CHAPTER III

Financial Reporting Practices

Chapter III: Financial Reporting Practices

This chapter provides broad based perspective on the quality of the State Government Accounts rendered by various authorities of the State Government and status of compliance with prescribed financial rules, procedures and directives.

Compliance with financial rules, procedures and directives as well as the completeness, timeliness and quality of reporting on the status of such compliance enhances relevance and reliability of the information presented in the financial reports.

Issues related to completeness of accounts

3.1 Off-budget borrowings through State owned PSUs/Authorities

Article 293(3) of the Constitution of India mandates consent of Government of India for a State Government's borrowing if it has any outstanding loans or guarantees from the Government of India. Further, the 15th Finance Commission recommended that the normal net borrowing ceiling (NBC) to the State Governments for 2023-24 to 2025-26 may be fixed at three *per cent* of GSDP.

Bypassing the above stipulated net borrowing ceiling by routing loans outside budget through various State Government Public Sector Undertakings (PSUs)/Corporations/ other Bodies despite the State being responsible for repayment of such loans pose significant risk to fiscal health and transparency in the Government finances. Borrowing Ceilings for a financial year of the State Governments are being now reduced by GoI to extent of Off-Budget Borrowings.

The Nagaland Fiscal Responsibility and Budget Management (FRBM) Act, 2005 outlined that the State Government shall take suitable measures to ensure greater transparency in its fiscal operations in the public interest by disclosing the actual liabilities arising out of Off-Budget Borrowings by PSUs, Special Purpose Vehicles and other equivalent instruments where liability for repayment is on the State Government allocations. Further, FRBM Act provided that the 'Medium Term Fiscal Policy (MTFP) Statement' laid before the Legislature along with Budget documents shall contain the three-year rolling targets with respect to Revenue Deficit, Fiscal Deficit and total outstanding debt[8] of the State Government.

The State Government did not have any off-budget liabilities disclosed in their annual budget. The Ministry of Finance, Government of India website also did not depict any off-budget liabilities for the State.

[8] It means the liabilities under the Consolidated Fund of the State and the Public Account of the State and shall also include borrowings by the public sector undertakings and the special purpose vehicles and other equivalent instruments including guarantees where the principal and or interest are to be service out of the State budgets (Section 2 of Nagaland FRBM, Act, 2005).

3.2 Undischarged liabilities of the Government

Undischarged liabilities, such as non-transfer of collected cess to designated bodies or short remittances to the National Pension System (NPS), *etc*., can have significant long-term fiscal and governance implications. These unpaid obligations accumulate over time, creating hidden liabilities that distort the true financial position of the State. Further, delays in cess transfer hinder the intended development or welfare outcomes, defeating the purpose for which such levies were imposed. Similarly, short transfers to NPS not only violate statutory commitments but also compromise the financial security of employees. Over the years, such practices can erode trust, trigger legal liabilities and increase future expenditure obligations, thereby, constraining fiscal space and weakening fiscal sustainability. Such cases are discussed in succeeding paragraphs.

3.2.1 Undischarged Interest liability

The Government has a liability to provide and pay interest in the amounts in the Interest-bearing Deposits/Reserve Funds.

Audit observed that ₹5.66 crore was required to be paid as interest on the balance of ₹91.99 crore lying under Interest-bearing Deposits/Reserve Funds as on 01 April 2024. However, out of ₹5.66 crore, ₹2.90 crore was paid resulting in short payment of ₹2.76 crore as shown in **Table 3.1.** Non-payment of interest liability has resulted in overstatement of Revenue Surplus/understatement of Revenue Deficit and Fiscal Deficit to that extent.

Table 3.1: Details of interest liability not discharged in respect of Interest- bearing Deposits/Reserve Funds

(₹ in crore)

Sl. No.	Name/Head of the Interest-bearing deposit	Opening Balance as on 01 April 2024	Basis of calculation of interest	Interest due	Interest paid	Amount of interest not provisioned
1	Defined Contribution Pension Scheme for Government employees (Refer to ***Paragraph 3.2.2***)	91.99	Interest calculated at the rate of 7.10 *per cent* notified by Government/ payable to General Provident Fund	5.66	2.90	2.76

Source: Finance Accounts, 2024-25

The State Government shall ensure correct and timely provisioning of interest on all Interest-bearing Deposits/Reserve Funds, including pension and other statutory funds. Strengthening oversight and reconciliation mechanisms will help ensure faithful presentation of State finances and prevent accumulation of undisclosed liabilities in future.

3.2.2 Short contribution in National Pension System

The State Government implemented the Defined Contribution Pension Scheme (DCPS) under the National Pension System (NPS) for employees appointed on or after 01 January 2010, with a 10 *per cent* employee and 14 *per cent* employer contribution from April 2019.

In 2024-25, ₹183.12 crore (employee share) and ₹291.79 crore (employer share) were booked, but against a Public Account balance of ₹575.37 crore[9], only ₹502.62 crore was transferred to NSDL/Trustee Bank, leaving ₹72.75 crore un-transferred as on 31 March 2025. Thus, un-transferred amounts, with accrued interest payment, represent outstanding liabilities under the Scheme.

As on 01 April 2024, the balance under the head 8342-117 Defined Contribution Pension Scheme for Government Employees was ₹91.99 crore. The interest to be paid for 2024-25 by the State Government works out to ₹5.66 crore[10]. However, the State Government paid only ₹2.90 crore resulting in short payment of the interest of ₹2.76 crore. This resulted in overstatement of Revenue Surplus and understatement of Fiscal Deficit to that extent.

Between 2010–25, total receipts under DCPS were ₹2,422.91 crore, while only ₹2,350.16 crore was transferred to the pension fund, resulting in a cumulative short transfer of ₹72.75 crore. The details of the receipts from employees' share, Government's contribution, interest accrued thereon and investment in pension funds are given in ***Appendix 3.1***. Additionally, due to delays in contributions and fund transfers, the State Government incurred avoidable interest of ₹41.19 crore (up to 2024-25), adversely affecting employee returns, heightening fiscal risk through creation of deferred pension liabilities, and diminishing returns to employees. The State needs to ensure timely transfer of contributions, undertake regular reconciliation of employee records, and adhere strictly to statutory timelines to prevent future accumulation of liabilities and ensure transparent pension management.

During Exit Conference (17 February 2026), the Principal Director, Treasuries and Accounts, GoN stated that as of now, the option of employee's share of contribution towards NPS was already inbuilt in e-pay bill software which has minimised the delays in receiving records on NPS deductions from DDOs. However, no comment was offered on un-transferred liabilities under the Scheme.

3.2.3 Non-transfer of Building and Other Construction Workers Welfare Cess

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)

9 It includes penal interest of ₹2.90 crore and service charge of ₹5.57 crore.

10 Interest is calculated at the rate of 7.10 *per cent*, applicable to the General Provident Fund, on the progressive balance, arrived at by adding the net monthly subscriptions and payments to the opening balance as on April 2024 (₹91.99 crore).

Rules 2010. As per Rule 249, the State Government has 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) 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, the Finance Department instructed (February 2012) the DDOs to ensure that deduction of the cess as prescribed is made against all civil construction works involving employment of labour and to deposit the same into the account of the Nagaland Building and Other Construction Workers' Welfare Board (NBOCWWB) by Demand Draft/Cheque. As such, the Board had been receiving the cess from 2011-12 onwards.

As per Rule 5 of "The Building and Other Construction Workers' Welfare Cess Rules, 1998", 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. Rule 5, further, stipulates that the amount collected shall be transferred to the Board within thirty days of its collection.

As on 01 April 2024, the opening balance of the labour cess under the Major Head 8443-Civil Deposit-108-Public Works Deposit was ₹5.73 crore. During FY 2024-25, the Government of Nagaland collected ₹11.39 crore and transferred ₹12.78 crore to the Building and Other Construction Workers Welfare Board with an outstanding balance of ₹4.33 crore to be transferred. As per the Nagaland Building and Other Construction Workers' Welfare Board, during 2024-25, ₹47.79 crore was received. As such, an amount of ₹35.01 crore was directly transferred to the Board by the Departments without routing through the Divisional Accounts.

3.2.4 National Mineral Exploration Trust Fund

The National Mineral Exploration Trust (NMET) was established in August 2015 under Section 9C of the Mines and Minerals (Development and Regulation) Act, 1957. As per Section 9C (4) of this Act, holders of a mining lease or a mineral concession are required to contribute two *per cent* of the royalty paid to the trust. As per the NMET Rules, the State Government is responsible for collecting these contributions, depositing them in the Public Account under Major Head '8449–123–NMET Deposits', and transferring the funds monthly to the Consolidated Fund of India.

As the Mineral policy reforms in the State was under process (November 2025), the State Government has neither collected contribution nor transferred the same to

'8449–123–NMET Deposits' as such the head was yet to be operated under the Public Account. Thus, there was no deposit under this head, and no amount was transferred to the NMET by the State Government.

3.2.5 State Mineral Exploration Trust/State Mineral Development Fund

The Ministry of Mines, Government of India, vide its letter dated 19 November 2024, advised all State Governments to establish a State Mineral Exploration Trust (SMET)/ State Mineral Development Fund (SMDF) on the lines of the National Mineral Exploration Trust (NMET), as mandated under clause (g) of sub-section (A) of Section 15 of the Mines and Minerals (Development and Regulation) Act, 1957.

However, the Government of Nagaland has yet to establish the SMET under the Public Account/Bank Account for financing exploration activities related to minor minerals as the Mineral Policy reforms was being pursued and were under process. As such, during the financial year 2024-25, the State Government was not required to transfer any amount to the State Mineral Exploration Trust.

3.2.6 Non transfer of Nagaland Road Safety Fund

The Transport Department, Government of Nagaland notified (17 August 2022) the establishment of the Nagaland Road Safety Fund in pursuance to Section 11 of the Nagaland Road Safety Authority Act, 2013 (First Amendment Act, 2018). As per Section 10 of the Act, there shall be a levy and collection of a one-time cess on every motor vehicle used or kept for use in the State at the rate of 0.50 *per cent* of the basic cost of the vehicle. The proceeds of the cess levied and collected under this Act by the Government together with fines, interest and fees recovered thereunder shall first be credited to the Consolidated Fund of the State through the Head of Account "0041-Taxes on Vehicles" and after deducting the expenses of collection and recovery, as determined by the Government, the remaining amount shall under appropriation duly made by law in this behalf, be entered into and transferred to the Nagaland Road Safety Fund. Further, the Government shall contribute to the Fund every year an amount equal to 50 *per cent* of the compounding fee collection in the previous year.

During 2024-25, an amount of ₹21.53 crore was collected as Road Safety cess. However, out of the ₹21.64 crore (including compounding fee of 50 *per cent* of ₹0.22 crore compounding fee collected during 2023-24) to be transferred to the Nagaland Road Safety Fund during the year, an amount of ₹5.00 crore was transferred resulting in short transfer of ₹16.64 crore. This resulted in overstatement of the Revenue Surplus and understatement of fiscal deficit during the year to this extent. Further, the non-transfer of the collected cess to the dedicated fund has adversely impacted the State's capacity to sustain road safety initiatives and to effectively address road safety concerns.

3.2.7 State Compensatory Afforestation Fund

In compliance with the instructions issued (April 2009)[11] by the Ministry of Environment and Forests, GoI and Guidelines of 02 July 2009, the State Governments are required to establish the State Compensatory Afforestation Fund for amounts received from user agencies and utilisation of monies collected for undertaking compensatory afforestation, assisted natural regeneration, conservation and protection of forests, infrastructure development, wildlife conservation and protection and other related activities and for matters connected therewith or incidental thereto.

The monies received by the State Governments from the user agencies need to be credited in 'State Compensatory Afforestation Deposits' under the interest-bearing section in the Public Account of the State at Minor Head level below the Major Head 8336-Civil Deposits. As per Section 3 (4) of the Compensatory Afforestation Fund Act, 2016, 90 *per cent* of the fund needs to be transferred to the Major Head 8121-General and Other Reserve Funds in the Public Account of the State and balance 10 *per cent* to be credited into the National Fund on yearly basis provided that, the credit of 10 *per cent* Central share of funds should be ensured on monthly basis so that the same is transferred to the National Fund.

The applicable rate of interest on balances available under 'State Compensatory Afforestation Deposits' under '8336-Civil Deposits' and 'State Compensatory Afforestation Fund' under '8121-General and Other Reserve Funds' will be as per the rate declared by the Central Government on year-to-year basis.

During the year 2024-25, the State Government did not receive any amount from the user agencies or from the Ministry of Environment, Forest and Climate Change (GoI) under National Afforestation Programme. However, during the year 2023-24, the State Government received ₹2.57 crore from the Ministry of Environment, Forest and Climate Change (GoI) under National Afforestation Programme. However, the State Government neither operated the MH 8336-Civil Deposits-103 State Compensatory Afforestation Deposits nor followed the guidelines for the establishment of the State Compensatory Afforestation Fund.

3.2.8 Central Road and Infrastructure Fund (CRIF)

The erstwhile Central Road Fund (CRF) has been renamed as the Central Road and Infrastructure Fund (CRIF) vide GoI's Gazette notification dated 31 March 2018. The CRIF will be used for development and maintenance of National Highways, Railway projects, improvement of safety in Railways, State and Rural roads and other infrastructure.

In terms of the extant accounting procedure, the grants received by the State from the Centre are to be initially booked as Revenue Receipts under Major Head 1601. Thereafter, the amount so received is to be transferred by the State Government to the

---

[11] Vide letter No. 5-1/2009-FC dated 28 April 2009

Public Account under Major Head 8449-103-Subvention from Central Road and Infrastructure Fund through functional Major Head(s).

During 2024-25, the State Government received grants of ₹32.09 crore towards CRIF. The State Government transferred ₹46.30 crore, including short-transferred amount of ₹14.21 crore pertaining to 2023-24, to the Fund in the Public Accounts as on 31 March 2025.

3.2.9 Pendency of refund cases

Promptness in disposal of refund cases is an important indicator of performance of the Department concerned.

The details of refund cases during the year 2024-25, as reported by the departments concerned, are shown at **Table 3.2**.

Table 3.2: Details of refund cases

(₹ in crore)

Sl. No.	Particulars	GST		Sales Tax/NVAT/State Excise/Taxes on Vehicles	
		No. of cases	Amount	No. of cases	Amount
1	Claims outstanding at the beginning of the year	12	3.10	0	-
2	Claims received during the year	41	5.62	0	-
3	Claims withdrawn during the year	1	0.02		
4	Refunds made during the year	30	5.27	0	-
5	Refunds rejected during the year	5	2.73	0	-
6	Balance outstanding at the end of year	17	0.70	0	-

Source: Departmental information

As can be seen from the above table, while a substantial proportion of the refund claims in terms of amount was disposed of during the year, the presence of pending cases at the year-end indicates scope for further improvement in expeditious settlement of refunds. No refund claims were reported under Sales Tax/NVAT/State Excise/Taxes on Vehicles during the year.

3.3 Funds outside Government Accounts

3.3.1 Maintenance of Nagaland Electricity Regulatory Commission fund in Bank Accounts instead of Public Account

Article 266(2) of the Constitution of India 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'. The Nagaland Electricity Regulatory Commission (NERC) was constituted under the Electricity Act, 2003. Section 103 of the Act stipulates creation of a fund called the 'State Electricity Regulatory Commission Fund' wherein receipts of the Commission are to be credited and expenses therefrom are to be made. Accordingly, the Nagaland Electricity Regulatory Commission Fund Rules, 2008, was enacted which permits the NERC to open a bank account with the State Bank of India for accommodating such receipts and making expenses therefrom.

In keeping with the rule *ibid*, funds were kept in a bank account and as of March 2025, ₹0.67 crore remained in the bank account instead of the Public Account of the State. Resultantly, not only did the Constitutional mandate stand violated, but the Public Account balance was also understated by ₹0.67 crore, which could have helped to finance the Fiscal Deficit. In this context, it may be mentioned that funds of Central Electricity Regulatory Commission are kept in Public Account of the Government of India.

3.4 Delay in submission of Utilisation Certificates (UCs)

The General Financial Rules provide that every order sanctioning a grant would specify its objective clearly and the time limit within which the grant is to be spent. Rule 238 (1) of the General Financial Rules, 2017 stipulates that Utilisation Certificates in respect of Grants-in-Aid received by the grantee should be furnished by the grantee to the authority that sanctioned it, within 12 months/one year from the date of receipt of grant or before applying for a further grant on the same object, whichever is earlier.

During the year 2024-25, 250 UCs amounting to ₹356.25 crore became due for clearance as on 31 March 2024. In addition to that, 81 UCs amounting to ₹103.00 crore were outstanding at the beginning of the year. During the year, outstanding 121 UCs amounting to ₹94.00 crore were cleared, leaving outstanding 210 UCs of ₹365.25 crore as on 31 March 2025 as given in **Table 3.3**.

Table 3.3: Age-wise pendency of Utilisation Certificates

(₹ in crore)

UC due year*	Number of pending UCs	Amount
Prior to 2019-20	38	121.72
2019-20	14	17.05
2020-21	13	21.64
2021-22	5	7.13
2022-23	37	39.82
2023-24	38	73.30
2024-25 (sanctioned upto March 2024)	65	84.59
Total	**210**	**365.25**

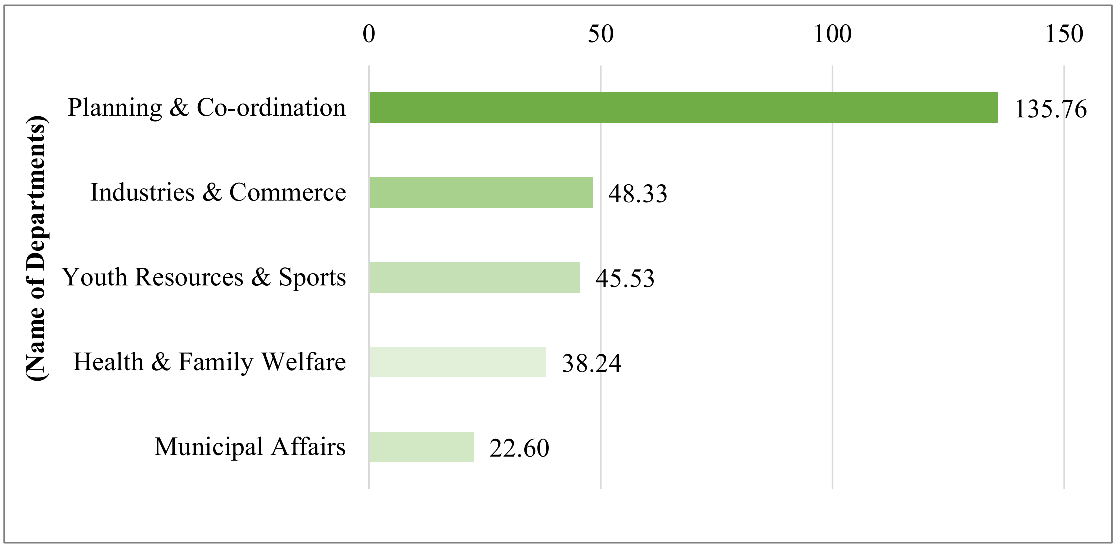
Source: Finance Accounts, 2024-25 and Information from office of the Accountant General (A&E), Nagaland

(Note: Difference of ₹0.01 crore with the figure appeared in Appendix 3.2 due to rounding off)

Department-wise pendency of UCs is detailed in ***Appendix 3.2***. **Chart 3.1** presents outstanding UCs in respect of five major Departments as on 31 March 2025.

Chart 3.1: Outstanding UCs in respect of five major Departments as on 31 March 2025

(₹ in crore)



Source: Finance Accounts, 2024-25 and office of the Accountant General (A&E), Nagaland

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

Review of records of Youth Resources & Sports Department with a high incidence of pending Utilisation Certificates (UCs) (24 UCs of ₹45.53 crore outstanding as on 31 March 2025) revealed the following:

- Grants-in-Aid were given to various sports bodies, youth organisations, Bharat Scouts & Guides *etc*.
- Among the pending UCs, the oldest pending UC (amounting to ₹1.00 crore) was due from 2011-12.
- A large number of UCs pertaining to past releases remained pending for extended periods, however, the Department continued to sanction and release fresh grants to several defaulting grantees without ensuring submission of UCs for earlier releases.
- Reminder was sent in the case of only one outstanding UC amounting to ₹2.50 crore.
- UC for a partial amount of ₹3.80 crore out of ₹4.55 crore was submitted.

The Department did not have any structured mechanism in place for regular review or follow-up with grantees. The conditions attached to grant sanctions, including timelines for submission of UCs, were not effectively enforced.

During Exit Conference (17 February 2026), the Finance Commissioner, GoN assured to initiate more proactive steps to minimise the outstanding UCs. However, the details of the steps to be taken up were not highlighted.

3.5 Abstract Contingent bills

When money is required in advance or when they are not able to calculate the exact amount required, Drawing and Disbursing Officers (DDOs) are permitted to draw money without supporting documents, through Abstract Contingent (AC) bills, by debiting service heads and the expenditure is reflected as an expense under the service head.

Rule 290 of the Central Treasury Rules envisages that no money should be drawn from Government Treasury unless it is required for immediate disbursement. In emergent circumstances, the DDOs are authorised to draw sums of money through AC Bills. In terms of Rule 312 of the Central Treasury Rules, the bills duly signed by the controlling officer shall be sent to the Accountant General direct within a month from the date of receipt of such bills in his office.

The details of AC bills, pending adjustment, as on 31 March 2025 is given in **Table 3.4**.

Table 3.4: Age-wise pending adjustment of AC bills

(₹ in crore)

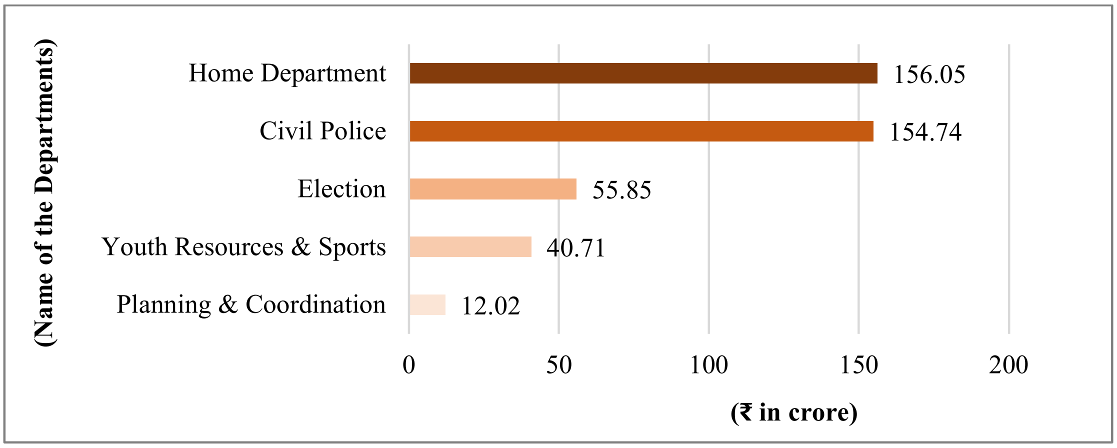
Due Year	Number of pending ACs	Amount
Prior to 2019-20	126	189.09
2019-20	25	14.89
2020-21	6	1.03
2021-22	8	4.95
2022-23	31	23.53
2023-24	47	59.81
2024-25	64	154.87
Total	**307**	**448.17**

Source: Finance Accounts 2024-25 and office of the Accountant General (A&E), Nagaland

It was observed, during 2024-25, that 111 AC bills amounting to ₹186.96 crore were drawn, out of which 26 AC bills amounting to ₹13.56 crore (23.42 *per cent*) were drawn in March 2025, however, no AC bills, out of these 26 AC bills, were adjusted up to 31 March 2025.

Age-wise and Department-wise pendency of AC bills is detailed in ***Appendix 3.3.*** **Chart 3.2** presents outstanding DC Bills in respect of five major Departments as on 31 March 2025.

Chart 3.2: Pending DC Bills in respect of five major Departments



Source: Information furnished by AG (A&E), Nagaland

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 DC bills. Further, to the extent of non-receipt of DC bills, the expenditure shown in the Finance Accounts cannot be asserted as correct or final.

The State Government may ensure strict adherence to extant Rules by mandating timely submission of DC bills. The Finance Department may conduct quarterly reviews of pending AC bills and restrict further drawals until earlier advances are adjusted. The Departments with high pendency may be subjected to focused scrutiny with suitable accountability measures for delays in adjustment.

During Exit Conference (17 February 2026), the Finance Commissioner, GoN assured to initiate more proactive steps to minimise the outstanding DC Bills. However, the details of the steps to be taken up were not highlighted.

3.6 Personal Deposit Accounts

Under the List of Major and Minor Heads of Accounts of Union and States, Personal Deposits are of the nature of deposits not bearing interest opened under 8443- Civil Deposits -106-Personal Deposits.

As per information received from the Government of Nagaland, there was no Personal Deposit Account during 2024-25.

3.7 Operation of Minor Head-800

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. Regular operation of Minor Head-800 is to be discouraged, since it renders the accounts opaque. 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.

During the year 2024-25, ₹195.79 crore under five Major Heads of account, constituting 1.03 *per cent* of the total Revenue and Capital expenditure

(₹18,858.12 crore) was classified under the Minor Head-800-Other Expenditure in the accounts.

The quantum of expenditure booked under Minor Head 800-Other Expenditure has decreased as compared with 3.04 *per cent* (of the Total Expenditure) during 2023-24.

Similarly, during 2024-25, ₹799.00 crore under 39 Major Heads of Account, constituting 4.97 *per cent* of the total Revenue Receipts (₹16,086.53 crore) was classified under 800-Other Receipts in the accounts. The quantum of expenditure booked under Minor Head 800-Other Receipts has increased as compared with 3.29 *per cent* (of the Total Expenditure) during 2023-24.

3.8 Booking of expenditure under omnibus object head – other charges

In the standard six tiers of classification, Object head with two digits, against which the provision for expenditure appears, constitutes a Primary Unit of Appropriation. The object head classification helps in itemising control of expenditure and indicates the object and nature of expenditure on a scheme or activity or organisation in terms of inputs such as "Salaries", "Office Expenses" *etc*. Object head – 26 – Other Charges is intended to be operated only when the object head has not been provided in the accounts. Regular operation of Object Head-26 - Other Charges is to be discouraged, since it renders the accounts opaque. Classification of large amounts under the head affects transparency in financial reporting and distorts proper analysis of allocative priorities and quality of expenditure.

During the year 2024-25, ₹2,313.58 crore under 58 Major Heads of account (Revenue – ₹1,902.58 crore and Capital – ₹411.00 crore), constituting 12.27 *per cent* of the total Revenue and Capital expenditure (₹18,858.12 crore) was classified under the Object Head-26-Other Charges in the accounts.

Audit scrutiny of 98 vouchers (₹178.57 crore) was done to check the nature of expenditure and to assess the availability of suitable object heads so as to avoid booking expenditure under Object Head '26 – Other Charges'. The examination revealed that:

- The expenditure booked under *Other Charges* related to diverse activities such as implementation of CSSs, procurement of IT items, VIP security, payment of honorarium, and transformative livelihood interventions, among others.
- Expenditure amounting to ₹8.81crore (12 vouchers) was booked under Object Head '*26 – Other Charges*' despite the availability of other specific object heads as per the Demand for Grants/Supplementary Grants.
- In respect of the remaining ₹169.76 crore (86 vouchers), no other object head under the respective heads was available in the Demand for Grants/Supplementary Grants.
- Expenditure of ₹157.14 crore (59 vouchers) pertained to CSSs.

Thus, it could be concluded that there were instances of incorrect classification of expenditure amounting to ₹8.81 crore under '*Other Charges*' where specific object heads were available. The State Government should ensure proper scrutiny of object heads at the time of booking expenditure. Expenditure should be classified under the most appropriate heads as provided in the Demand for Grants/Supplementary Grants to enhance accuracy in financial reporting and avoid overuse of the omnibus head '*26 – Other Charges*'.

During Exit/Entry Conference of the State Budget 2025-26 and Annual Accounts 2024-25 (21 August 2025), the State Government stated that around 90 *per cent* of the expenditure made under the Object head – *Other Charges* are of CSSs as the components under the schemes are variant and heterogeneous in nature. However, the State Government assured to study the practices in other States of North East for suitable adoption.

Issues related to measurement

3.9 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. Significant suspense items balances for the last three years are shown in **Table 3.5**.

Table 3.5: Balances under Suspense and Remittance Heads

(₹ in crore)

Head of Account	2022-23		2023-24		2024-25	
Major Head 8658 - Suspense	**Dr.**	**Cr.**	**Dr.**	**Cr.**	**Dr.**	**Cr.**
101 - PAO suspense	207.77	201.86	208.10	232.64	240.53	232.64
Net Debit (Dr.)/Credit (Cr.)	**Dr. 5.91**		**Cr. 24.54**		**Dr. 7.89**	
102 - Suspense Account-Civil	18.95	1.70	18.95	1.70	12.80	0.10
Net Debit (Dr.)/Credit (Cr.)	**Dr. 17.25**		**Dr. 17.25**		**Dr. 12.70**	
107 - Cash Settlement Suspense Account	34.87	0.00	34.87	0.00	34.87	0.00
Net Debit (Dr.)/Credit (Cr.)	**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 Debit (Dr.)/Credit (Cr.)	**Cr. 2.02**		**Cr. 2.02**		**Cr. 2.02**	
110 - Reserve Bank Suspense - CAO	50.66	10.04	50.66	10.04	84.75	63.21
Net Debit (Dr.)/Credit (Cr.)	**Dr. 40.62**		**Dr. 40.62**		**Dr. 21.54**	
129 – Material Purchase Settlement Suspense Account	235.85	249.70	235.85	249.70	235.85	249.70
Net Debit (Dr.)/Credit (Cr.)	**Cr. 13.85**		**Cr. 13.85**		**Cr. 13.85**	
Major Head 8782-Cash Remittances						
102 - P.W. Remittances	22,541.04	22,477.09	25,159.50	25,393.35	27,983.19	28,249.98
Net Debit (Dr.)/Credit (Cr.)	**Dr. 63.95**		**Dr. 233.85**		**Dr. 266.79**	
103 - Forest Remittances	2,791.87	2,272.37	4,425.42	2,629.49	3,745.30	2,968.61
Net Debit (Dr.)/Credit (Cr.)	**Dr. 519.50**		**Dr. 795.93**		**Dr. 776.69**	
105 – R.B.I Remittances	6.26	0.00	6.26	0.00	6.26	0.00
Net Debit (Dr.)/Credit (Cr.)	**Dr. 6.26**		**Dr. 6.26**		**Dr. 6.26**	
112 – Nagaland and Manipur Remittances	0.70	0.00	0.70	0.00	0.70	0.00
Net Debit (Dr.)/Credit (Cr.)	**Dr. 0.70**		**Dr. 0.70**		**Dr. 0.70**	

Source: Finance Accounts of respective years

Audit analysis of the balances under Major Head 8658 – Suspense and 8782 – Cash Remittances over the three-year period 2022-23 to 2024-25 revealed persistent and in some cases growing adverse balances as detailed below:

- The swing between debit and credit balances under PAO Suspense (MH 8658-101) suggests persistent delays in settlement of inter-PAO transactions and inadequate follow-up with drawing/disbursing officers.
- Although there is a marginal improvement in debit balance under Suspense Account- Civil (MH 8658-102), persistence of debit balance reflects non-adjustment of departmental remittances, pointing to weak internal control and delayed departmental reconciliation.
- Remaining of unchanged debit balance under Cash Settlement Suspense (MH 8658-107) indicates long-pending unsettled inter-governmental transactions, and these balances should ordinarily be cleared regularly.
- Despite some reduction in debit balance under Reserve Bank Suspense -CAO (MH 8658-110), the existence of a large debit balance suggests timing differences or non-receipt of scrolls from RBI, and delays in booking expenditure/receipts at the treasury.
- Prolonged credit position under Material Purchase Settlement Suspense (MH 8658-129) indicates non-adjustment of advances issued for procurement.
- The steep rise in adverse balances under Remittance Heads (MH 8782) shows significant delays in clearing departmental remittances, reflecting weak reconciliation between Public Works divisions and treasury accounts.

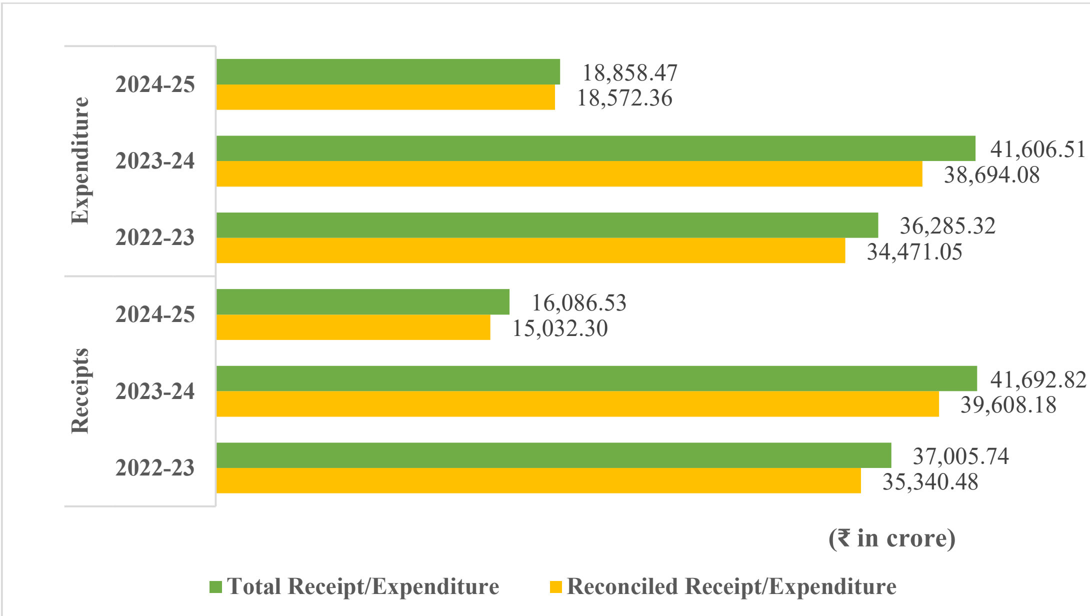
Non-clearance of outstanding balances under these heads affects the accuracy of receipt/expenditure figures and balances under different heads of Accounts (which are carried forward from year to year) of the State Government.

3.10 Reconciliation of Departmental figures

To exercise effective budgetary control over revenue/expenditure and to ensure accuracy in accounts, State Financial Rules stipulate that Chief Controlling Officers (CCOs)/Controlling Officers (COs) are required to reconcile every month, the receipts and expenditure recorded in their books with the figures of the Accountant General (A&E).

The status of reconciliation of figures by the Controlling Officers is given in **Chart 3.3.**

Chart 3.3: Status of Reconciliation of Receipts and Expenditure during 2022-25



Source: Information maintained by Accountant General (A&E), Nagaland

Necessary action for reconciliation in respect of all receipts and expenditure is required to be taken.

3.11 Reconciliation of Cash Balances

As per accounts of the Accountant General (A&E), Nagaland, the Cash Balance of the State Government as on 31 March 2025 was ₹595.63 crore (Debit) while the same was reported as ₹3.98 crore (Debit) by the Reserve Bank of India. As such, there was an unreconciled difference of ₹599.61 crore (Debit), which was under reconciliation between the Accountant General (A&E), Nagaland and the State Government.

The difference was mainly due to incorrect reporting by Agency Banks of RBI and misclassification by Banks/Treasuries. In Nagaland, Government transactions through e-Kuber system (of the RBI) integrated with the State Integrated Financial Management System (IFMS) for payments in the State were started *w.e.f.,* 01 April 2025. Thus, this integration does not have any impact on the differences of cash balances at the end of 2024-25.

3.12 Unspent amount lying with divisional officers

As per Codal provisions, funds received by Public Works Divisions towards Deposit Works from non-government agencies are required to be credited under Minor Head '108 - Public Works Deposits' below Major Head '8443 - Financial Reporting Practices 80 Civil Deposits'. The expenditure for related Deposit Works is also met from the same head of account. In the Monthly Divisional Accounts, unremitted amount of such deposits are classified under Major Head '8671 - Departmental Balances, 101 - Civil', by the PW Divisions, under Public Account of the State and then form part of the Government Accounts. However, the funds received towards Deposits Works are being kept in the bank accounts of Divisional Officers operated by PW Divisions instead of remitting them into the Government Accounts and thus, are not forming part of cash balance of the State with Reserve Bank of India.

As on 31 March 2025, an amount of ₹1,026.74 crore was lying in the bank accounts of 91 Public Works Divisional Officers as per their bank statements. Had the funds been deposited in the treasury, the same would have impacted on the daily Cash Balance of the State Government.

Department-wise details of the amounts lying in bank accounts being operated by Divisional Officers is detailed in **Table 3.6**.

Table 3.6: Details showing unspent amount lying with Divisional Officers

Sl. No.	Name of Department	Number of Divisional Officers operating Bank Accounts*	Amount lying in Bank Accounts (₹ in crore)
1	Public Works Department (Roads & Bridges)	24	619.24
2	Public Works Department (Housing)	22	348.27
3	Power Department (Electrical Store Division, Power Transmission Division Electrical)	21	56.37
4	Public Health Engineering Department	14	1.85
5	Public Works Department (National Highways)	6	0.98
6	Public Works Department (Mechanical Engineering)	4	0.03
Total		**91**	**1,026.74**

Source: Information furnished by Departments/Divisions

**Bank statements not furnished by PWD (R&B) (two divisions). PHED (3 divisions), PWD(Housing) (four divisions), PWD (Mechanical Engineering) (3 divisions) and Department of Power (Electrical Store Division, Power Transmission Division) (5 divisions)*

Retention of such sizeable funds outside the treasury results in non-reflection of these amounts in the State's cash balance with the RBI, leading to understatement of Government balances, weakened cash and budget management, and dilution of legislative control and financial oversight. The Government should ensure immediate transfer of all funds lying in divisional bank accounts to the treasury under the appropriate deposit/receipt heads.

Issues related to disclosure

3.13 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 (CAG), prescribe the form of accounts of the Union and of the States. On the advice of the CAG, the President of India has so far notified four Indian Government Accounting Standards (IGAS). Compliance with these Accounting Standards by the State Government as well as deficiencies therein during 2024-25 is detailed in **Table 3.7**.

Table 3.7: Compliance with Accounting Standards

Accounting Standards	Essence of IGAS	Compliance by State Government	Deficiency
IGAS-1	*Guarantees given by the Government – Disclosure requirements*	Partially complied. The Government disclosed the maximum number of Guarantees given during the year along with additions, deletions, invoked, discharged and outstanding at the end of the year.	Information concerning class or sector of Guarantees on other material details was not furnished by the State Government.
IGAS-2	*Accounting and Classification of Grants-in- Aid*	Complied.	
IGAS-3	*Loans and Advances made by Government*	Complied. (Statement 7 and 18 of Finance Accounts)	
IGAS-4	*Prior period adjustments*	No prior period adjustment done as yet. (Statement 13 of Finance Accounts)	

Source: Finance Accounts

Non-compliance with the full disclosure requirements of IGAS-1 affects the accuracy and transparency of the State's financial reporting and hampers inter-State comparability of fiscal risks. The State Government needs to strengthen internal accounting practices by ensuring complete and accurate data submission to the Accountant General (A&E), enhancing coordination between finance and line departments, and providing structured training to accounting personnel on IGAS requirements.

3.14 Submission of accounts of Autonomous Bodies

As on 31 November 2025, 42 accounts in respect of seven Autonomous Bodies (ABs) were pending as detailed in **Table 3.8.**

Table 3.8: Arrears of accounts of Autonomous Bodies

Sl. No.	Name of Autonomous Body	Accounts pending since	No. of accounts pending up to FY 2024-25
1	Nagaland Khadi and Village Industries Board	2024-25	01
2	Nagaland State Electricity Regulatory Commission	2024-25	01
3	Nagaland State Legal Services Authority	2021-22	04
4	Nagaland Building & Other Construction Workers' Welfare Board (NBOCWWB)	2011-12	14
5	State Commission for Protection of Child Rights (SCPCR)	2013-14	12
6	State Bio-diversity Board (SBB)	-	0
7	State Human Rights Commission (SHRC)	2015-16	10

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

The Accounts of NBOCWWB, SCPCR, and SHRC have not been submitted since their inception. The delay in finalising the accounts pose a risk of financial irregularities going undetected. The accounts should, therefore, be finalised and submitted to Audit at the earliest.

Further, delay in submission/non-submission of Annual Accounts dilutes accountability and is indicative of the shortcomings in the management at the level of the concerned Bodies/Authorities and in monitoring at Government's level, which is a matter of concern.

The State Government may consider evolving a system to expedite the process of compilation and submission of annual accounts by autonomous bodies.

During Exit Conference (17 February 2026), the Finance Commissioner, GoN assured to intervene so that the accounts are submitted without delays.

Other Issues

3.15 Misappropriations, losses, thefts, *etc.*

Rule 37 of the General Financial Rules, 2017 stipulates that every Government employee would be held personally responsible for any loss sustained by Government through fraud or negligence on his part or any loss arising from fraud or negligence on the part of any other Government employee to the extent that he contributed to the loss by his own action or negligence.

As on 31 March 2025, 30 cases of misappropriation, losses, theft, *etc*., involving ₹1,214.37 crore were pending. The department-wise break-up of pending cases is given in **Table 3.9.**

Table 3.9: Details of pending cases of misappropriation, losses, theft, *etc*.

(₹ in crore)

Name of the Department	Cases of Misappropriation/ Defalcation/ Losses/ theft		Reasons for the delay in final disposal of pending cases of misappropriation, losses, theft, *etc*.,					
			Awaiting departmental and criminal investigation		Departmental action initiated by 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
School Education	3	83.31	2	70.51	-	-	-	-
Health and Family Welfare	2	13.14	1	3.01	-	-	-	-
Planning and Transformation	1	20.23	1	20.23	-	-	-	-
Nagaland Public Works Department	2	17.35	2	17.35	-	-	-	-
Animal Husbandry & Veterinary Services	1	0.25	1	0.25	-	-	-	-
Agriculture	1	0.72	1	0.72	-	-	-	-
Administration	1	0.23	1	0.23	-	-	-	-
Land Resources	3	3.56	3	3.56	-	-	-	-
Taxes	1	25.82	1	25.82	-	-	-	-
Food & Civil Supplies	1	952.00	1	952.00	-	-	-	-
Rural Development	2	7.12	1	6.39	-	-	-	-
Disaster Management	1	14.05	1	14.05	-	-	-	-
Municipal Affairs	1	1.11	0	0.00	-	-	-	-
Industries & Commerce	1	1.54	1	1.54	-	-	-	-
Water Resources	1	28.60	1	28.60	-	-	-	-
Land Records and Survey	1	1.24	1	1.24	-	-	-	-

Forest	1	0.54	1	0.54	-	-	-	-
Soil & Water Conservation	1	1.81	1	1.81	-	-	-	-
Various Departments	5	41.75	4	40.03	-	-	-	-
Total	**30**	**1,214.37**	**25**	**1,187.88**				

Source: Nagaland Lokayukta, Directorate of Investigation, Nagaland

The age-profile of the pending cases and the number of cases pending in each category-theft and misappropriation/loss of Government material is summarised in **Table 3.10**.

Table 3.10: Profile of misappropriations, losses, defalcations, *etc.*

Age-profile of the pending cases			Nature of the pending cases	Number of cases	Amount involved
Range in years	Number of cases	Amount involved			
0-5	20	NA	NA	NA	NA
5-10	9	NA	NA	NA	NA
10-15	1	NA	NA	NA	NA
Total	**30**				

Source: Nagaland Lokayukta, Directorate of Investigation, Nagaland, NA-Not available as reply is awaited

Out of the total 30 cases, in respect of 25 cases (₹1,187.88 crore), departmental and criminal proceedings were pending, while five cases (₹26.49 crore) were pending in the courts of law.

The age profile indicates that 10 cases have remained unresolved for more than five years, suggesting delays in investigation and follow-up. The pendency of these cases points to the need for closer monitoring, timely completion of departmental proceedings, and improved coordination with investigative and judicial authorities.

3.16 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* 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.

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, State Legislative Assembly. This timeframe was further reduced by the PAC to two months.

The Audit Reports on the State Finances for the years from 2009-10 to 2023-24 were placed before the State Legislature as shown in **Table 3.11**.

Table 3.11: Follow up status of State Finances Audit Reports for 2009-10 to 2023-24

Year of State Finances Audit Report	Date of placement in State Legislature	Remarks
2009-10	28.03.2011	The ATNs, on the recommendations of the Public Accounts Committee on the Report of the State Finances, for the year 2016-17 have been received and ATNs for the years from
2010-11	22.03.2012	
2011-12	18.03.2013	
2012-13	25.07.2014	
2013-14	17.03.2015	

Year of State Finances Audit Report	Date of placement in State Legislature	Remarks
2014-15	19.03.2016	2017-18 to 2021-22 were yet to be received (December 2025).
2015-16	28.03.2017	
2016-17	20.09.2018	
2017-18	15.02.2020	
2018-19	19.02.2021	
2019-20	22.03.2022	
2020-21	22.09.2022	
2021-22	06.07.2023	
2022-23	08.03.2024	
2023-24	04.08.2025	

Source: Information furnished by the Nagaland State Legislative Assembly Secretariat

3.17 Conclusion

Audit observed pervasive weaknesses in fiscal transparency, fund management, and adherence to statutory and codal provisions across multiple areas of State financial operations. Several instances of undischarged liabilities, short remittances, and delayed or non-transfer of statutory cesses and dedicated funds created future obligations and distorted fiscal indicators. Significant short transfers under the National Pension System and non-provision of interest on reserve funds understated the Fiscal Deficit and overstated the Revenue Surplus. Persistent retention of cess collections (*e.g.*, Labour Cess, Road Safety Cess), non-operation of mandated accounts (*e.g.*, Compensatory Afforestation Fund, NMET Deposits), and maintenance of regulatory funds outside the Public Account reflect systemic non-compliance.

Further, large pendency of Utilisation Certificates and delayed adjustment of Abstract Contingent bills undermine expenditure authenticity and increase the risk of misappropriation. Continued booking under Minor Head-800 obscures allocative priorities and compromises the transparency of Government accounts. Collectively, these deficiencies weaken fiscal discipline, impair accountability, and expose the State to reputational and financial risks.

3.18 Good Practices

Positive development in financial management including the following good practice was noticed:

- Improved classification under Minor Head-800: The proportion of expenditure booked under this omnibus head declined from 3.04 *per cent* in 2023-24 to 1.03 *per cent* in 2024-25, reflecting enhanced transparency and accuracy in budgeting.

3.19 Recommendations

i. The State Government may ensure accurate provisioning and transferring of interest in future accounts by correctly calculating and recording the interest due on all affected funds.

ii. The State Government may adopt systematic monitoring of pending Utilisation Certificates and AC bills through quarterly reviews by the Finance Department. The State Government may restrict release of further grants or

AC bills to defaulting departments/grantees until earlier UCs or DC bills are settled besides enforcing sanctions for persistent non-compliance.

iii. The State Government may enforce strict adherence to statutory provisions by promptly depositing all cess collections and operating mandated funds through the Public Account, supported by stronger oversight to prevent recurrence of such non-compliance.

iv. The State Government may expedite the departmental and criminal investigation to finalise and dispose of the misappropriation/losses/theft cases.

Kohima **(VARUN AHLUWALIA)**
Date: 03 March 2026 **Accountant General (Audit)**

Countersigned

New Delhi **(K. SANJAY MURTHY)**
Date: 05 March 2026 **Comptroller and Auditor General of India**