

Chapter 3

Financial Reporting

A sound internal financial reporting 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 compliances is thus one of the attributes of good governance. The reports on compliance and controls, if effective and operational, assist the 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 of various financial rules, procedures and directives during the current year.

3.1 Pendency in submission of Detailed Contingent Bills against Abstract Contingent Bills

Orders issued by the Government¹ stipulated that amount drawn on Abstract Contingent (AC) bills should be settled by submitting Detailed Contingent (DC) bills to the Principal Accountant General (A&E)/Pay and Accounts Officer for the expenditure incurred with supporting vouchers, within one month. The total amount of DC bills received during 2004-10 was only ₹ 627.32 crore against the amount of AC bills of ₹ 1836.51 crore leading to an outstanding balance of DC bills of ₹ 1209.19 crore as on 31 March 2010. Year-wise details are given in **Table 3.1**.

Table 3.1: Pendency in submission of DC Bills against AC Bills

(Rupees in crore)

Year	Drawn on AC bills		DC bills Submitted		Percentage	Outstanding AC bills	
	Number	Amount	Number	Amount		Number	Amount
Upto 2004-05	134915	540.28	30423	158.09	29	104492	382.19
2005-06	15603	158.32	11010	81.26	51	4593	77.06
2006-07	13256	232.83	9986	127.70	55	3270	105.13
2007-08	10743	169.78	7327	107.12	63	3416	62.66
2008-09	7890	190.66	4260	43.36	23	3630	147.30
2009-10	4921	544.64	1998	109.79	20	2923	434.85
Total	187328	1836.51	65004	627.32	34	122324	1209.19

¹ G.O.Ms.No.285 Finance (TFR-II) Department dated 15-10-2005.

Department-wise position of pending DC bills for the year up to 2009-10 is detailed in **Appendix 3.1**. It could be seen from appendix that 62 per cent (₹ 746.50 crore) of outstanding amount drawn on AC bills pertains to Agriculture (₹ 397.33 crore) and Revenue (₹ 349.17 crore) Departments.

3.2 Delay in furnishing Utilisation Certificates

Financial Rules² provide that for the grants provided for specific purposes, Utilisation Certificates (UCs) should be obtained by the departmental officers from the grantees and after verification should be forwarded to the Accountant General within 18 months from the date of their sanction unless specified otherwise. However, 262 UCs due in respect of grants and loans aggregating ₹ 30.26 crore paid up to 1999-2000, were in outstanding for more than nine years and above. No UCs for the period 2001-08 were outstanding. From 2008-09 no UCs are required to be watched by the PAG (A&E) as the same have to be submitted to the respective sanctioning authorities, as per the orders issued by the State Government while releasing the grants. The department-wise and age-wise break-up of outstanding UCs is presented in **Table 3.2**.

Table 3.2: Department-wise arrears of Utilisation Certificates

(Rupees in lakh)

Sl. No.	Department	Year of Payment of grant	Outstanding Utilisation Certificates	
			Number	Amount
1	Director of School Education	1992-93	3	155.05
2	Labour and Employment	1993-94	41	101.83
		1994-95	51	121.01
		1995-96	12	57.16
		1996-97	57	211.06
3	Municipal Administration & Urban Development	1998-99	78	2297.70
		1999-00	20	81.91
Total			262	3025.72

Source: Finance Accounts of Government of Andhra Pradesh 2009-10

3.3 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 the

² Note below Article 211-A(2) of Andhra Pradesh Financial Code

Department are required to furnish to Audit every year detailed information about the financial assistance given to various institutions, the purpose of assistance granted and the total expenditure of the institutions. The accounts of 110 bodies/authorities received during 2009-10 attracted audit by the Comptroller and Auditor General of India (CAG). The 56 bodies/authorities, audit of which was due, were audited during 2009-10.

The 1480 annual accounts due up to 2009-10 were not submitted to the Principal Accountant General (Civil Audit) by 342 bodies/ authorities as of 30 June 2010. The details of these accounts are given in *Appendix 3.2* and their age-wise pendency is presented in **Table 3.3**.

Table 3.3: Age-wise pendency of Annual Accounts

Delay (number of years)	No. of Bodies/ Authorities	No. of accounts due
0 - 1	342	342
1 - 3	127	494
3 - 5	75	251
5 - 7	24	149
7 - 9	31	107
9 & above	27	137
Total		1480

Submission of 393 annual accounts by 82 bodies/authorities was delayed by more than five years.

3.4 Submission of Accounts/Audit Reports of Autonomous Bodies

Several autonomous bodies have been set up by the State Government in the field of Education, Social Welfare, Tribal Welfare, Panchayat Raj and Rural Development etc. A large number of these bodies are audited by the CAG by verifying their transactions, operational activities and accounts, conducting regulatory compliance audit of all transactions scrutinised in audit, reviewing internal management and financial control, reviewing systems and procedures, etc. The audit of accounts of 20 bodies in the State has been entrusted to the CAG of India. The status of entrustment of audit, rendering of accounts to audit, issuance of Separate Audit Report and its placement in the Legislature are indicated in *Appendix 3.3*. The frequency distribution of autonomous bodies according to the delay in submission of accounts to Audit and placement of Separate Audit Report in the Legislature after the entrustment of Audit to CAG is summarised in **Table 3.4**.

Table 3.4: Delay in submission of accounts and placement of Separate Audit Reports (SARs)

Submission of Accounts			Submission of Separate Audit Reports		
Delay in submission of Accounts (in months)	No. of Autonomous Bodies	Reasons for the delay	Delay in submission of SAR in Legislature (in years)	No. of Autonomous Bodies	Reasons for the delay
0 - 1	--	--	0 - 1	01	Reasons for the delay were not stated by the Autonomous Bodies.
1 - 6	17	Non- finalisation of accounts by Autonomous Bodies.	1 - 2	05	
6 - 12	--	--	2 - 3	01	
12 - 18	15	Non- finalisation of accounts by Autonomous Bodies.	3 - 4	--	
18 - 24	--	--	4 - 5	--	
24 & above	11	Non- finalisation of accounts by Autonomous Bodies.	5 & above	--	
Total	43			7	

The Andhra Pradesh Vaidya Vidhana Parishad had not submitted the accounts for the years 2005-06 to 2009-10, Visakhapatnam Urban Development Authority and Kakatiya Urban Development Authority for the years 2007-08 to 2009-10, Hyderabad Metropolitan Development Authority and AP Khadi Village Industries Board for the years 2008-09 and 2009-10 and Vijayawada-Guntur-Tenali-Mangalagiri-Urban Development Authority and Tirupathi Urban Development Authority for the year 2009-10. The Integrated Tribal Development Agency, Eturunagaram had not submitted the accounts for the years 2000-01 to 2009-10. Also there was a delay ranging from one to three years in placement of Separate Audit Reports in the Legislature.

3.5 Departmental Commercial Undertakings

The departmental undertakings of certain Government departments performing activities of quasi-commercial nature are required to prepare pro-forma 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 investment of the Government remains outside the scrutiny of Audit/State Legislature. Consequently, corrective measures, if any required, for ensuring accountability and improving efficiency cannot be taken in time. Besides, the delay in all likelihood is fraught with the risk of fraud and leakage of public money.

The Heads of Departments in the Government are to ensure that the undertakings prepare such accounts and submit the same to Accountant General for audit within a specified time frame. As on 31 March 2010, all the nine undertakings have not prepared accounts up to 2008-09. In the previous Audit Reports, the CAG has repeatedly expressed concern about the arrears in preparation of accounts but there is no improvement so far in preparation of pro-forma accounts by these undertakings. The department-wise position of arrears in preparation of pro-forma accounts and investment made by the Government are given in **Appendix 3.4**.

It could be seen from the appendix that the preparation of proforma accounts for all the units up to 2008-09 was in arrears for various periods ranging from 2 to 46 years. Government Distillery, Narayanaguda, Hyderabad stopped production since October 1993. Out of three undertakings³ in which Government invested ₹ 4.20 crore, Fishnet Making Plant, T B Dam suffered net loss of ₹ 13.38 lakh at the end of the financial year up to which their accounts were finalised. The details of investment, block assets, turnover etc., in respect of remaining five undertakings were not available with the concerned departments.

3.6 Misappropriations, losses, defalcations, etc.

Financial Rules⁴ lay down the responsibilities of Government servants in dealing with Government money, the procedure to fix responsibility for any loss sustained by the Government, the procedure to be followed and the action to be initiated for recovery.

State Government reported 474 cases of misappropriation, defalcation, etc. involving Government money amounting to ₹ 34.77 crore (up to October 2010) on which final action was pending. The department-wise break up of pending cases and year-wise analysis is given in **Appendix 3.5**. The highest amount misappropriated was ₹ 24.30 crore in Social Welfare (including Tribal Welfare) Department in 26 cases while the highest number of misappropriation cases (261) involving Rupees one crore were pending in Revenue Department.

3.7 Operation of omnibus Minor Head - 800

During the past two decades, the range and diversity of Government activity had increased manifold thereby heavily outpacing in number the available programme minor heads. The omnibus Minor Head - 800 accommodates the expenditure which could not be classified under the available programme minor heads.

During 2009-10, expenditure aggregating ₹ 10832.08 crore (14 per cent of total expenditure) was classified under Minor Head – 800 against 47 Major Heads in revenue and capital sections. Total/major expenditure on power

³ (i) Fishnet making plant (ii) Ice-cum-cold storage Plant, T B dam and (iii) AP Government Text Book Press, Hyderabad.

⁴ Articles 5, 273, 294, 300 to 302 of the Andhra Pradesh Financial Code

subsidy, rice subsidy, special programmes for rural development, capital outlay on roads and bridges, general economic services, village and small industries etc., was classified under omnibus Minor Head – 800 instead of depicting distinctly in the Finance Accounts.

Similarly revenue receipts aggregating ₹ 2116.52 crore (3 per cent of total revenue receipts) was classified under omnibus minor head ‘800-Other Receipts’ under 43 major heads. Total non-tax revenue under other rural development programmes, ports and light houses, urban development, civil supplies etc., was classified under this minor head.

Classification of large amounts under the omnibus minor head ‘800 – Other Expenditure/Receipts’ affects the transparency in financial reporting.

3.8 Transfer of funds to Personal Deposit Accounts

The State Government is authorised to open Personal Deposit (PD) Accounts in order to deposit funds by transfer from the Consolidated Fund for discharging certain liabilities of the Government arising out of special enactments. The Administrators of such PD accounts are required to close such accounts (lapsable) on the last working day of the financial year and transfer the unspent balances back to the Government account. Transfer of funds to PD accounts is booked as expenditure in Consolidated Fund of the State. During 2009-10, an amount of ₹ 1272.28 crore was transferred to PD accounts. As the Administrator-wise PD accounts were not being maintained in the office of the Principal Accountant General (A&E), details of expenditure out of funds transferred during the year, unspent balances at the end of the year and their transfer to Government account could not be ascertained.

3.9 Working of Treasuries

The important irregularities on working of Treasuries noticed during the inspection by the Principal Accountant General (A&E) are discussed in succeeding paragraphs.

3.9.1 Excess payment of pension/family pension

A test check of records relating to payment of pension and family pension in five District Treasuries, 162 Sub-Treasuries and five Asst. Pension Payment Offices during 2009-10 revealed excess payment of ₹ 1.19 crore in 275 cases as given in **Table 3.5** below:

Table 3.5: Excess payment of pension/family pension

(Rupees in lakh)

Nature of irregularity	No. of cases	Amount involved
Irregular sanction of Dearness Relief	128	44.61
Excess payment of Enhanced Family Pension	21	14.47
Incorrect computation of pension consequent on revision of pension from time to time	18	8.99
Non-reduction of commuted portion of pension	60	10.50
Payment of inadmissible Interim Relief	6	0.12
Irregular payment of Financial Assistance	6	9.69
Irregular payment of enhanced Family Pension beyond time limit	7	4.02
Incorrect drawl of Anticipatory Pension without settlement of Original Pension	4	12.50
Inadmissible payment of Full Pension against Provisional Pension	4	9.74
Incorrect sanction of Gratuity	3	1.65
Non-refund of pension amount after the death of the Pensioner	18	2.48
Total	275	118.77

Similar excess payment of Pensionary benefits noticed during the last four years is as given in **Table 3.6** below:

Table 3.6: Excess payment of pensionary benefits during last four years

(Rupees in lakh)

Year	Aggregate excess payment
2005-06	36.88
2006-07	41.43
2007-08	58.39
2008-09	62.44
Total	199.14

3.9.2 Diversion of funds

During the test check of records of District Treasury, Chittoor, it was noticed that an amount of ₹ 5 crore was drawn (December 2008) by the District Collector, Chittoor under Natural Calamities for relief and rehabilitation of people affected by 'Nisha' cyclone. Of this, ₹ 2.50 crore was released (January 2009) to the MD, APMHIDC for payment of pending bills towards construction of Collectorate buildings Complex at Chittoor on refund basis. However, neither the amount was returned by the MD nor DC bills submitted to the Treasury by the District Collector as of March 2010.

3.9.3 Drawal of funds from Personal Deposit Accounts

As per article 3 of AP Financial Code, unless the amount is required to be paid for the services/work done, no amount shall be drawn. Further, the Administrators of PD accounts are required to enclose bank statement and

utilization certificates in token of utilization of funds drawn earlier and in case of non-utilisation of funds drawn earlier, no further drawal shall be allowed. However, the Treasury officers allowed drawal of funds from Personal Deposit Account by the Administrators without insisting for utilisation certificates for the funds drawn earlier in the following cases:

- ◆ An amount of ₹ 1.13 crore was drawn (June 2009) by the Project Director, DRDA, Chittoor from the PD account for meeting future expenditure and deposited in SB account in spite of having unspent balance of ₹ 35.23 crore in the bank account.
- ◆ Similarly, an amount of ₹ 20.83 crore was drawn (July 2009) by the Project Director, DRDA, West Godavari, Eluru from the PD account for future expenditure and credited to SB account in spite of having unspent balance of ₹ 2.30 crore in the bank account.
- ◆ The Deputy Director, District Treasury, Hyderabad Urban, instead of lapsing the balance of ₹ 37.64 crore at the end of March 2008, allowed the Managing Director, Hyderabad Metro Rail Limited (MD, HMRL) to draw ₹ 34.01 crore from the Personal Deposit account, a 'C' category-Lapsable Deposit Account, during the period from March 2008 to July 2009 through 358 cheques of ₹ 9.50 lakh each evidently to avoid countersignature of higher authorities. Further, an amount of ₹ 33.98 crore was re-credited to PD account in September 2009 by the MD, HMRL.

It is evident from the above instances that funds were drawn and kept in SB accounts i.e. outside the Government account to avoid lapsing.

3.10 Conclusions and Recommendations

Detailed Contingent Bills for ₹ 1209.19 crore out of ₹ 1836.51 crore drawn on Abstract Contingent bills were outstanding at the end of 31 March 2010. Utilisation Certificates (262) in respect of grants/loans amounting to ₹ 30.26 crore paid up to 1999-2000 were in arrears for nine years and above. Submission of 1480 annual accounts by 342 bodies/authorities to the Principal Accountant General (Civil Audit) was delayed by one to nine years and above. Similarly, delay in submission of accounts of 43 autonomous bodies ranged from 6 to 120 months due to non-finalisation of accounts. Also, delay in submission of Separate Audit Reports in the State Legislature ranged from one to three years in respect of seven autonomous bodies. Finalisation of pro-forma accounts was in arrears in respect of all the nine Departmental Commercial Undertakings. Substantial amounts of receipts (₹ 2116.52 crore) and expenditure (₹ 10832.08 crore) were classified under omnibus minor head '800-Other Receipts/Expenditure' during 2009-10. Funds amounting to ₹ 1272.28 crore were transferred to PD accounts during the current year. State Government reported 474 cases of misappropriation, defalcation, etc. involving Government money amounting to ₹ 34.77 crore. Excess payment of pension/family pension amounting to ₹ 1.19 crore was noticed. Calamity Relief funds of ₹ 2.50 crore were diverted for payment of arrear bills for construction of

Collectorate buildings complex. An amount of ₹ 55.97 crore drawn from PD accounts was kept in Banks by the Administrators to avoid lapsing.

Recommendations:

- *A rigorous monitoring mechanism should be put in place in the Departments to adjust the advances drawn on Abstract Contingent bills within the stipulated period, as required under the extant rules.*
- *Government should take action for preparing the proforma accounts of all Commercial Undertakings and take corrective measures for ensuring accountability and improving efficiency.*
- *In order to ensure greater transparency in financial reporting, large amounts received or expended under various schemes should be depicted in Accounts distinctly, instead of clubbing the same under the Minor heads '800-Other Expenditure' and '800-other receipts'.*
- *Departmental enquiries in all fraud/misappropriation cases should be expedited and internal controls strengthened to prevent such cases in future.*

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