

**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 are, thus, 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.

#### 4.1 Issues related to Completeness of Accounts

Completeness of Accounts means that the accounts have incorporated every item/transaction that should be included for a financial year. Thus, completeness ensures that there are no omissions of significance.

##### 4.1.1 Failure to remit levies to Consolidated Fund of the State

Article 266(1) of the Constitution of India, 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.

##### a. The Building and Other Construction Workers' Welfare Cess (BOCWW Cess)

The Building and Other Construction Workers' Welfare Cess Act, 1996 provides for levy and collection of labour welfare cess at a rate of minimum one *per cent* on the cost of construction. Also, the provision of Rule 5 of 'The Building and Other Construction Workers' Welfare Cess Rules' (1998), provides that the Cess collected is to be transferred to Building and Other Construction Workers Welfare Board (The Board) in the head of account of the Board along with the form of challan prescribed under the accounting procedures of the State. Audit observed that no rules have been framed by the State Government of Kerala for the accounting of BOCWW Cess. Neither a sub-head has been opened by the State Government under concerned revenue receipt Major Head (MH) for accounting of Cess

collected nor a functional revenue expenditure head opened for transfer of the Cess amount to Building and Other Construction Workers' Welfare Board by various Departments/ Agencies etc. The Cess amount collected is directly credited to Special Treasury Saving Bank (STSB) account of the Board/ Accounts in Nationalised Banks maintained by the Board instead of routing it through the Consolidated Fund of the State as required under Article 266(1) of the Constitution of India. The Cess amount received by the Board from 2017-18 to 2021-22 are shown in the **Table 4.1** given below.

**Table 4.1 : Year-wise receipt of Building and Other Construction Workers' Welfare Cess by the Board**

(₹ in crore)

Year	2017-18	2018-19	2019-20	2020-21	2021-22	Total
Building and Other Construction Workers' Welfare Cess received by the Board	192.45	248.95	232.81	247.97	285.30	1,207.48

Source: Information collected from Building and Other Construction Workers' Welfare Board

It was noticed that the Board had received an amount of ₹1,207.48 crore as cess amount from 2017-18 to 2021-22 which included ₹285.30 crore in 2021-22 alone, without being routed through the Consolidated Fund of the State.

**b. Contributions to District Mineral Foundation Trust**

District Mineral Foundation Trust (erstwhile Quarry Safety Fund<sup>31</sup>) was established in all districts under the aegis of District Collector as per Kerala District Mineral Foundation Rules, 2018 which is intended to work for the interest and benefit of the persons and areas affected by mining related operations in the districts. The contributions being made to the District Mineral Foundation Trust comprises of the following revenues of the State Government.

- Payment made by the lessees of major minerals at a rate of 30 *per cent* of Royalty.
- Payment made by the lessees and quarrying permit holders of minor minerals at a rate of 10 *per cent* of Royalty.

<sup>31</sup> Quarry Safety Fund was constituted by the District Collectors in all the districts as per the Kerala Minor Mineral Concession Rules, 2015 to meet necessary expenses for ensuring safety to the abandoned quarries. Quarry Safety Fund as per Kerala Minor Mineral Concession Rules, 2015 was substituted with District Mineral Foundation Trust established as per Kerala District Mineral Foundation Rules, 2018, which came into force w.e.f. 22/02/2018.

- Payment made by holder of minor mineral leases/ permits at a rate of 10 per cent of Royalty or consolidated Royalty.

The revenue realised by above means is being credited directly to a joint Special Treasury Savings Bank Account (STSB) managed by District Collectors and District Geologists of respective districts. The amount received by District Mineral Foundation Trust and the erstwhile Quarry Safety Fund from 2019-20 to 2021-22 is shown in the **Table 4.2** given below.

**Table 4.2 : Year-wise receipts to District Mineral Foundation Trust**

(₹ in crore)

Year	2019-20	2020-21	2021-22	Total
District Mineral Foundation Trust	9.37	10.83	10.00	30.20

Source: Information collected from Directorate of Mining and Geology.

It was noticed that the contributions amounting to ₹30.20 crore were made to District Mineral Foundation Trust from 2019-20 to 2021-22 which included an amount of ₹10.00 crore in 2021-22 alone.

The cases of non-remittance of Government revenue to the Consolidated Fund of the State detailed above violates Article 266(1) of the Constitution of India. Consequently, it is not ascertainable as to how much money was collected by the various authorities and how much money was actually transferred to the Board/ Trust, in the absence of a specific Head of account for routing it through the Consolidated Fund of the State. Such accounting inaccuracies and non-remittance into the Government account is fraught with the risk of temporary misappropriation, which should be reviewed by the Government.

This resulted in understatement of non-tax revenue and other fiscal parameters derived from it, during the concerned years.

#### **4.1.2 Failure to Deposit Funds in Public Account by Kerala State Electricity Regulatory Commission**

The Regulatory Authorities, are ‘State’ within the meaning of Article 12 of the Constitution. Money being received by them is 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.

However, Audit observed that funds of Kerala State Electricity Regulatory Commission are kept outside Government Account.

Kerala State Electricity Regulatory Commission stated that their fund has been constituted in line with Section 103 of the Electricity Act, 2003 and stated that as per Sub Rule (3) of Rule 3 of the Kerala State Electricity Regulatory Commission Fund Rules, 2013, the main account of the Fund shall be maintained in any nationalised bank and subsidiary accounts at such other branches of such banks, as the Commission considers appropriate and hence the main account and subsidiary accounts of the Commission are maintained at State Bank of India and in District Treasury, Thiruvananthapuram.

The reply is not tenable since public money received on behalf of the State Government is to be credited to Public Account of the State as per Article 266 (2) of the Constitution and not doing so involves a breach of the said Article of the Constitution.

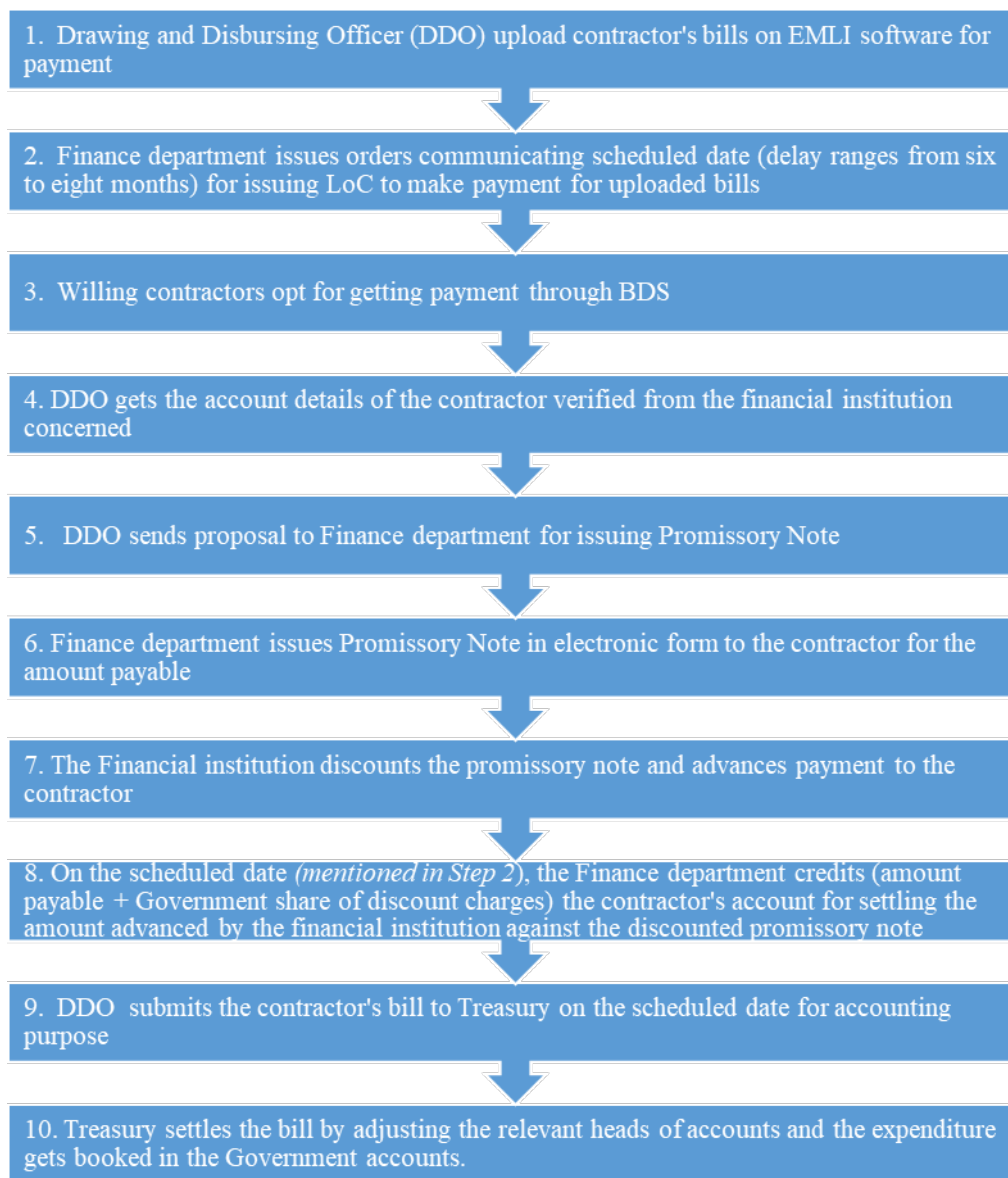
The total fixed deposit as on 31 March 2022 maintained in nationalised banks by KSEERC amounted to ₹42.04 crore which should have been credited to Public Account (under J-Reserve Funds not bearing interest) as is done in Central Electricity Regulatory Commission.

All the three issues detailed in paragraph 4.1.1 (a), (b) and 4.1.2 were pointed out in the State Finances Audit Reports for the year ended March 2020 and 2021. However, Government has not taken any action to bring these amounts into the Consolidated Fund/ Public Account of the State Government.

Non-remittance of revenue receipts leads to escape of scrutiny by the Legislature and is fraught with the risk of temporary misappropriation. Therefore, a system for remittance/ release of such money needs to be put in place by opening suitable heads of account under revenue receipts/ revenue expenditure for tracking the revenue arising and expenditure incurred out of these funds/ trusts.

#### **4.1.3 Bill Discounting System**

Bill discounting system (BDS) is another form of short term borrowing resorted by the State Government since 2014-15 as a measure to overcome the paucity of funds. As per BDS, State Government issues promissory notes to the Contractors who opts for BDS against their pending bills. The Contractor discounts the promissory note at financial institutions like banks. State Government bears half of the discount charges subject to a maximum of five *per cent* per annum. This is a very ingenious system of borrowing outside the Accounts.

**Chart 4.1 Process of Bill Discounting System**

Audit noticed that during 2021-22, Government of Kerala issued promissory notes amounting to ₹2,652.94 crore. The promissory notes settled during the year were ₹1,051.22 crore. The promissory notes pending settlement as on 31/03/2022 is ₹1,601.72 crore. This resulted in deferment of clear-cut liabilities to the next financial year.

In respect of bills claimed by Contractors/ Suppliers *etc.*, during the year 2021-22, there was a delay<sup>32</sup> of 2.5 months in issuing orders for communicating

<sup>32</sup> Time period between steps 1 and 2 in flowchart

the scheduled date in respect of uploaded bills<sup>33</sup> of Public Works Department (PWD), whereas there was no delay in respect of other departments/agencies. Settlement of bills through BDS entailed an additional liability for Government towards payment of discount charges. On an average, the discounting period<sup>34</sup> during which the Government was liable for paying a share of the discounting charges ranged from 5.26 months (PWD bills) to 5.57 months (other departments).

Since payments are deferred to a future date against which the State Government bear a certain amount of settlement charges in the form of discount charges, this discount charges further compounded the Government's stressed financial position, which amounted to ₹48.11 crore during 2021-22.

It is pertinent to mention here that during 2021-22, there was a net savings of ₹31,564.72 crore and in Grant No. XV-PWD, the savings was ₹1249.68 crore, which was 15 *per cent* of the total allocation under PWD. Deferring the liabilities of the Government towards payment to the Contractors, when there is ample savings, is unwarranted and also paying additional amount towards the bank charges is also avoidable. In such a scenario where there was large savings, issuance of promissory notes and resorting to further liabilities are avoidable and unnecessary.

#### 4.1.4 Non- discharge of liability in respect of interest towards interest bearing deposits

The Government has a liability to provide and pay interest on the amounts in the Interest-bearing Deposits (Major Heads of Accounts 8336 to 8342).

However, audit scrutiny has revealed that no provision has been made in the year 2021-22 in the Budget for the discharge of the interest liability on interest bearing deposits as shown in **Table 4.3**.

**Table 4.3 : Non-discharge of liability in respect of interest towards interest bearing Deposits**

(₹ in crore)

Sl. No.	Name of the Interest bearing deposit	Opening Balance as on 01/04/ 2021	Interest Rate (percentage)	Interest due	Interest paid	Interest short paid
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	National Pension scheme	0.17	7.1	0.01	Nil	0.01

<sup>33</sup> DDOs upload contractors bills on EMLI. EMLI is a software managed by Finance department for regulating contractor's state-wide seniority for issue of LoC.

<sup>34</sup> Time period between steps 2 and 8 in flowchart.



Sl. No.	Name of the Interest bearing deposit	Opening Balance as on 01/04/2021	Interest Rate (percentage)	Interest due	Interest paid	Interest short paid
2	State Compensatory Afforestation Deposit	70.70	3.35	2.37	Nil	2.37
3	State Disaster Response Fund	646.47	Repo rate + 2%	38.79	Nil	38.79
<b>Total</b>				<b>41.17</b>	<b>Nil</b>	<b>41.17</b>

Source: Finance Accounts

Non-payment/ short payment of the interest has resulted in understatement of Revenue and Fiscal Deficit by ₹41.17 crore.

## 4.2 Issues related to transparency

Transparency ensures that everything should be properly disclosed and easily understandable.

### 4.2.1 Delay in Submission of Utilisation Certificates

Article 208 of the Kerala Financial Code stipulates that the State may make such Grants-in-aid for public purposes or activities carried on by private institutions or local bodies as are in conformity with Article 282 of the Constitution of India. Financial rules<sup>35</sup> stipulate that the authority sanctioning grant-in-aid has to stipulate, in every order sanctioning the grant, a time limit not exceeding one year from the date of sanction for utilisation of the grant and a time limit of nine months for the submission of audited accounts. The utilisation certificate should be furnished within three months from the date of receipt of audited accounts. The Utilisation Certificates (UCs) for grants-in-aid exceeding ₹2,00,000 have to be forwarded to the Accountant General (Accounts and Entitlement), Kerala. It was observed that six utilisation certificates for ₹1.19 crore which were due in 2021-22 were not received until March 2022 by the AG (A&E). The details of pending Utilisation Certificates are summarised in **Table 4.4**.

<sup>35</sup> Article 210 of the Kerala Financial Code (Vol I).

**Table 4.4 : Details of Pending Utilisation Certificates***( ₹ in crore )*

Sl. No.	Grant sanctioning authority	Implementing agency	Particulars of grant		Amount
			Year of release of grant-in-aid	Year in which UC is due	
1	Department of Cultural Affairs	Jawahar Balabhavan, Thiruvananthapuram	2019-20	2021-22	0.19
2	Department of Cultural Affairs	Jawahar Balabhavan, Kollam	2019-20	2021-22	0.24
3	Department of Cultural Affairs	Directorate of Culture, Thiruvananthapuram	2019-20	2021-22	0.13
4	Department of Cultural Affairs	Directorate of Culture, Thiruvananthapuram	2019-20	2021-22	0.43
5	Department of Cultural Affairs	Kerala Book Marketing Society	2019-20	2021-22	0.10
6	General Administration Department	Kerala State Commission for Economically Backward Classes among Forward Communities	2019-20	2021-22	0.10
<b>Total</b>					<b>1.19</b>

Source: Details furnished by Accountant General (A&E)

The pendency of UCs was fraught with the risk of misappropriation of funds and fraud. Timely submission of UCs should not only be insisted upon but also ensured.

## 4.2.2 Personal Deposit Accounts

### 4.2.2.1 Operation of Personal Deposit Accounts

Personal Deposit (PD) Accounts are in the nature of special banking accounts kept for certain classes of Deposits, which include transactions of a public or quasi-public nature for which it is not necessary to treat each disbursement as made against a particular receipt.

PD accounts are maintained in the nature of a bank account in the treasury, instead of depositing in Public Accounts under the sector K-Deposit and Advances. As per Article 282 (d) of Kerala Financial Code Vol-I, Chapter X, in cases of PD accounts that are opened by orders of the State Government for specific purposes, where, funds are transferred from the Consolidated Fund by booking the expenditure under Service heads, the administrators of these PD accounts should close these PD accounts at the end of the financial year and credit the unspent balances back to the Consolidated Fund under the concerned

expenditure heads of accounts from where the amount was initially transferred, unless such PD accounts were created by Law or Rules having the force of Law.

Further, the PD accounts which have been opened by transfer of funds other than from the Consolidated Fund, should be reviewed every year and the accounts which are in-operative for more than three complete financial years should be closed and balance lying in such accounts should be credited to Government accounts.

#### 4.2.2.2 Non-Reconciliation of PD Accounts

PD accounts are maintained under ‘MH-8443-Civil Deposit-106-Personal Deposit’. During 2021-22, no amount was transferred from the Consolidated Fund of the State to the PD Accounts.

The aggregate balance in Personal Deposit Accounts under Major Head ‘8443-Civil Deposit-106-Personal Deposit’ as per Finance Accounts of the State for the year 2021-22 was ₹59.27 crore. However, as per the information furnished by the Director of Treasuries to the Accountant General (A&E), the balance in these accounts amounted to ₹155.76 crore.

The reconciliation of PD accounts with the Administrators of deposit accounts is to be conducted by the treasuries concerned. The variations in the records maintained in the Treasury Department and the PAG (A&E) are due to the lack of timely reconciliation. The administrator of PD Accounts has to furnish to the treasury a certificate of acceptance of closing balance at the close of each financial year after reconciling the difference, if any. The details of acceptance of balance by the administrators during the year have not been received from the Director of Treasuries. The proposal for online submission of details of plus and minus memos of deposit heads from all Treasuries on a monthly basis has not been materialised so far. Details of PD accounts as on 31 March 2022 are given below in **Table 4.5**.

**Table 4.5: Details of PD account**

( ₹ in crore )

Opening balance as on 01 April 2021		Addition during the year 2021-22		Closed/Withdrawal during the year 2021-22		Closing Balance as on 31 March 2022	
Number	Amount	Number	Amount	Number	Amount	Number	Amount
801	68.03 (160.78)	29	102.80 (64.75)	52	111.56 (69.77)	764	59.27 (155.76)

Source: Finance Accounts

Treasury figures are given in brackets

Non-reconciliation of balances in PD accounts is fraught with the risk of misuse of public funds, fraud and misappropriation.

### **4.2.3 Clubbing of unrelated expenditure in common heads**

#### **4.2.3.1 Lump sum Provision under Capital head**

A paragraph on above lump sum provision has been included in para 3.7.1.2 of Chapter III. The State Government is providing lump sum amount for implementation of various infrastructure development projects falling under several Grants under a single head of account '5475-00-115-99(P)- Major Infrastructure Development projects'.

#### **4.2.3.2 Indiscriminate operation of Minor Head 800 – Other receipts and other expenditure**

Minor Head 800 relating to Other Receipts and Other Expenditure is intended to be operated only when the appropriate Minor Head has not been provided in the accounts. Routine operation of Minor Head 800 is to be discouraged, since it renders the accounts opaque.

During 2021-22, expenditure aggregating to ₹9,413.23 crore, constituting 5.87 *per cent* of the total expenditure (₹1,60,371.24 crore), was classified under Minor Head 800-Other Expenditure in respect of 69 Major Heads involving both Revenue and Capital sections. The total Revenue and Capital expenditure during 2020-21 was ₹ 1,36,335.98 crore. Out of this, ₹6,571.81 crore under 71 Major Heads of account constituting 4.82 *per cent* of the total expenditure were classified under the Minor Head 800-Other expenditure. Compared to the previous year, expenditure under Minor Head-800 increased by 43.24 *per cent*.

During the current year there were 11 instances of substantial proportion (50 *per cent* and above) booked under Minor Head 800-Other Expenditure as shown in **Appendix 4.1**.

During 2021-22, receipts aggregating to ₹2,066.08 crore under 46 Major Heads of account constituting 1.77 *per cent* of the total revenue receipts (₹1,16,640.24 crore) were classified under the Minor Head 800-‘Other Receipts’ in the accounts. During the previous year ₹2,237.78 crore under 48 Major Heads of account constituting 2.29 *per cent* of the total revenue receipts (₹97,616.83 crore) were classified under 800 – ‘Other Receipts’ in the accounts. During the current year there were 19 instances of substantial proportion (50 *per cent* and above) of the receipt within a given Major Head booked under Minor Head 800- ‘Other Receipts’ as shown in **Appendix 4.2**.

It was observed that in respect of 12 Major Heads, expenditure of more than ₹100 crore was classified under the Minor Head 800 as shown in **Table 4.6**.

**Table 4.6 : Expenditure of more than ₹100 crore under the Minor Head 800**  
(₹ in crore)

Sl. No.	Major Head	Expenditure
1	2075 – Miscellaneous General Services	4,946.62
2	2210 – Medical and Public Health	1,003.07
3	5075 – Capital outlay on Other Transport Services	736.71
4	4515 – Capital outlay on Other Rural Development Programme	461.15
5	3054 – Roads and Bridges	237.57
6	4885 – Other Capital Outlay on Industries and Minerals	202.00
7	2217 – Urban Development	193.05
8	4215 – Capital outlay on Water Supply and Sanitation	177.76
9	4250 – Capital outlay on Other Social Services	127.39
10	3055 – Road Transport	117.99
11	2401 – Crop Husbandry	111.89
12	2014 – Administration of Justice	111.84

It was observed that in respect of five Major Heads, receipts aggregating more than ₹100 crore were classified under the Minor Head 800 as shown in **Table 4.7**.

**Table 4.7: Receipts of more than ₹100 crore under the Minor Head 800**

(₹ in crore)

Major Head	Minor Head 800-Receipts	Total Receipts
0006 - State Goods and Service Tax	510.25	24,169.81
0029 – Land Revenue	329.36	470.84
0075 – Miscellaneous General Services	299.00	7,847.56
0425 – Co-operation	233.21	249.54
0030 – Stamps and Registration Fees	127.03	4,857.30
<b>Total</b>	<b>1,498.85</b>	<b>37,595.08</b>

#### 4.2.3.3 Operation of Omnibus Object Head 34 – ‘Other Charges’

The object head, being the last tier of classification, exhibits the object/ nature of expenditure. As such, it is required to be prepared by exercising high degree of accuracy. As per paragraph 9(7) of Kerala Budget Manual (KBM), for the purpose of departmental control, it is necessary to analyse the expenditure on a scheme in terms of inputs such as ‘salaries’, ‘grant-in-aid’, ‘travel expenses’, ‘hire charges of motor vehicles’, *etc.* A list of 99 separate standard object heads suitable for adoption by all Governments and representing the common items of Government expenditure, is given in Appendix 3 of KBM.

As per para 29 of KBM, the detailed head “Other Charges” is a residuary head that will embrace all charges which cannot appropriately be brought to account under any other detailed head. On a scrutiny, audit noticed that as against a budget provision of ₹2,517.85 crore under object head ‘other charges’ in 40 grants, an expenditure of ₹2,264.14 crore (Statement No.4B of Finance Accounts for the year 2021-22) was incurred during 2021-22. Details of grants where significant amount was provided/ booked under object head ‘Other Charges’ are shown in **Table 4.8.**

**Table 4.8 : Details of grants where significant amount was booked under object head ‘Other Charges’**

(₹ in crore)

Sl. No.	Grant No.	Grant Name	Budget	Expenditure
1	29	Agriculture	460.23 (18.28)	507.54 (22.41)
2	18	Medical and Public Health	448.34 (17.81)	437.28 (19.31)
3	04	Elections	230.36 (9.15)	267.61 (11.82)
4	25	Welfare of Scheduled Castes, Scheduled Tribes, Other Backward Classes and Minorities	250.41 (9.95)	239.62 (10.58)

Source: Finance Accounts 2021-22 and VLC data

Figures in brackets represent percentages to total provision/ total expenditure under object head ‘Other Charges’

Routine and indiscriminate operation of Object head 34-Other charges renders the accounts opaque.

#### 4.2.4 Outstanding balance 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 receipt 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. If these amounts remain uncleared, the balance under the suspense heads would accumulate and would not reflect Government’s receipt and expenditure accurately.

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.

The net balances under Suspense and Remittance Head can be obtained from Finance Accounts. 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/ Public Works and Forest Divisions, *etc.* The details of outstanding balances under a few major suspense and remittance heads from 2019-20 to 2021-22 are given in **Table 4.9**.

**Table 4.9 : Balances under Suspense and Remittance Heads**

( ₹ in crore)

Minor Head	2019-20		2020-21		2021-22	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
<b>Major Head 8658 - Suspense</b>						
101 - PAO suspense	333.57	(-)8.72	359.03	0.48	392.72	0.82
Net	<b>342.29</b>		<b>358.55</b>		<b>391.90</b>	
102 - Suspense Account-Civil	378.64	12.60	704.46	13.11	951.21	14.78
Net	<b>(-)366.04</b>		<b>(-)691.35</b>		<b>936.43</b>	
107 - Cash Settlement Suspense Account	20.03		0			
Net	<b>20.03</b>		<b>0</b>		<b>0</b>	
109 – Reserve Bank Suspense – Headquarters	3.60	0.44	4.57		2.69	
Net	<b>3.16</b>		<b>4.57</b>		<b>2.69</b>	

Minor Head	2019-20		2020-21		2021-22	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
<b>Major Head 8658 - Suspense</b>						
110 - Reserve Bank Suspense - CAO	69.12		4.48		7.84	
Net	<b>69.12</b>		<b>4.48</b>		<b>7.84</b>	
112 - Tax Deducted at Source (TDS) Suspense		75.93		5.59		1099.52
Net	<b>75.93</b>		<b>5.59</b>		<b>1099.52</b>	
123 - A.I.S Officers' Group Insurance Scheme		0.15		15.99		18.64
Net	<b>0.15</b>		<b>15.99</b>		<b>18.64</b>	
<b>Major Head 8782-Cash Remittances</b>						
102 - P.W. Remittances	701.24	1.31	732.54	92.26	1015.06	
Net	<b>699.93</b>		<b>640.28</b>		<b>1015.06</b>	
103 - Forest Remittances	41.84		1.68		-	-
Net	<b>41.84</b>		<b>1.68</b>			-

Source: Finance Accounts of respective years

Accumulations under 101-‘PAO Suspense’ and 102-‘Suspense Account – Civil’ showed an increasing trend from the year 2019-20 to 2021-22. As the balances under these heads are to be cleared, these accumulations affect the accuracy of the Government Accounts.

#### 4.2.4.1 PAO Suspense

This Minor head is intended for the initial record of Inter – Governmental transactions arising in the books of a Central PAO, separate Accounts Officer of a Union territory and Accountants General where the other party involved is a PAO. Separate sub-heads are opened under this Minor head for each accounts officer with whom transactions are to be settled. Outstanding debit balances under this head indicates payment which have been made by the PAO on behalf of others and are yet to be received and credit balances represent amount yet to be paid. As on 31 March 2022, the outstanding receivable amount was ₹392.72 crore and most of this amount relates to amounts receivable since 1980-81. The major amounts outstanding against PAOs are given in **Table 4.10**. Non-realisation of outstanding receivables results in blocking up and idling of public funds which could have been fruitfully utilised. Holding huge amounts in suspense accounts defeats the purpose of suspense accounts which are intended to temporarily hold uncategory transactions. If these amounts remain uncleared, the balance under the Suspense Heads would go on accumulating and reflect a distorted picture of Government Accounts.



**Table 4.10 : Amounts outstanding against PAO**

Sl. No.	Ministry/ Department with which pending	Amount (₹ in crore)	Earliest year in which pending
1	PAO, Central Pension Accounting Office, New Delhi	237.56	1990-91
2	PAO, National Highways	154.43	1980-81

#### 4.2.4.2 Non-reconciliation of Departmental figures

To enable Controlling Officers of the Departments to exercise effective control over spending to keep it within the budget grants and to ensure accuracy of their accounts, Paragraph 74 of the Kerala Budget Manual stipulates 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).

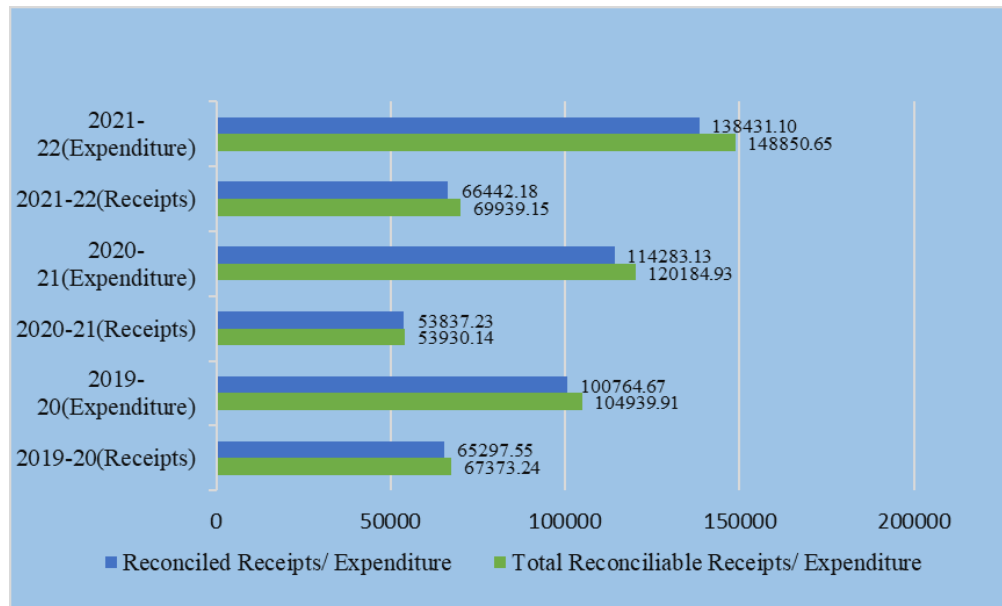
Status of reconciliation done by the Controlling Officers (COs) for three years is given in **Table 4.11**.

**Table 4.11: Status of Reconciliation of Receipts and Expenditure figures by Controlling Officers**

Year	Total No. of Controlling Officers	Fully Reconciled	Partially Reconciled	Not reconciled at all
<b>Receipts</b>				
2019-20	65	65	0	Nil
2020-21	66	60	3	3
2021-22	66	64	0	2
<b>Expenditure</b>				
2019-20	207	161	30	16
2020-21	208	179	15	14
2021-22	212	204	3	5

The status of reconciliation during the last three years are shown in **Chart 4.2** below.

**Chart 4.2 Status of reconciliation during the last three years**



During 2021-22, 4.6 per cent of receipts and 6.2 per cent of disbursement figures booked by the Accountant General(A&E) were not reconciled by the departmental authorities. The percentage of non-reconciliation of expenditure showed an increasing trend from 2.5 per cent in 2019-20 to 6.2 per cent in 2021-22.

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.

#### **4.2.4.3 Reconciliation of Cash Balances**

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

However, a scrutiny of Finance Accounts for the year 2021-22 has revealed that the cash balance of the State of Kerala for the year ending March 2022 as per the books of Accountant General (A&E) was ₹330.31 crore (Credit) whereas the Cash balance reported by Reserve Bank of India was ₹1.79 crore (Credit). Thus, there was a difference of ₹332.10 crore (Debit) as on 31 March 2022. Out of the difference, an amount of ₹192.24 crore (net debit) has been cleared in 2021-22. The balance difference of ₹139.87 crore (net debit) is under reconciliation.

## Issues related to Disclosure

Disclosure in the accounts means that the recorded transactions have been properly classified and disclosed wherever appropriate. This implies that the Receipts and Expenditures are booked to the proper account head and the disclosures in the notes and footnotes in the accounts are appropriate and adequate.

## 4.3 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). Compliance to these Accounting Standards by Government of Kerala in 2021-22 and deficiencies therein are detailed in **Table 4.12**.

**Table 4.12 Compliance to Accounting Standards**

Sl. No.	Essence of IGAS	Compliance by State Government	Impact of deficiency
	<b>IGAS-1 : Guarantees given by the Government – Disclosure requirements</b>		
1	IGAS-1 requires that sector-wise and class-wise disclosures on guarantees given by State Government should be incorporated in Finance Accounts	Complied (Statement 9 & 20 of Finance Accounts)	The Statements 9 & 20 are prepared in accordance with the provisions of IGAS-1 based on the information provided by the State Government.
	<b>IGAS-2 : Accounting and Classification of Grants-in- Aid</b>		
2	As per IGAS-2, expenditure relating to Grants-in-aid should be classified as revenue expenditure even if it involves creation of assets, except in cases specifically authorized by the President on the advice of the Comptroller and Auditor General of India.	Not Complied (Statement 10 of Finance Accounts).	Accounting and classification of Grants-in-aid given by the State Government have been depicted in Statement 10 and Appendix III which are prepared as per the requirements of IGAS-2.  However, an amount of ₹20 crore towards Grants-in-aid was booked under Capital Head, which is in violation of the provisions of IGAS-2. Detailed information in respect of Grants-in-aid given in kind has also not been furnished by the State Government.

Sl. No.	Essence of IGAS	Compliance by State Government	Impact of deficiency
3	IGAS-3: <i>Loans and Advances made by Government</i>		
	This standard prescribes the norms for Recognition, Measurement, Valuation and Reporting in respect of Loans and Advances made by the Government in the Financial Statements to ensure complete, accurate and uniform accounting practices. The financial statement shall include disclosures such as details of fresh loans and advances made during the year, information on loans in which terms and conditions have not been settled, repayment in arrears from loanee entities etc.	Not complied (Statement No. 7 & 18 of Finance Accounts).	The details of loans and advances reported in Statement No.7 & 18 of the Finance Accounts are based on information received through the accounts rendered to the Principal Accountant General (Accounts & Entitlement) and detailed accounts maintained by the Principal Accountant General (Accounts & Entitlement) in respect of loans and advances made to Government servants. The closing balances depicted in Statements 7 & 18 as on 31 March 2022 have not been reconciled with the Loanee Entities/State Government. The State Government has also not furnished the figures in respect of certain loans and advances for which they maintain detailed accounts (Extent of compliance not included).

#### 4.3.1 Submission of Accounts / Separate Audit Reports of Autonomous Bodies

As per Section 19(2) of the CAG's DPC Act, the duties and powers of Comptroller and Auditor General in relation to the audit of accounts of Corporations established by or under' law made by Parliament shall be performed and exercised by him in accordance with the provisions of the respective legislations. As per Section 19(3) of the CAG's DPC Act, the Governor/ Administrator may, in the public interest, request the CAG to audit the accounts of a Corporation established by law made by the Legislature of the State or of the Union Territory, as the case may be, and where such request has been made, the CAG shall audit the accounts of such Corporation and shall have, for the purposes of such audit, right of access to the books and accounts of such Corporation.

Apart from Section 19, where the audit of the accounts of any body or authority has not been entrusted to the CAG by or under any law, he shall, if requested so to do by the President, or the Governor of a State or the Administrator of a Union Territory having a Legislative Assembly, as the case may be, undertake the audit of the accounts of such body or authority on such terms and conditions as may be agreed upon between him and the concerned Government and shall have, for the purposes of such audit, right of access to the books and accounts of that body or authority under Section 20(1) of CAG's DPC Act.

On completion of financial audit, audit certificate is issued in case of above stated Autonomous Bodies and Authorities provided CAG is the sole auditor. Apart from audit certificate, the audit office also issues Separate Audit Report (SAR) that is part of the audit certificate on the accounts. These SARs are to be placed before the State Legislature.

The audit of accounts of 29 Autonomous Bodies in the State was entrusted to the Comptroller and Auditor General of India under Sections 19(2), 19(3) and 20 (1) of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. The status of entrustment of audit, rendering of accounts to audit, issuance of Separate Audit Reports (SAR) and their placement in the Legislature are indicated in **Appendix 4.3**.

The Autonomous bodies coming under the audit purview as per Section 19 or 20 of CAG's DPC Act are required to submit annual accounts to audit before 30 June every year. In respect of 23 Autonomous bodies which were to render Annual Accounts to C&AG, there were arrears in submission of accounts ranging from one to eight years as shown in **Appendix 4.4**.

The State Government should issue specific directions to all the Administrative departments to instruct the autonomous bodies under them to clear the arrears in accounts and to fix responsibility on the heads of autonomous bodies which defaulted in clearing the accounts.

### **4.3.2 Departmental Commercial Undertakings**

The departmental undertakings of certain Government Departments performing activities of commercial and quasi-commercial nature are required to prepare proforma accounts in the prescribed format annually, showing the working results of financial operations, so that the Government can assess their working. The finalised accounts of departmentally managed commercial and quasi-commercial undertakings reflect their overall financial health and efficiency in conducting their business.

In the absence of timely finalisation of accounts, the results of the investment of the Government remain outside the purview of State Legislatures and escape the scrutiny by Audit. Consequently, corrective measures, if any, required for ensuring accountability and improving efficiency cannot be taken in time. Besides, the delay renders the system vulnerable to the risk of fraud and leakage of public money.

The Heads of Departments in the Government are to ensure that the departmental undertakings prepare such accounts and submit the same to the Accountant General (Audit) within a specified time frame.

The department-wise position of arrears in preparation of *pro forma* accounts and investments made by the Government in respect of four such undertakings, are given in **Table 4.13**.

**Table 4.13: Statement of finalisation of *pro forma* accounts and Government investment in Departmentally managed commercial and quasi-commercial undertakings**

(₹ in crore)

Sl. No.	Name of the undertaking	Accounts finalized up to	Government investment as per the last accounts finalized	Profit/loss as per the last accounts	Government investment for the last four years (2018-19 to 2021-22)		Remarks
					18-19	19-20	
1	State Water Transport Department	2016-17	498.19	(-)50.15	18-19	70.61	The Audit of accounts from 2017-18 to 2020-21 is going on
					19-20	66.24	
					20-21	71.28	
					21-22	88.82	
2	Kerala State Insurance Department	2014-15	Nil	355.04	Accounts not received		Receipt of revised accounts for 2015-16 awaited
3	Text Book Office	1986-87	21.26	(-) 5.61	Nil		pro forma Accounts due from 1987-88
4	Rubber Plantations at Open Prison & Correctional Home, Nettukalthey	2020-21	Reply awaited	0.15	Reply awaited		Receipt of revised accounts awaited

Accounts of Text Book Office were in arrears from 1987-88. The State Government decided (December 2008) to dispense with the preparation of *pro forma* accounts for the period from 1975-76 to 1986-87 in respect of State Text Book Office. Decision on preparation of *pro forma* accounts for the period from 1987-88 to 2003-04 was pending with the Government. In the absence of up-to-date accounts, the current financial status of the Text Book Office could not be ascertained.

#### 4.3.3 Non-Submission of details of grants/ loans given to Bodies and Authorities

Sections 14 and 15 of the Comptroller and Auditor General's (CAG) (Duties, Powers and Conditions of Service) Act, 1971 (DPC Act) envisages audit of

receipt and expenditure of institutions receiving Government grants, subject to conditions stipulated based on the quantum of the grants received. In order to identify the Institutions/ Organisations which attract audit under Sections 14 and 15 of CAG's DPC Act, the Government/ 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 provides that Governments and Heads of departments 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 ₹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.

Four<sup>36</sup> out of ten departments, having autonomous bodies under their control, had not furnished the details of grants-in-aid given to various bodies and authorities during the preceding year 2020-21. In the absence of the information from these four departments, reasonable assurance could not be provided to the Legislature/ Government about the manner in which the grants sanctioned/ released by them had been utilised. This dilutes the legislative control over the Government expenditure system.

#### **4.3.4 Misappropriations, Losses, Thefts *etc.***

Article 297 of the Kerala Financial Code provides that cases of defalcation or loss of public money, stamps, stores or other property should be reported to the Accountant General (Audit I)/ Accountant General (Audit II), Kerala as well as to the Heads of Departments.

The final action on 92<sup>37</sup> cases of misappropriation, defalcation, etc., involving Government money amounting to ₹19.36 crore was pending with the State Government.

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<sup>36</sup> Finance, Water Resources, Power and Cultural Departments

<sup>37</sup> This includes cases detected by Audit during local audit as well as cases reported by Government departments as per codal provisions.

**Table 4.14 : Profile of misappropriations, losses, defalcations, etc.**

A. Age-profile of the pending cases			B. Nature of the pending cases		
Range in years	Number of cases	Amount involved (₹ in lakh)	Nature / characteristics of the cases	Number of cases	Amount involved (₹ in lakh)
Less than 5 years	20	765.24	Theft	7	15.82
5 – 10	9	236.40			
10 – 15	12	664.29	Misappropriation / loss of material	85	1920.15
15 – 20	11	104.58			
20 – 25	16	81.32			
25 and above	24	84.14			
<b>Total</b>	<b>92</b>	<b>1935.97</b>	<b>Total pending cases</b>	<b>92</b>	<b>1935.97</b>

Source: Cases reported by departments of the State Government

The reasons for delay in finalisation of outstanding cases were analysed by Audit and are summarised in **Table 4.15**. Department-wise details are shown in **Appendix 4.5**.

**Table 4.15: Reasons for outstanding cases of misappropriations, losses, defalcations, etc.**

Sl. No.	Reasons for the delay/ outstanding pending cases	Number of cases	Amount (₹ in lakh)
1.	Awaiting departmental and criminal investigation	12	41.87
2.	Departmental action initiated but not finalised	50	1,527.39
3.	Awaiting orders for recovery or write off	18	18.83
4.	Pending in the courts of law	12	347.88
<b>Total</b>		<b>92</b>	<b>1,935.97</b>

Source: Information received from Departments of the State Government.

Timely action needs to be taken to settle the misappropriation cases in order to bring defaulters to book and to have a deterrent effect on others.

#### 4.4 Follow up Action on State Finances Audit Report

In Kerala State the Public Accounts Committee (PAC)/ Finance Department requires the line Departments to provide a suo motu Explanatory Note (EN) on the paragraphs featuring in the Audit Reports within two months of placing the Reports in the Legislature. The line Departments are also required to provide Action Taken Notes (ATNs) to the AG (for vetting and onward transmission to the PAC) within two months of tabling the Reports.



At the instance of the PAC, the Finance Department issues instructions to all the Departments to initiate suo motu action on all paragraphs and reviews featuring in the Audit Reports irrespective of whether the cases had been taken up for examination by PAC or not.

The receipt of ATNs from the line departments in respect of the State Finances Audit Report from the year 2016-17 to 2019-20 are pending. The details are shown in **Table 4.16**.

**Table 4.16: Number of Audit Paras for which ATN due from Government**

Sl. No.	Year of Audit Report	Total Number of ATNs
1	2016-17	1
2	2017-18	7
3	2018-19	13
4	2019-20	28
<b>Total</b>		<b>49</b>

Only one sitting of PAC was conducted during 2021-22 to discuss the paras in the SFAR and discussion of all paras in Chapter I and II in the SFAR up to the year 2015-16 only had been completed.

## 4.5 Conclusions

There was persistent trend of cess/royalty not being credited to Consolidated Fund of the State. There were cases of regulators maintaining 'Fund' outside Public Account of the State (Funds of the Kerala State Electricity Regulatory Commission). Non-remittance of such revenues is fraught with the risk of temporary misappropriation. Promissory Notes were issued to contractors of PWD even though there was huge savings in the Grant resulting into additional fiscal liabilities to the Government. Six utilisation certificates for ₹1.18 crore were not received by the AG(A&E). Non reconciliation with respect to PD Accounts is fraught with the risk of misuse of public funds. Autonomous bodies (23 numbers) were to render annual accounts to C&AG. The arrears in submission of accounts ranged from one to eight years. There were delays in initiating departmental action, fixing liability, issuing orders of recovery, etc, in respect of cases of misappropriation/loss of public money.

## 4.6 Recommendations

- The Government may bring all the funds lying outside the Consolidated Fund/ Public Accounts in breach of constitutional provisions, within the fold of Consolidated Fund/ Public Accounts.***

2. *The Government should review the issuance of promissory notes and take appropriate measures to make payments to contractors from the savings of the Grants itself thereby avoiding further fiscal liabilities.*
3. *The Finance Department should ensure that the administrative departments releasing grants collect UCs as per the time limits stipulated in the grant orders and to not release further grants to defaulting grantees. It is also recommended that Government shall fix responsibility on the defaulting officials. Further, the Government may consider adopting a module similar to Expenditure Advance Transfer (EAT) available in Public Financial Management System (PFMS) to address the problem of pending UCs.*
4. *Finance Department may consider evolving a system to expedite the process of compilation and submission of annual accounts by Autonomous Bodies and departmentally run undertakings in order to assess their financial position.*
5. *The Government may consider preparing a time bound framework for taking prompt action in cases of misappropriation, loss, theft, etc. and strengthening the internal control system to prevent recurrence of such cases.*