to National Institute of Technology (NITs) and IEST	National Institute of Technology Nagaland	23.08
Assistance to State Agencies for intra- State movement of foodgrains and FPS dealers margin under NFSA	The Directorate of Food & Civil Supplies Nagaland	15.63
Others	Other 122 implementing Agencies against 61 schemes	87.25
Total		370.64

Source: Public Financial Management System (PFMS) portal of Controller General of Accounts for the State Accounts (2020-21).

It can be seen from the table above that out of ₹370.64 crore transferred directly by GoI during 2020-21, ₹283.39 crore (76.46 per cent) was given for implementation of 10 major Schemes during the year. Further, out of the 10 major schemes, Pradhan Mantri Kishan Samman Nidhi constituted 33.08 per cent of the total transfer during the year.

Issues related to transparency

4.4 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 2020-21, 78 grants involving ₹212.60 crore were provided to 21 Departments for which UCs are due for submission during the year 2021-22. As on March 2021, there were 173 UCs worth ₹396.47 crore, which were due for submission for periods pertaining up to 2019-20.

Tables 4.3 and 4.4 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 2020-21 is shown in Appendix 4.1.

Table 4.3: Age-wise arrears in submission of UCs

(₹ in crore)

Year	Opening Balance		Addition		Clearance		Due for submission	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Upto 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
2020-21	195	456.20	78	212.60	22	59.73	251	609.07

*UCs for the GIA disbursed during 2020-21 become due only during 2021-22.

Source: Finance Accounts, 2020-21

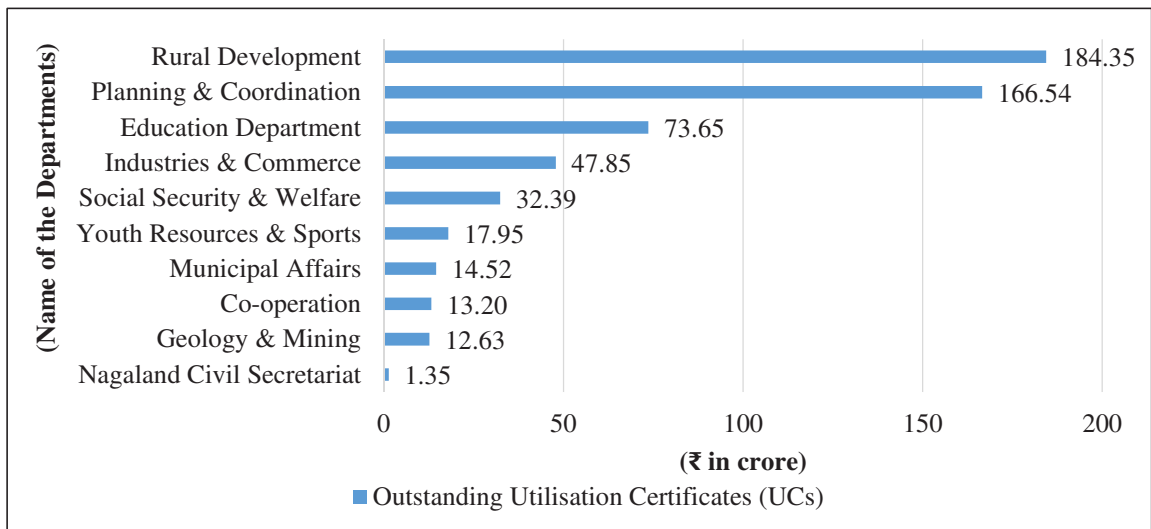
Table 4.4: Year-wise break up of outstanding UCs

(₹ in crore)

Year	Number of UCs	Amount
2011-12	04	6.65
2012-13	05	26.65
2013-14	08	126.95
2014-15	16	85.64
2015-16	13	30.78
2016-17	12	9.74
2017-18	18	13.26
2018-19	25	26.14
2019-20	72	70.66
2020-21	78	212.60
Total	251	609.07

Source: Information furnished by PAG (A&E)

Chart 4.1: Outstanding UCs in respect of 10 major Departments for the grants paid up to 2020-21



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, Education and Industries & Commerce.

Thus, 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 in due time.

4.4.1 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 ₹194.85 crore during the financial year, an amount of ₹40.77 crore (20.92 per cent) was shown as disbursed to Grantee Institutions of type “Others”. The trend of such disbursement during 2016-21 is given in **Table 4.5**.

Table 4.5: Trend of GIA/ assistance to Grantee Institutions of type “Others” during 2016-21

	(₹ in crore)				
Year	2016-17	2017-18	2018-19	2019-20	2020-21
Total GIA during the year	170.87	328.40	167.06	160.71	194.85
Grant to the type “Others”	152.39	250.00	86.74	67.76	40.77
Percentage to the Total GIA	89.18	76.13	51.92	42.16	20.92

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 89.18 per cent in 2016-17 to 20.92 per cent in 2020-21.

4.5 Abstract Contingent Bills

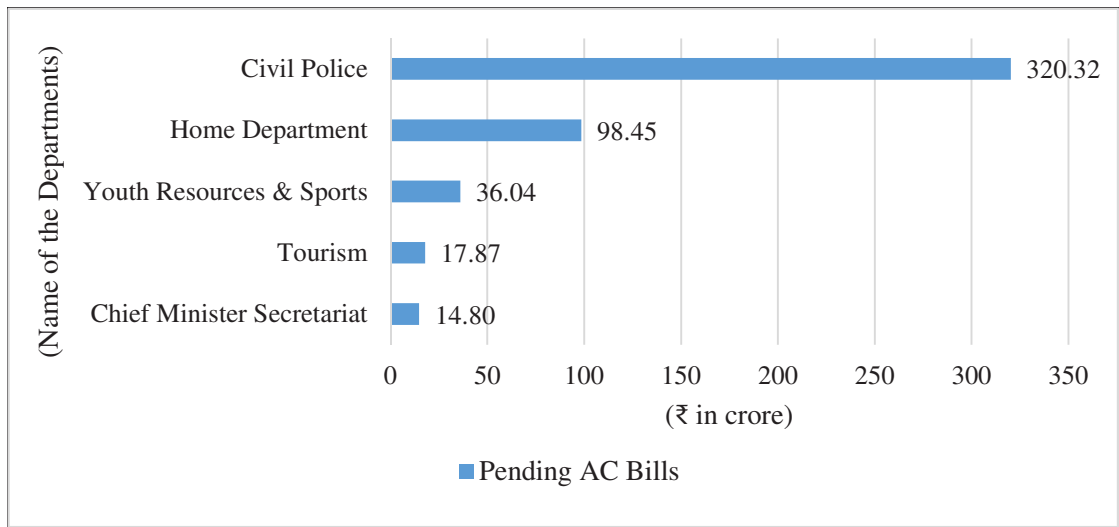
The drawal of contingent charges on items of expenditure by a State Government, for which final classification and supporting vouchers is not available at the time of drawal are made on ‘Abstract Contingent’ (AC) Bills. Initially made as advance, its subsequent adjustments are ensured through submission 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.

During 2020-21, 23 AC bills amounting to ₹43.48 crore were drawn and no DCC bills against the drawal of these bills has been submitted before the closing of the accounts for the financial year 2020-21 and, therefore, there is no assurance that the expenditure of ₹43.48 crore has actually been incurred during the financial year for the purpose for which it was authorised by the Legislature. In addition to this, 350 AC bills amounting to ₹518.82 crore drawn up to 2019-20 were also outstanding as on 31 March 2021. Thus, 373 AC bills involving ₹562.30 crore were outstanding as of March 2021. Advances drawn and not accounted for increases the possibility of wastage/ misappropriation/ malfeasance, etc.

Department-wise pending AC bills for the years up to 2020-21 is detailed in **Appendix 4.2**. Status of pending AC bills (amount above ₹10 crore) in respect of five major departments is given in **Chart 4.2**.

Chart 4.2: Pending AC Bills in respect of major Departments



Source: Information furnished by PAG (A&E)

Year-wise details of pendency of AC bills for the years up to 2020-21 are shown in **Table 4.6**.

Table 4.6: Year wise progress in submission of DCC bills against the outstanding AC bills
(₹ in crore)

Year	Opening Balance		Addition		Clearance		Closing Balance	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Up to 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
2020-21	379	548.69	23	43.48	29	29.87	373	562.30

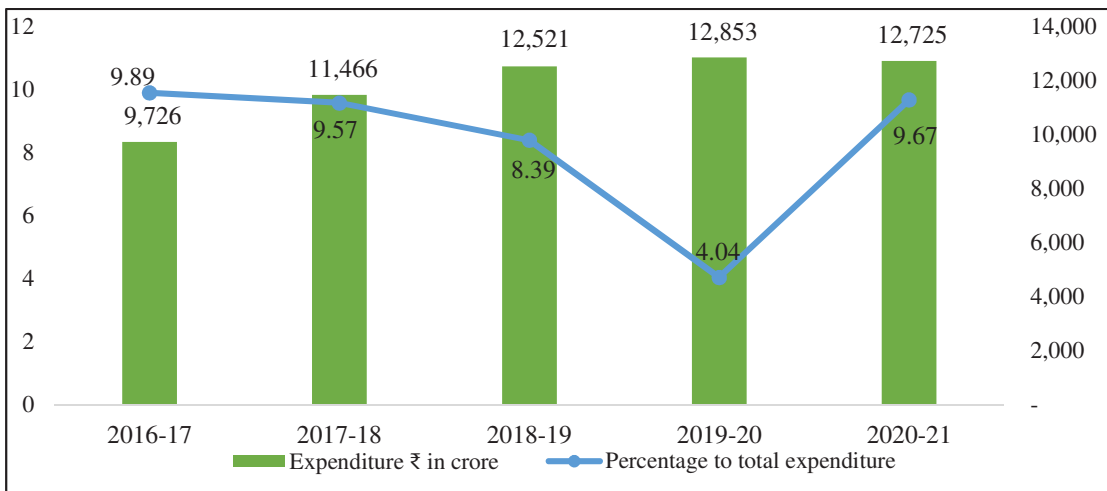
Source: Finance Accounts, 2020-21 and information furnished by PAG (A&E)

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.

4.6 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 ₹1,230.64 crore under 73 Revenue and Capital Major Heads, constituting about 9.67 per cent of total expenditure of ₹12,724.85 crore was booked under Minor head 800-Other Expenditure. Similarly, receipts of ₹264.74 crore under 29 Revenue Major Heads, constituting about 2.32 per cent of the total Revenue receipts of ₹11,427.43 crore was booked under Minor Heads 800-Other Receipts under concerned Major Heads.

The quantum of expenditure booked under Minor Head 800 extensively during the five-year period 2016-21, which 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 2016-21 is given in **Chart 4.3**.

Chart 4.3: Operation of Minor Head 800 - Other Expenditure during 2016-21

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 9.89 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 4.7**.

Table 4.7: Significant expenditure booked under Minor Head 800 – Other Expenditure during financial year

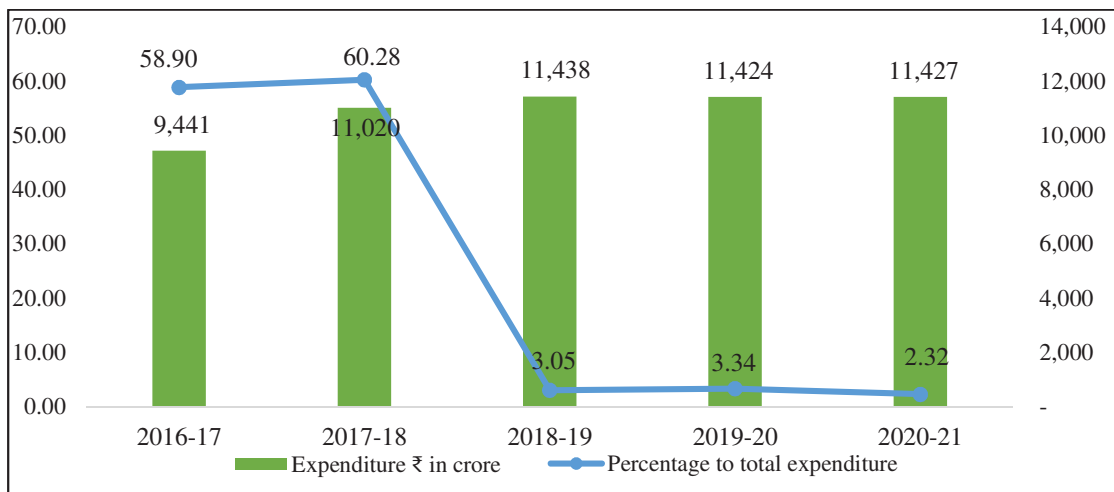
(₹ in crore)

Major Head	Description	Expenditure under Minor Head 800	Total Expenditure	Percentage
2013	Council of Ministers	6.77	10.78	62.80
2216	Housing	28.36	28.36	100.00
2501	Special Programmes for Rural Development	94.23	115.06	81.90
2552	North Eastern Areas	11.12	12.71	87.49
3055	Road Transport	57.21	69.69	82.09
4070	Capital Outlay on Other Administrative Services	4.69	4.69	100
4215	Capital Outlay on Water Supply and Sanitation	102.83	149.71	68.69
4220	Capital Outlay on Information and Publicity	1.28	1.28	100.00
4235	Capital Outlay on Social Security and Welfare	19.73	19.73	100.00
4401	Capital Outlay on Crop Husbandry	5.50	5.50	100.00
4408	Capital Outlay on Food, Storage and Warehousing	7.05	7.05	100.00
4552	Capital Outlay on North Eastern Areas	50.97	52.64	93.47
4575	Capital Outlay on Other Special Areas Programmes	103.69	103.69	100.00
4702	Capital Outlay on Minor Irrigation	54.10	54.10	100.00
4801	Capital Outlay on Power Projects	78.05	87.56	89.14
4853	Capital Outlay on Non-ferrous Mining and Metallurgical Industries	3.00	4.00	75.00
5053	Capital Outlay on Civil Aviation	1.35	1.35	100.00
5055	Capital Outlay on Road Transport	3.15	5.55	56.76
Total		633.08	733.45	86.32

Source: Finance Accounts, 2020-21

The extent of operation of Minor Head 800 for Other Receipts, as a percentage of Total Expenditure during 2016-21 is given in **Chart 4.4**.

Chart 4.4: Operation of Minor Head 800 - Other Receipts during 2016-21



Source: Finance Accounts of the respective years

Similarly, the quantum of receipts booked under Minor Head 800 was higher compared to expenditure, and ranged between 2.32 per cent in 2020-21 and 60.28 per cent in 2017-18. 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 4.8**.

Table 4.8: 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	0.97	1.01	96.04
2.	0039- State Excise	4.47	4.55	98.24
3.	0042- Taxes on Goods and Passengers	15.44	15.62	100.00
4.	0043-Taxes and Duties on Electricity	5.14	5.41	100.00
5.	0049- Interest Receipts	3.16	4.55	69.45
6.	0055- Police	1.19	1.30	91.54
7.	0070- Other Administrative Services	1.15	1.87	61.50
8.	0210- Medical and Public Health	0.41	0.51	80.39
9.	0401- Crop Husbandry	0.10	0.10	100.00
10.	0403- Animal Husbandry	0.32	0.35	91.43
11.	0405- Fisheries	0.04	0.04	100.00
12.	0406- Forestry and Wildlife	10.35	11.55	89.61
13.	0408-Food Storage and Warehousing	0.02	0.03	66.67
14.	0425- Co-operation	3.03	3.03	100.00
15.	0515- Other Rural Development Programmes	0.92	1.09	84.40
16.	0552- North Eastern Areas	0.05	0.05	100.00
17.	0575- Other Special Areas Programmes	0.06	0.06	100.00
18.	0801- Power	171.42	171.42	100.00
19.	0851- Village and Small Industries	0.09	0.14	64.29
20.	0853- Non-ferrous Mining and Metallurgical Industries	1.81	2.30	78.70
21.	1053- Civil Aviation	1.41	1.41	100.00
22.	1055- Road Transport	3.24	3.24	100.00
23.	1425- Other Scientific Research	0.02	0.02	100.00
24.	1452- Tourism	0.09	0.09	100.00
25.	1475- Other General Economic Services	0.22	0.24	91.67
Total		225.12	229.98	97.89

Source: Finance Accounts, 2020-21

It was observed that during 2020-21, there were 45 Major Heads under Receipts where Minor Head 800 was operated. Out of these 45 MHs, there were 24 MHs where other specific Minor Heads were already operated. The nature of receipt was found to be recurring in nature for the past three years in 38 MHs.

Similarly, it was noticed that there were 49 Major Heads under Expenditure where Minor Head 800 was operated. Out of these 49 MHs, there were 37 MHs where other

specific Minor Heads were already operated. The nature of receipt was found to be recurring in nature for the past three years in 47 MHs. Thus, MH 800 was still operated where there were specific Minor Heads already available.

In the Exit conference (December 2021), the Finance Department stated that steps would be taken up to find out the Departments where MH 800 are operated and corrective measures taken thereafter in consultation with the Principal Accountant General (A&E).

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.

4.7 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 accounting procedures of the State, by whatever name they are known.

The State Government, in exercise of the powers conferred under Section 62 and 40 of the Building and Other Construction Workers’ (Regulation of Employment and Conditions of Service) Act, 1996 has framed (June 2011) the Nagaland Building and Other Construction Workers’ (Regulation of Employment and Conditions of Service) Rules 2010. As per Rule 249, the State Government was to constitute the Nagaland Building and Other Construction Workers’ Welfare Board and accordingly the State had constituted the Board to provide social security to the section of workers engaged in building and other construction works by implementing different welfare schemes *viz.*, Grant for purchase of tools, Medical assistance, Children Education Allowance and Maternity benefit for the women beneficiaries.

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 (NBOCWVB) by Demand Draft/ Cheque. As such, the Board had been receiving the cess from 2011-12 onwards.

Examination of records revealed that the Departments booked the Labour cess under MH 8443-Civil Deposit-108-Public Works. Thus, during the year 2020-21, the Government collected the Labour Cess amounting to ₹31.39 crore and transferred the entire amount to the NBOCWVB.

As of end of 2020-21, a total of 30,725 workers were registered with the Board. Details of amount collected and actual expenditure incurred during the period from 2016-17 to 2020-21 are shown in **Table 4.9**.

Table 4.9: Statement of Cess Collection and Expenditure incurred (2016-17 to 2020-21)

(₹ in crore)

Year	Opening Balance	Receipt during the year	Available Fund	Expenditure	Balance at the end of the year
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
2020-21	47.08	31.39	78.47	18.24	60.23

Source: Information furnished by NBOCW Welfare Board.

As can be seen from the above table, out of the total available fund of ₹78.47 crore, the NBOCWWB expended ₹18.24 crore (23.24 per cent) leaving a balance of ₹60.23 crore.

Section 24(3) of the Building and Other Construction Workers (Regulation of Employment and Conditions of Service) Act, 1996 states that no Board shall, in any financial year, incur expenses towards salaries, allowances and other remuneration to its members, officers and other employees and for meeting the other administrative expenses exceeding five per cent of its total expenses during the financial year. Scrutiny of the details of expenditure of NBOCWWB for 2020-21 revealed that out of the total expenditure of ₹18.24 crore, an expenditure of ₹0.58 crore (3.18 per cent of the total expenditure) was incurred towards administrative expenses and remains within the prescribed limit under the Building and Other Construction Workers (Regulation of Employment and Conditions of Service) Act, 1996.

The remaining expenditure of ₹17.61 crore was incurred by the Board mainly on Educational Scholarship (₹14.58 crore) to 24,298 children of the beneficiaries i.e. building and other construction workers, Covid-19 Aid (₹2.03 crore) to 10,162 beneficiaries, and Tool Grant (₹0.42 crore) to 4,182 beneficiaries.

Further, Rule 280 of Nagaland Building and Other Construction Workers' (Regulation of Employment and Conditions of Service) Rules, 2010 stipulates that all moneys belonging to fund may be invested in the Nationalised Banks or Scheduled Banks or in the securities referred to in clauses (a) to (d) of Section 20 of the Indian Trust Act, 1882 (2 of 1882). As per the information furnished by the Board, an amount of ₹40.00 crore out of ₹60.23 crore was invested in SBI Mutual Fund as on 31 March 2021.

4.7.1 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, though, has stated to have prepared the accounts for the year 2020-21, the same could not be furnished. Moreover, the Board had not submitted the same for audit. Thus, it could be concluded that the Board had not prepared the accounts for 2020-21.

The Secretary, NBOCWVB replied (October 2021) that the accounts have never been laid in the State Legislature Assembly. However, the Board would initiate necessary procedures for submission from the current financial year.

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 2020-21 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.

4.8 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 4.10**.

Table 4.10: Balances under Suspense and Remittance Heads

Minor Head	2018-19		2019-20		2020-21	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Major Head 8658 - Suspense						
101 - PAO suspense	135.29	109.48	156.44	141.10	179.91	163.54
Net	Dr. 25.81		Dr. 15.34		Dr. 16.37	
102 - Suspense Account-Civil	18.94	1.69	18.94	1.69	18.94	1.69
Net	Dr. 17.25		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		Dr. 2.02		Cr. 2.02	
110 - Reserve Bank Suspense - CAO	50.94	10.01	50.63	10.01	50.66	10.04
Net	Cr. 40.93		Cr. 40.62		Dr. 40.62	
129 - Material Purchase Settlement Suspense Account	209.30	223.15	209.30	223.15	235.85	249.70
Net	Cr. 13.85		Cr. 13.85		Cr. 13.85	
Major Head 8782-Cash Remittances						
102 - P.W. Remittances	14634.53	14550.75	16253.73	16170.20	18169.50	18086.08
Net	Dr. 83.78		Dr. 83.53		Dr. 83.42	
103 - Forest Remittances	1884.24	1508.49	2084.33	1708.73	2227.12	1851.50
Net	Dr. 375.75		Dr. 375.60		Dr. 375.62	

Minor Head	2018-19		2019-20		2020-21	
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	0.70	0.00
Net	Cr. 0.70		Cr. 0.70		Dr. 0.70	

Source: Finance Accounts of respective years

As can be seen from the table above, there was significant increase 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.

4.9 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 4.11**.

Table 4.11: Status of Reconciliation of Receipts and Expenditure figures

(₹ in crore)

Year	No. of COs	Receipts	Expenditure	Remarks
2018-19	82	26,894.56	27,070.08	Fully Reconciled
2019-20		25,501.48	25,654.57	
2020-21		27,641.80	27,708.97	

Source: Finance Accounts of respective years

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.

4.10 Reconciliation of Cash Balances

There should be no difference between the Cash Balance of the State as per the books of Accounts of the Principal 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 2016-17 to 2020-21 is shown in **Table 4.12**.

Table 4.12: Difference in cash balances from 2016-17 to 2020-21

Year	Cash Balance		Adjustment by RBI	Difference in cash balance
	RBI figures	AG figures		
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)
2020-21	47.80 (Cr)	157.59 (Cr)	19.09 (Cr)	89.84 (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 ₹109.79 crore (Credit) between the Cash Balance of ₹157.59 crore as determined by the Principal Accountant General (A&E) and the figures of ₹47.80 crore reported by the Reserve Bank of India as on 31 March 2021. 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 ₹90.70 crore (Credit) due to adjustment of ₹19.09 crore (net debit) from previous year balance.

Issues related to disclosure

4.11 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 2020-21 are given in **Table 4.13**.

Table 4.13: Compliance to Accounting Standards

Sl. No.	Accounting Standards	Essence of IGAS	Compliance by State Government	Impact of deficiency
1.	IGAS-1: <i>Guarantees Given by the Government – Disclosure requirements</i>	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 material 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 Principal Accountant General (A&E).	Due to absence of information on interest received, the Revenue receipt may be understated.

4.12 Submission of Accounts/ Separate Audit Reports of Autonomous Bodies

Fourteen Autonomous Bodies¹² have been set up by the State Government, of which, only five ABs are required to submit their accounts and prepare Separate Audit Report (SAR) annually to be placed in the State Legislature as per their respective Acts. The audit of these ABs are taken up under Section 19 (3) of the Comptroller and Auditor General of India' DPC Act, 1971. However, the annual accounts of these ABs are not furnished to Principal Accountant General (Audit) on time. The status of submission of accounts and issuance of Separate Audit Report (SAR) and its placement in the Legislature is indicated in **Table 4.14**.

Table 4.14: Delay in Submission of Accounts and Tabling of Separate Audit Reports

Sl. No.	Name of Autonomous Body	Accounts submitted upto	SAR issued upto	Date of last placement
1.	The Nagaland Khadi and Village Industries Board (NKVIB)	2019-20	2019-20	18.08.2017 (SAR for 2011-12 to 2014-15)

¹² (1) The Nagaland Khadi and Village Industries Board (2) Nagaland State Electricity Regulatory Commission (3) Nagaland State Legal Services Authority, Kohima (4) Nagaland Pollution Control Board (5) Nagaland Building & Other Construction Workers' Board (6) Development Authority of Nagaland (7) Nagaland Board of School Education (8) Nagaland State Agriculture Marketing Board (9) Nagaland Bamboo Development Agency (10) Naga Hospital Authority (11) Nagaland State Social Welfare Advisory Board (12) Nagaland Livestock Development Board (13) State Institute of Rural Development (14) Nagaland Bee-keeping & Honey Mission. The first five are required to prepare SARs.

Sl. No.	Name of Autonomous Body	Accounts submitted upto	SAR issued upto	Date of last placement
2.	Nagaland State Electricity Regulatory Commission (NSERC)	2017-18	2017-18	Nil
3.	Nagaland State Legal Services Authority, Kohima (NSLSA)	2019-20	Not audited	NA
4.	Nagaland Pollution Control Board (NPCB)	-	-	NA
5.	Nagaland Building & Other Construction Workers' Welfare Board (NBOCWFB)	-	-	NA

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

The accounts of NKVIB for the years 2015-16 to 2019-20 was submitted (10.09.2021) together. Similarly, the accounts of NSERC since inception *i.e.* for the years 2009-10 to 2017-18 was also submitted (22.02.2021) together. The accounts of NSLSA was also due since inception (1999) but NSLSA submitted (24.09.2021) their accounts for the years from 2011-12 to 2019-20.

Although the Annual Accounts of these Bodies were due for submission to the Accountant General (Audit) every year, yet the Accounts of the remaining two ABs *i.e.* NPCB and NBOCWFB were not yet furnished by those authorities since their inception (1991 and 2011 respectively), due to which CAG could not conduct the audit and submit Separate Audit Report to the State Legislature.

Thus, the non-submission/ delay in submission of Annual Accounts dilutes accountability. 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.

4.13 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 Accounts, grants/ assistances 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 2019-20 and 2020-21 are shown in **Table 4.15**.

Table 4.15.: List of Recipient of grants/ assistance from the State Government during 2019-20 and 2020-21

Recipient	2019-20		2020-21	
	No of Recipients	Amount	No of Recipients	Amount
Urban Local Bodies	Not specified	1.62	Not specified	1.62
	Not specified	6.11	Not specified	0.00
Rural Local Bodies	--	0.00	Not specified	62.50
Public Sector Undertakings	07	24.22	07	26.54
Autonomous Bodies	06	58.04	06	60.12
Non-Government Organisations	02	2.95	03	3.30
Others*	29	67.20	42	40.77
Total		160.14		194.85

Source: Finance Accounts of respective years

* The Recipients who were not categorised under the above mentioned nomenclatures, kept under others

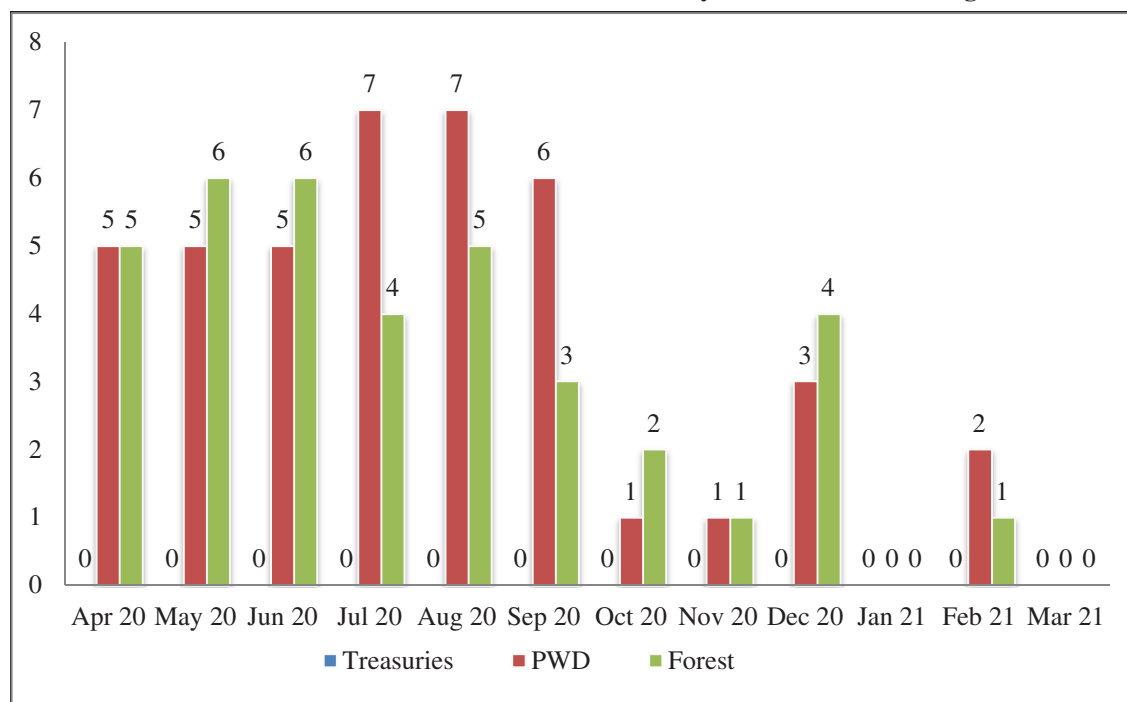
As can be seen from the **Table 4.15** above that an amount of ₹160.14 crore and ₹194.85 crore were given as grants/ assistance during the years 2019-20 and 2020-21 respectively by the State Government to various bodies and authorities. However, the name of the bodies and authorities to whom grants and/ or loans aggregating ₹10 lakh or more were paid during the years, indicating (a) the amount of assistance, (b) the purpose for which the assistance was sanctioned and (c) the total expenditure incurred by the body or authority, who receive the grants/ assistances during the years 2019-21 was not disclosed by the State Government.

4.14 Timeliness and Quality of Accounts

The accounts of the State Government are compiled by the Principal Accountant General (A&E) from the initial accounts rendered by district treasuries, sub-treasuries, Resident Commissioners, 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 Principal Accountant General (A&E).

In Nagaland, the Principal Accountant General (A&E) is required to compile the accounts of the State Government, from the initial accounts rendered by the 11 District Treasuries, 09 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 2020-21, 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 of works divisions are given below:

Chart 4.5: Number of accounts excluded from monthly Civil Accounts during 2020-21

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

As can be seen from the **Chart 4.5** above, during the year 2020-21, Public Works and Forests 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 2020-21, except for March 2021. 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 2021. However, no accounts have been excluded at the end of the year.

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 Principal 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/ Principal Accountant General.

There were 29 cases of misappropriation, losses *etc.*, involving Government money of ₹243.98 crore up to the period ending 31 March 2021 on which final action was pending. Out of these 29 cases, five cases involving ₹18.94 crore were reportedly pending in the court of law.

The Department-wise break up of pending cases and age wise analysis is given in **Appendix 4.3**. The Department-wise break up of pending cases and the reasons for delay in final disposal are summarised in **Table 4.16**.

Table 4.16: Pending cases of misappropriation, losses, theft, *etc.*

(₹ in crore)

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	No. of cases	Amount	No. of cases	Amount	No. of cases	Amount
1.	School Education	2	82.80	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	4	3.21	3	2.90	0	0.00	0	0.00
4.	Public Works Department (R&B and Mechanical)	5	42.32	5	42.32	0	0.00	0	0.00
5.	Health and Family Welfare	4	13.70	4	13.70	0	0.00	0	0.00
6.	Tourism	1	5.00	1	5.00	0	0.00	0	0.00
7.	Public Health Engineering	2	5.06	2	5.06	0	0.00	0	0.00
8.	Municipal Affairs	2	4.11	0	0.00	0	0.00	0	0.00
9.	Taxes	1	0.80	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
12.	Various Departments	5	40.03	4	38.31	0	0.00	0	0.00
Total		29	243.98	24	225.04	0	0.00	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 ₹160.47 crore, out of which an amount of ₹4.35 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 and that for the year 2019-20 was yet to be placed (as on November 2021) are shown in **Table 4.17**.

Table 4.17: Follow up status of State Finances Audit Reports for 2008-09 to 2019-20

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 (November 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	
2019-20	Yet to be laid	

Source: Information furnished by the Nagaland State Legislative Assembly Secretariat

4.17 Conclusion

During the year 2020-21, 78 grants involving ₹212.60 crore were provided to 21 Departments for which Utilisation Certificates (UCs) are due for submission during the year 2021-22. As on March 2021, there are 173 UCs worth ₹396.47 crore, which are due for submission for periods pertaining up to 2019-20. 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 373 Abstract Contingent (AC) Bills involving ₹562.30 crore pending for adjustment by submission of Detailed Countersigned Contingent (DCC) Bills, as of March 2021. Out of these, 23 AC bills amounting to ₹43.48 crore pertained to the year 2020-21. 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 ₹1,230.64 crore under 73 Revenue and Capital Major Heads, constituting about 9.67 *per cent* of total expenditure of ₹12,724.85 crore was booked under Minor head 800-Other Expenditure. Similarly, receipts of ₹264.74 crore under 29 Revenue Major Heads, constituting about 2.32 *per cent* of the total Revenue receipts of ₹11,427.43 crore was booked under Minor Heads 800-Other Receipts under concerned Major Heads. During 2020-21, there were 45 Major Heads (MHs) under Receipts where Minor Head 800 was operated. Out of these 45 MHs, there were 24 MHs where other specific Minor Heads were already operated. The nature of receipt was found to be recurring in nature for the past three years in 38 MHs. Similarly, 49 MHs under Expenditure where Minor Head 800 was operated. Out of these 49 MHs, there were 37 MHs where other specific Minor Heads were already operated. The nature of receipt was found to be recurring in nature for the past three years in 47 MHs. Thus, MH 800 was still operated where there was specific Minor Heads already available. 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 2020-21, a total of 30,725 workers were registered with the Nagaland Building and Other Construction Workers' Welfare Board (NBOCWFB). Out of the total available fund of ₹78.47 crore during the year, the NBOCWFB expended ₹18.24 crore. Out of total expenditure of ₹18.24 crore, administrative expenses were ₹0.58 crore, which was 3.18 *per cent* of the total expenditure and remains within the prescribed limit under the Building and Other Construction Workers (Regulation of Employment and Conditions of Service) Act, 1996. Remaining expenditure of ₹17.61 crore was incurred mainly on Educational Scholarship (₹14.58 crore) to 24,298 children of the beneficiaries *i.e.* building and other construction workers, Covid-19 Aid (₹2.03 crore) to 10,162 beneficiaries, and Tool Grant (₹0.42 crore) to 4,182 beneficiaries.

During the year 2020-21, Public Works and Forests 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.

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 Principal Accountant General (A&E) in the interest of financial discipline and better budget management.