

## CHAPTER III FINANCIAL REPORTING

A sound internal financial reporting system with relevant and reliable information significantly contributes to efficient and effective governance by a State Government. Compliance with financial rules, procedures and directives, timeliness and quality of reporting on the status of such compliances are some of the attributes of good governance. Reports on compliance and controls, if effective and operational, assist a State Government in meeting its basic stewardship responsibilities, including strategic planning and decision-making. This chapter provides an overview and status of the State Government's compliance with various financial rules, procedures and directives during the current year.

### 3.1 Delay in furnishing 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 out by private institutions or local bodies as are in conformity with Article 282 of the Constitution of India. Financial rules<sup>29</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 Certificate (UC) for grants-in-aid exceeding ₹10,000 has to be forwarded to the Principal Accountant General (Accounts and Entitlement), Kerala. It was observed that 34 utilisation certificates for ₹88.05 crore were not received (June 2016), by the PAG (A&E) in respect of grants for which UCs were due during the period from 2013-14 to 2015-16. The age-wise position of delays in submission of Utilisation Certificates is summarised in **Table 3.1**.

**Table 3.1: Age-wise arrears of Utilisation Certificates**

(₹in crore)

Grant-in-aid released during	UC due during	Utilisation certificates outstanding as on June 2016		
		Delay	Number	Amount
Upto 2011-12	Upto 2013-14	More than two years	7	53.46
2012-13	2014-15	More than one year	10	6.30
2013-14	2015-16	Upto one year	17	28.29
<b>Total</b>			<b>34</b>	<b>88.05</b>

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

<sup>29</sup> Article 210 of the Kerala Financial Code (Vol. I)

### **3.2 Non-submission/delay in submission of Accounts**

In order to identify the institutions which attract audit under Sections 14 and 15 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971, the Government/Heads of Department are required to furnish detailed information about the financial assistance provided to various institutions, the purpose of assistance granted and the total expenditure of the institutions to audit every year.

As of March 2016, the annual accounts of six autonomous bodies/authorities due upto 2014-15 were not furnished to the Principal Accountant General (Economic and Revenue Sector Audit), Kerala as detailed in **Appendix 3.1**.

### **3.3 Delay in submission of accounts/Audit Reports of Autonomous Bodies**

The Audit of Accounts of 25 Autonomous Bodies in the field of legal aid, human rights, development of khadi, etc., in the State has been 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 3.2**.

Accounts of District Legal Services Authority, Palakkad are due from 2011-12. Accounts of District Legal Services Authorities, Ernakulam and Kasaragod are due from 2012-13 and that of Pathanamthitta and Wayanad are due from 2013-14. Apart from above, accounts of eight bodies are due from 2014-15 onwards.

### **3.4 Departmentally managed Commercial Undertakings**

The departmental undertakings of certain Government departments performing activities of quasi-commercial nature are required to prepare *pro forma* accounts annually in the prescribed format, showing the working results of financial operations so that the Government can assess the overall financial strength and efficiency of these departments in conducting their business. Non-finalisation of accounts in time prevents the above scrutiny and also puts the investment of the Government outside the scrutiny of Audit.

Heads of Department in the Government are also required to ensure that the undertakings prepare such accounts and submit to the Principal Accountants General (General and Social Sector Audit)/(Economic and Revenue Sector Audit), Kerala within the specified timeframe.

The department-wise position of arrears in preparation of *pro forma* accounts and investments made by the Government in respect of three<sup>30</sup> such undertakings, is given in **Appendix 3.3**. Out of the three, two are running in loss (State Water Transport Department and Text Book Office) and accounts of Text Book Office are in arrears from 2003-04. In the absence of up-to-date accounts, financial status of Text Book Office could not be ascertained.

### 3.5 Misappropriations, losses, defalcations, 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 Principal Accountant General (General and Social Sector Audit)/Principal Accountant General (Economic and Revenue Sector Audit), Kerala as well as to the Heads of Department.

The final action on 117<sup>31</sup> cases of misappropriation, defalcation, etc., involving Government money amounting to ₹7.16 crore reported to State Government for the period up to June 2016 was pending as detailed in **Appendix 3.4** and **Appendix 3.5**. The pending cases in each category as emerged from these appendices are summarised in **Table 3.2**.

**Table 3.2: 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	12	90.69	Theft	16	3.56
5 – 10	17	47.81	Misappropriation/ loss of material	101	712.43
10 – 15	36	451.33			
15 – 20	26	84.28			
20 – 25	10	25.88			
25 and above	16	16.00			
<b>Total</b>	<b>117</b>	<b>715.99</b>	<b>Total pending cases</b>	<b>117</b>	<b>715.99</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 3.3**.

<sup>30</sup>Kerala State Insurance Department, State Water Transport Department and Text Book Office.

<sup>31</sup> This includes cases detected by Audit during local audit as well as cases reported by Government departments as per codal provisions.

**Table 3.3: Reasons for outstanding cases of misappropriations, losses, defalcations, etc.**

<b>Sl. No.</b>	<b>Reasons for the delay/outstanding pending cases</b>	<b>Number of cases</b>	<b>Amount (₹ in lakh)</b>
1.	Awaiting departmental and criminal investigation	22	214.22
2.	Departmental action initiated but not finalised	42	190.86
3.	Awaiting orders for recovery or write off	36	114.81
4.	Pending in the courts of law	17	196.10
<b>Total</b>		<b>117</b>	<b>715.99</b>

Source: Information received from Departments of the State Government

### **3.6 Blocking up of funds under 8443 Civil Deposits**

Government receives moneys deposited with them for various purposes by or on behalf of various public bodies and members of the public. These deposits are later adjusted by repayment or otherwise. In this manner, Public Works Department also receives deposit from other Government department or public/private bodies for the execution of civil work, entrusted to them.

In Government accounts, 'K. Deposits and Advance' is the sector with major heads for accounting for moneys received by Government on behalf of various public bodies and members of the public. The advances paid to departmental officers for executing departmental activities are adjusted under these heads. Among the various major heads under the sector, the major head '8443-Civil Deposits' had substantial accumulated balance (₹2874.15 crore) at the end of March 2016 and major portion of this accumulation pertains to two minor heads '108-Public Works Deposits' (₹1126.57 crore) and '117-Deposits for work done for public bodies or private individuals' (₹875.96 crore). Hence, audit conducted a review to identify the reasons for accumulation of funds under these two minor heads and also to assess its impact on state finances.

#### **3.6.1 Accumulation of Deposit under 8443-108-Public Works Deposits**

For construction/maintenance of Government buildings and roads, Public works divisions of the State receive money from Government departments/public/private bodies and deposit them under the head of account 8443-108 Public Works Deposit for executing the work. Deposits received/recoveries made from the work bills of the contractor are classified under the following subheads below the minor head mentioned above.

- Cash deposits received from contractors as security including percentage deductions made from their bills.
- Deposits for work to be done.
- Sums due to contractors on closed accounts.

- Miscellaneous deposits including (until clearance) all items of receipt the classification of which cannot at once be determined or which represent accounting errors awaiting adjustment

As part of the review, audit scrutinised the records of 13 Public Works Divisions (eight Roads Divisions and five Buildings Divisions), having substantial accumulation under deposit head (exceeding ₹20 crore till February 2016) and observed that an amount of ₹606.02 crore (**Appendix 3.6**) was blocked up in Public Works Deposit of these divisions at the end of March 2016. Audit scrutiny of the records of the selected Divisions (for the period from April 2008 to March 2016) revealed that unutilised balance under the deposit head increased from ₹118.64 crore in April 2008 to ₹606.02 crore in March 2016 as given in **Table 3.4**.

**Table 3.4 : head-wise accumulation of funds in test-checked divisions**

(₹ in crore)		
Sub head	April 2008	March 2016
Cash deposit as security received from Contractors	8.88	27.88
Deposit for works to be done	92.65	548.26
Miscellaneous Deposit	17.11	29.88
<b>Total</b>	<b>118.64</b>	<b>606.02</b>

As indicated in the table above, substantial accumulation of funds was noticed under the head ‘Deposits for works to be done’ which increased from ₹92.65 crore in April 2008 to ₹548.26 crore in March 2016. Audit analysed the reasons for accumulation of funds under this head and observed the following.

**Public Works (Roads) Divisions** receive deposits for constructing new roads and also for restoring the roads damaged while laying water supply lines, telecom cables, electricity cables, etc. Substantial accumulation of funds under the head ‘Deposits for works to be done’ of the divisions was mainly due to non-utilisation of funds received for road restoration charges and also due to non-refund of balance to depositor after execution of the work. It was observed that divisions were often not utilising/under-utilising the amounts charged/collected as road cutting charge to repair the damaged roads. Consequently, deposits get accumulated in deposit account.

Further, divisions seldom act on unspent deposits available for construction of new roads with them after the execution of work. These unutilised deposits were not refunded to the depositor for years together. Consequently, funds get accumulated in the Deposit account.

In **Buildings Divisions** inordinate delay in execution of construction works was the main reason for accumulation of funds with Public Works (Buildings) division. Delay in issuing administrative/technical sanction, arranging work, etc

were observed as the reasons for the delayed execution of construction work. In the test checked building divisions, audit observed that certain works for which deposits were received from 2008-09 to 2014-15 are pending for execution. As in the case of roads divisions, buildings divisions are also keeping the unutilised balance of deposit amount, without refunding it to the depositor or transferring to revenue head, which also resulted in accumulation of funds.

Though the accumulation was not as huge as in the head 'Deposits for works to be done', accumulation was noticed in other heads, viz. 'Deposits received from contractors as security' and 'Miscellaneous deposits'. As per the provisions of Kerala Financial Code, deposits remaining unclaimed for the three financial years should be credited back to Government revenue at the end of the financial year. However, security deposits/retention amounts which remained unclaimed for years together are retained in the deposit head by divisions, without being transferred to Government revenue. Divisional officers stated that non release of security deposits was due to non-completion of work and also due to pending litigations. Correctness of this statement could not be verified in audit due to non-maintenance of individual work registers in divisions.

'Miscellaneous Deposits' are mainly related to Sales Tax/VAT recovered from work bills and contribution recovered from work bills towards Kerala State Construction Workers Welfare Fund (KSCWWF). As per the existing directions of the Government, Sales Tax/VAT collected by the divisions in a particular month from the work bills of the contractors are to be transferred to the relevant revenue head of the Government before 20<sup>th</sup> day of the subsequent month. However, inordinate delay in transfer of tax revenue was noticed in seven<sup>32</sup> divisions and at the end of March 2016, ₹3.87 crore was pending for transfer to revenue head.

Similarly, delay in transfer of contribution recovered from work bills towards KSCWWF was noticed in ten<sup>33</sup> divisions (₹12.50 crore). Since the KSCWWF Board invests the contribution received from various sources in nationalised banks, delay in transfer of funds to the Board would lead to loss of interest.

Audit observed that Public Works Divisions are not maintaining progress register of works in respect of individual works entrusted to them. Consequently, monitoring of the progress of work and also revenue administration was not effectively carried out in divisions test checked in audit.

### **Estimated impact**

- When a Government department entrusts the work of constructing a building or road to Public Works Division, funds are withdrawn from

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<sup>32</sup>(i) Roads Divisions: Thiruvananthapuram, Kannur, Kasaragod and Buildings Divisions: Thrissur, Kozhikode, Palakkad, Thalassery

<sup>33</sup>(i) Roads Divisions: Thiruvananthapuram, Kottayam, Ernakulam, Thrissur, Kannur, Kasaragod and Buildings Divisions: Thrissur Kozhikode, Palakkad, Thalassery

Consolidated Fund of the State and deposited into Public Account. Thus, funds shown as Expenditure in Consolidated Fund are not really spent but blocked up in Public Account till actually spent. Also, non-refund of unutilised balance to the department (which deposited the funds) resulted in non-depiction of actual expenditure incurred on the project in Government accounts.

### **3.6.2 Accumulation of deposits under 8443-117 Deposits for works to be done for public bodies and private individual**

As part of infrastructure development, Government has to acquire land and pay compensation to the title holders, for the acquired land. To facilitate this, allocations are made in the annual budget and placed at the disposal of Land Acquisition Officers (LAO). In order to avoid lapsing of budget allocation and to facilitate staggered payment of compensation, departmental officers withdraw the funds provided under the functional heads (under Consolidated Fund) and credit them under the deposit head 8443-117-99 (Public Account).

Finance Accounts for 2015-16 shows that at the end of March 2016 the subhead ‘8443-117-99-Deposits for payment of compensation for land acquired’ had an accumulated balance of ₹837.66 crore, which was ₹451.02 crore in April 2011 (accumulation of ₹386.64 crore during last five years).

Scrutiny of the transactions under the head for the last few years revealed that majority of the transactions took place under two district treasuries of the State, viz., Thiruvananthapuram and Ernakulam, and hence audit scrutiny was focused on these two district treasuries and connected offices in the districts. Audit scrutiny revealed that out of ₹3640.17 crore drawn by offices under the two district treasuries from the Consolidated Fund of the State during the period 2006-07 to 2015-16, ₹496.28 crore<sup>34</sup> remained blocked up in deposit head, at the end of March 2016.

#### **Audit observations on blockage of funds**

As per Article 40(c)(7) of the Kerala Financial Code Volume I, a Government servant should not, on any account, reserve or appropriate by transfer to a deposit or any other head or draw from the Treasury and keep in a cash chest, any portion of an appropriation remaining unexpended during the year in order to prevent it from lapsing and use it for expenditure after the end of the year. However, audit scrutiny revealed that 17 LAOs had retained ₹437.79 crore (as of August 2016) without utilization.

Further scrutiny revealed that

- In five cases (Sl. Nos.1,5,6,7&8 in **Table 3.5**), funds placed at the disposal of LAOs were fully drawn and kept in the deposit head but the acquisition process was delayed due to non-finalisation of judicial proceedings, public

<sup>34</sup> Outstanding balance prior to 2006-07 not included

protest, etc. In some other cases (Sl. Nos. 2,3,4,9 &10) second and subsequent instalments were drawn from the Consolidated Fund and kept in deposit head, when major portion of the first instalment remained unutilised. This blockage of funds could have been avoided, had the LAOs followed the procedure prescribed in Section 18 of the Kerala Public Works Department Manual.

**Table 3.5: Funds drawn in excess of requirement and kept under deposit head**

Sl. No.	Project name	Name of LAO	Funds drawn (₹)	Funds utilized(₹)	Reason for non-utilisation
1	Land Acquisition (LA) for Life Science Park-Technocity	Special Tahsildar, SPVL No.III & LA, Thiruvananthapuram	36.84 crore (February 2010 & May 2014)	Nil	LAO replied that amount pertains to cases pending with Court
2	LA for IWAI Cargo Terminal	Spl. Tahsildar (LA), NH No.III, Vyttila	13.90 crore (June 2012 & April 2013)	12,342	Delay was due to non-finalisation judicial proceedings.
3	LA for Burial Ground at Lakshadweep	-do-	1.01 crore (April 2012)	21,363	Fund allocated was insufficient to acquire the land.
4	LA for Development of PHC, Vilappil	Spl. Tahsildar, Additional LA Unit, Thiruvananthapuram	4.53 lakh (April 2012)	11,520	Title holder filed a petition
5	Acquisition of land from Kerala Secretariat Association	Dy. Collector (LA), Thiruvananthapuram	21.71 lakh (December 2010)	Nil	Due to dispute in payment of compensation fund was not utilised.
6	Rehabilitation of affected traders	-do-	2.20 crore (February 2008)	Nil	Pending due to non-finalisation of judicial proceedings
7	LA for Kumaranasan National Institute of Culture	-do-	1.76 crore (April 2008 to December 2012)	Nil	Land for acquisition is under dispute for the past eight years.
8	LA for Development of Government Secretariat Phase II	-do-	1.99 crore (March 2010)	Nil	Government permitted to use the amount for next phase of work, as dispute is going on regarding the land to be acquired.
9	LA for Indian Institute of Space Science & Technology	-do-	2.40 crore (September 2009)	21,760	Public protest against acquisition of land.
10	LA for rehabilitation by HUDCO	Spl. Tahsildar (LA), General, Kakkannad	11.02 lakh (June 2013 to August 2015)	1,18,000	Amount will be refunded after examination of the file.

In this regard the District Collector Ernakulam reported (November 2016) that directions have been issued to all LAOs to avoid the blockage of funds. District

Collector, Thiruvananthapuram stated that the balance amount in all case will be surrendered on merits after verification.

- It was also observed that balance funds after payment of compensation, deduction of income tax, establishment charges, etc. were retained in the deposit account (**Table 3.6**) without being returned to administrative department. This has led to an avoidable accumulation of funds under the deposit head.

**Table 3.6: Balances after utilization retained in deposit head**

Sl. No.	Name of LAO	Funds drawn <sup>35</sup> (₹ in crore)	Balance (₹ in crore)
<b>Thiruvananthapuram</b>			
1	Spl. Tahsildar (LA), PWD	17.49	0.46
2	Spl. Tahsildar (LA), General	18.08	0.46
3	Spl. Tahsildar, Additional LA Unit	30.29	1.03
4	Deputy Collector (LA)	55.99	2.04
5	Spl. Tahsildar, SPVL No.III & LA	43.52	0.09
6	Spl. Tahsildar (LA), National Highways	126.97	0.03
7	Spl. Tahsildar (LA), International Airport	28.36	0.12
<b>Ernakulam</b>			
8	Spl. Tahsildar (LA), NH I	1.08	0.13
9	Spl. Tahsildar (LA), NH II	20.20	0.41
10	Spl. Tahsildar (LA), NH III	18.41	1.40
12	Spl. Tahsildar (LA), General	32.98	0.20
13	Spl. Tahsildar (LA), KIA No.III	3.84	1.08
14	Spl. Tahsildar (LA), KRL	81.93	0.19
15	Spl. Tahsildar (LA), Kochi Corporation	10.54	0.16
	<b>Total</b>	<b>489.68</b>	<b>7.80</b>

As per Article 282 of The Kerala Financial Code Volume I, all deposits remaining unclaimed for more than three complete financial years should be credited to the Government at the close of March in each year. This procedure was not followed by any of the LAOs test checked in audit. In reply to audit observations District Collector, Ernakulam informed that necessary steps have been taken to reconcile the difference in the records maintained with LAOs. District Collector, Thiruvananthapuram stated that treasury reconciliation of the balance is going on, on a war footing.

<sup>35</sup> Ongoing projects not included

### **Audit observations on system deficiencies**

- (i) As per Rule 18 of the Land Acquisition (Kerala) Rules, 1990, all the offices dealing with land acquisition work have to maintain Registers relating to land acquisition and payments made thereto. None of the LAOs test-checked in Audit have maintained registers as mentioned in the Rules, except an Award Register. The fund allotment registers maintained in the offices showed the details of amounts received and paid, but were insufficient to provide information regarding receipt and disbursement of funds earmarked for a particular land acquisition project. In the absence of relevant registers, proper monitoring of payment of compensation thereto was not streamlined at the departmental level.
- (ii) Since all the receipt and disbursement transactions under the head of account 8443-117-99 are done through the treasuries, balance in respect of each of the projects was available in the treasuries. But, in all the LAOs test-checked, it was observed that there was difference between treasury balance and the balance recorded in the registers of the LAOs. A few instances are given in **Appendix 3.7**. Periodical reconciliation with Treasury, as prescribed in Kerala Budget Manual, was not being done by the LAOs; consequently, reliability of the fund balance disclosed by the LAOs was doubtful. In response to audit query LAOs replied that they would verify the balance with the Treasury and make necessary rectifications.

### **3.7 Conclusion**

The Audit of Accounts of Autonomous Bodies, which has been 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 are pending in respect of 13 bodies due to delay in submission of accounts.

Scrutiny of records of 13 Public Works Divisions (eight Roads Divisions and five Buildings Divisions) revealed accumulation of ₹606.02 crore under the deposit head of the divisions at the end of March 2016, due to delay in execution of work and non-transfer of balance fund after execution. In respect of roads divisions deposits received for road restoration charges are rarely utilised and in respect of buildings divisions there was inordinate delay in execution of work.

During the period 2006-07 to 2015-16, out of ₹3640.17 crore withdrawn by departmental officers from the Consolidated Fund of the State, ₹496.28 crore remained blocked under the head of account 8443-117-99, due to non-utilisation of funds for the earmarked purpose as well as non-refund of balance fund after payment of compensation. None of the LAOs (17 test-checked in Audit) were maintaining registers as prescribed in Land Acquisition (Kerala) Rules, 1990, which led to poor monitoring of the utilization of funds entrusted to them.

Periodical reconciliation with Treasury, as prescribed in Kerala Budget Manual, was not being done by the LAOs; consequently, reliability of the fund balance disclosed by the LAOs was doubtful.

### **3.8 Recommendations**

- Government may issue directions to Public Works (Roads) Division authorities to utilise road cutting charges received as deposit for road maintenance work without delay so that blockage funds under Deposit head could be avoided. Also maintenance of individual work deposit register may be insisted in all the divisions so that utilisation of work deposit funds can be reviewed periodically to avoid accumulation under Deposit head.
- Prolonged idling of funds meant for land acquisitions may be avoided.

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