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Chapter-III

**FINANCIAL REPORTING**

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## CHAPTER III

### Financial Reporting

A sound internal financial reporting system based on compliance with financial rules is one of the attributes of good governance. This Chapter provides an overview and status of compliance of the departments of the State Government to various financial rules, procedures and directives during the current year.

#### 3.1 Delay in furnishing utilization certificates

In the case of conditional grants a formal utilization certificate about the proper utilization of the grant from the administrative, technical and financial point of view should be furnished to the Accountant General (A&E) by the sanctioning authority. As on 31 March 2011, 42204 UCs for an aggregate amount of ₹ 16,286.97 crore were in arrears. The position for last three years is given in **Table.3.1**.

**Table 3.1: Year-wise position of outstanding utilization certificates**

Year	Number of UCs awaited	Amount involved (₹in crore)
Up to 2008-09	30622	7,987.03
2009-10	8139	1,396.40
2010-11	3443	6,903.54
<b>Total</b>	<b>42204</b>	<b>16,286.97</b>

#### 3.2 Delays in submission of accounts/audit reports of autonomous bodies

The Government has set up several autonomous bodies in the field of Agriculture, Housing, Labour Welfare, Urban Development, etc. The audit of accounts of 48 autonomous bodies in the State has been entrusted to the CAG. The status of entrustment of audit, rendering of accounts to Audit, issuance of Separate Audit Reports and their placement in the Legislature are indicated in **Appendix 3.1**. The frequency distribution of autonomous bodies according to the delays in submission of accounts to Audit and placement of Separate Audit Reports (SAR) in the legislature after the entrustment of audit to CAG is summarized in **Table.3.2**.

**Table 3.2: Delays in submission of accounts and tabling of Separate Audit Reports**

Delays in submission of accounts (in months)	Number of autonomous bodies	Reasons for delay	Delays in submission of SARs in legislature (in years)	Number of autonomous bodies
0 - 1	--	Non-approval of accounts by Board of Governors and non-submission of accounts by others. Correspondence with the units and at the ministry is going on for submission of accounts.	0 - 1	02
1 - 6	--		1 - 2	
6 - 12	-		2 - 3	01
12 - 18	01		3 - 4	
18 - 24	-		4 - 5	
24 & above	46		5 & above	
<b>Total</b>	<b>47</b>			

Out of 48 units, 45 units did not submit their accounts since the inception of the unit (1997-98 to 2006-07) even after the lapse of four to 12 years and three units did not submit their accounts regularly due to non-approval by the Board's of Governors and submission of account by others (**Appendix 3.1**).

### **3.3 Misappropriations, losses, defalcations, etc.**

The Government reported 3164 cases of misappropriation, losses, defalcation, etc. involving Government money amounting to ₹ 46.21 crore up to the period March 2011 on which final action was pending. A large number of cases amounting to ₹ 13.86 crore and ₹ 27.40 crore were pending for recovery/regularization against Forestry & Wild-life and School Education departments respectively. The department-wise break up of pending cases of misappropriation, losses, defalcations etc. and write-offs for 2010-11 and their age-wise analysis are given in **Appendix 3.2** and **Appendix 3.3** and the nature of these cases is given in **Appendix 3.4**. The age-profile of the pending cases and the number of cases pending in each category—theft and misappropriation/loss as emerging from these appendices are summarized in **Table 3.3**.

**Table 3.3: Profile of misappropriations, losses, defalcations, etc.**

Age-profile of the pending cases			Details of the pending cases		
Range in years	Number of cases	Amount involved (₹ in crore)	Nature of the case	Number of cases	Amount involved (₹ in crore)
0 - 5	468	32.69	Theft	227	2.20
5 - 10	501	3.48			
10 - 15	506	5.11	Misappropriation/ Loss of material	2937	44.01
15 - 20	439	1.75			
20 - 25	710	1.91	<b>Total</b>	<b>3164</b>	<b>46.21</b>
25 & above	540	1.27	Cases of losses written off during the year	30	4.09 lakh
<b>Total</b>	<b>3164</b>	<b>46.21</b>			

Thirty cases of losses involving an amount of ₹ 4.09 lakh written off during 2010-11 have been detailed in **Appendix 3.3**.

A further analysis indicated that the reasons for which the cases were outstanding could be classified in the categories listed in **Table 3.4**.

**Table 3.4: Reasons for outstanding cases of misappropriation, loss, defalcation etc.**

Reasons for the delay/outstanding pending cases		Number of cases	Amount (₹ in crore)
(i)	Awaiting departmental and criminal investigation	7	0.07
(ii)	Awaiting orders for recovery or write off	3156	46.11
(iii)	Pending in the courts of law	1	0.03
<b>Total</b>		<b>3164</b>	<b>46.21</b>

### **3.4 Pendency in submission of DCC Bills, Non-reconciliation of Departmental figures and Non adjustment of Temporary Advances**

#### **3.4.1 Pendency in submission of Detailed Countersigned Contingent Bills against Abstract Contingent Bills**

As per rule 313 of MPTC, every drawing officer has to certify in each Abstract Contingent (AC) Bill that Detailed Countersigned Contingent (DCC) Bills for all contingent charges drawn by him prior to the first of the current month have been forwarded to the respective controlling officers for countersignature and transmission to the Accountant General. DCC bills for an amount of ₹ 21.43 crore pertaining to the period from 1996-97 to 2010-11 were outstanding as on 31 March 2011. Year-wise details are given in **Table 3.5**.

**Table 3.5 : Pendency in submission of Detailed Countersigned Contingent Bills against Abstract Contingent Bills**

(₹ in crore)

Sl. No.	Year	Amount of outstanding AC bills
1	1996-1997	0.16
2	1997-1998	0.03
3	1998-1999	2.42
4	1999-2000	4.28+4.03 <sup>1</sup>
5	2000-2001	1.70
6	2001-2002	0.003
7	2002-2003	Nil
8	2003-2004	Nil
9	2004-2005	4.60 <sup>2</sup>
10	2005-2006	2.74 <sup>2</sup>
11	2006-2007	0.03+0.25 <sup>2</sup>
12	2007-2008	0.01
13	2008-2009	0.007
14	2009-2010	0.02
15	2010-2011	1.15
<b>Total</b>		<b>21.43</b>

Department-wise pending DCC bills for the years up to 2010-11 is detailed in **Appendix 3.5**

#### **3.4.2 Reconciliation of Receipts and Expenditure**

To enable Controlling Officers to exercise effective control over expenditure to keep it within the budget grants and to ensure accuracy of their accounts, the Manual of Treasury Compilation (Second Edition 2007) stipulates that the expenditure recorded in their books should be reconciled by them every month during the financial year with that recorded in the books of the Accountant General. Even though non-reconciliation of departmental figures is pointed out regularly in Audit Reports, lapses on the part of Controlling Officers in this regard continued to persist during 2010-11 also. Controlling Officers of 10 departments did not reconcile expenditure amounting to ₹ 808.08 crore as of March 2011. Out of these, five Controlling Officers had not reconciled expenditure aggregating ₹ 799.42 crore as detailed in **Table 3.6**. Major un-reconciled amounts were in respect of General Administration Department, Public Works Department and Forest Department.

<sup>1</sup> AC Bills for ₹ 4.03 crore pertaining to Major Head 2202 were destroyed in a fire accident on 29.2.2000 and details thereof are not known.

<sup>2</sup> The details of AC Bills for ₹ 4.60 crore, ₹ 2.74 crore and ₹ 0.25 crore pertaining to Major Head 2070 (State Protocol Officer) are not available due to the seizure of records by Investigating Agency in an embezzlement case.

**Table 3.6: List of Controlling Officers under whom amounts exceeding ₹ 10 crore in each case remained un-reconciled during 2010-2011**

		(₹ in crore)
Sl. No.	Controlling Officers	Amount not reconciled
1.	Secretary, General Administration Department, Bhopal	327.91
2.	Secretary, Law and Legislative Affairs Department, Bhopal	25.99
3.	Commissioner, Indore	10.22
4.	Chief Engineer, Public Work Department, Bhopal	262.23
5.	Chief Principal Forest Conservator, Bhopal	173.07
<b>Total</b>		<b>799.42</b>

All the Drawing and Disbursing Officers are required to reconcile the receipts of the Government with the figures accounted for by the Accountant General. Such reconciliation had been completed for ₹ 17,698 crore (34 *per cent* only) against the total non-debt receipts of ₹ 52,257 crore of the Government during the year 2010-2011.

#### **3.4.3 Non-adjustment of temporary advances**

Drawing and Disbursing Officers (DDOs) draw temporary advances for the purpose of meeting contingent expenditure either on the authority of standing orders or specific sanctions of the State Government. According to the State Finance Departments' instruction (October 2001), temporary advances taken by Government employees for tours or contingent expenditure should be adjusted within three months or at the end of financial year, whichever is earlier. Otherwise interest as per the interest rate on fixed deposits of State Bank of India should be charged from the responsible employee/officer.

As per information available in Inspection Reports of DDOs audited during April 2011 to September 2011 and provided by the various departments (to the extent available) revealed that as of 31 March 2011, 2463 advances aggregating ₹ 9.43 crore were pending for adjustment by DDOs in their records. Reasons for non-adjustment of temporary advances for periods ranging from one year to more than 10 years had not been intimated by the concerned departments. Age-wise analysis of advances pending is given in **Table 3.7**.

**Table 3.7 : Age wise analysis of advances pending**

Sl. No	Pendency	No. of Advances	Amount (₹ in lakh)
1	More than 10 years	278	9.84
2	More than five years upto 10 years	225	11.76
3	More than one years but less than five years	682	322.63
4	Less than one year	1278	598.61
<b>Total</b>		<b>2463</b>	<b>942.84</b>

#### **3.4.4 Delay in Rendition of Accounts**

There was average delay of four to seven days in rendition of accounts by Treasury, Public Works Divisions and Forest Division to the Accountant General. Timely rendition of accounts may be ensured by the Treasury as well as concerned departments to avoid delay in compilation of accounts.

### **3.5 Personal Deposit Accounts**

Personal Deposit (PD) accounts are created in Public Account by debit to the Consolidated Fund of the State and should be closed at the end of the financial year by minus debit to the relevant service heads. There were 812 PD accounts (Government: 806, Semi Government: 06) having balances of ₹ 2,062.78 crore as of 31 March 2011 in 55 District Treasuries. Of these, 315 PD accounts with balances of ₹ 267.12 crore, had no transactions during 2010-11. The closing balances in the PD accounts indicated that the administrators had not followed the provisions of MPTC PART I Sub-Rule 543 regarding closing of PD accounts by minus debit to the relevant service heads before closing of the financial year.

According to Rule 6 of Madhya Pradesh Financial Code (MPFC) Part 1 Government money drawn from the treasury should not be kept outside Government Account. No money should be drawn from the treasury unless it is required for immediate disbursement as per Madhya Pradesh Treasury Code (MPTC) Part 1 Sub Rule 284. As per Finance Department instructions (February 2009) all bank accounts were to be closed by 28 February 2009 and amount transferred to Government Accounts. No PD account is to be continued without the approval of the Finance Department. Further, Government Instructions 2 (A to D) below as per Sub Rule 543 of MPTC Part-1, the closing balance as per Treasury records and official records should be reconciled by the Administrator of PD account at the end of financial year and plus and minus memorandum prepared every month for submission to Accountant General (A&E). Test check of records (March and July 2011) of Sub treasury Mhow and selected PD accounts revealed the following:

(i) Out of ₹ 17.02 crore drawn from PD account 21 of Assistant Commissioner, Scheduled Tribes and Scheduled Caste Welfare, Betul during the year, ₹ 17 crore

were transferred to SBI current account of Assistant Commissioner, Tribal Welfare Betul during 2010-11, in contravention of Finance Department instructions (February 2009) and Rule 6 of MPFC Part 1. As per Cash Book, an amount of ₹ 16.15 crore (₹ 15.83 crore in bank account and ₹ 0.32 crore in PD account) was still lying unutilised as on 31 March 2011. Further, there was a difference of ₹ 10.47 crore in Deposit with Bank account (Cash Book: ₹ 15.83 crore, Bank records: ₹ 26.30 crore) and ₹ 16 lakh in PD account (Treasury: ₹ 49 lakh, Cash Book: ₹ 33 lakh). These indicated that the Administrator of PD account had not reconciled the balances. The Department stated (July 2011) that the amount was drawn from the PD account for the payment to construction agencies but due to non receipt of bills and valuation of the works full payment could not be made and the amount was kept in Bank account. The balances will be reconciled with the Bank as well as Treasury. The reply is not tenable as the Department has not followed the Finance Department's instructions and rules regarding reconciliation of balances with the treasury records, closing of PD account and transferring of funds to Bank account. The matter was referred to Government (August 2011), reply had not been received (September 2011).

(ii) As of 31 March 2011, a balance of ₹ 161.93 crore was lying in PD accounts of five LAOs<sup>3</sup> either for disbursement of compensation to the awardee or to refund to the Government institutions. The PD accounts were neither closed at the end of the financial year nor approval to their continuance from the Finance Department obtained. No scheme-wise detail of funds lying in the PD account was made available to audit by the LAOs. There was difference of ₹ 22.54 crore in the balance of PD account as of 31 March 2011 in respect of four LAOs<sup>4</sup> between the figures as per cash book and Treasury records which indicated that the Administrator has neither followed the instructions regarding reconciliation of balances with Treasury records nor submitted plus and minus memorandum to the Accountant General (A&E). Department stated that process of reconciliation of difference would be made in future.

A cheque amounting to ₹ 39.90 crore was issued by LAO, Khandwa during 2010-11 in favour of Branch manager, Bank of India, Branch Mundi from PD account G-14 with the instructions to make payment as per awardees list after opening of Bank accounts of the awardees. No records relating to disbursed amount to awardees, balance lying for disbursement and reasons for non-disbursement were made available to audit. The factual position relating to the amount of ₹ 39.90 crore could therefore not be ascertained in audit. The matter was referred to Government (August 2011), reply had not been received (September 2011).

(iii) A PD Account was opened in 2006-07 in favour of Director, Institute of Animal Health and Veterinary Biologicals (Jaivik Utpad Sansthan) Mhow, Indore.

<sup>3</sup> LAO Barwani (₹ 2.00 crore), LAO Dhar (₹ 58.90 crore), LAO Bhikangaon, Khargone (₹ 3.14 crore), LAO Khandwa (₹ 36.09 crore) and District LAO Chhatarpur (₹ 61.80 crore)

<sup>4</sup> LAO Dhar (₹ 11.53 crore), LAO Bhikangaon, Khargone (₹ 0.09 crore), LAO Khandwa (₹ 5.91 crore) and District LAO Chhatarpur (₹ 5.01 crore)

During 2006-07 to 2008-09, ₹ 12.37 crore were deposited in PD account. Out of ₹ 12.37 crore deposited during 2006-09, only ₹ 0.49 crore (4 per cent) were utilised leaving a balance of ₹ 11.88 crore in PD account as of July 2011. This resulted in blockage of funds of ₹ 11.88 crore and transfer of funds to PD account by exhibiting as a final expenditure in respective year accounts, was in violation of provisions of subsidiary rule 284 of MPTC Vol. I according to which no money should be drawn from the treasury unless required for immediate disbursement. The PD account was not closed at the end of the each financial year as per provisions of Rule 543 of MPTC Part I. The matter was referred to the Government (August 2011). The Director accepted the facts and stated (August 2011) that matter regarding continuance of PD account is under correspondence with the Director, Veterinary Services, Madhya Pradesh, Bhopal and the Finance Department.

(iv) Out of ₹ 6.80 crore released in 2005-07 for the Special Assistance Scheme-6875-Eri sericulture and development scheme under Grant no. 56, unspent balances of ₹ 2.28 crore was lying in PD account 38 of Director Sericulture, Bhopal as of 31 March 2011 since 2008-09. Apart from this ₹ 73 lakh were also lying unspent with the districts (₹ 42 lakh) and M.P. Silk Federation Bank account (₹ 31 lakh). Assistant Director, Sericulture stated (July 2011) that letter has been issued (July 2009) to the Principal Secretary, Rural Industries Department, Bhopal for permission to refund of above amount. The reply is not tenable as the amounts were still remaining unspent (July 2011) and PD account as well as Bank account was not closed. Thus, it resulted in blockade of funds of ₹ 3.01 crore since 2008-09 and non-compliance to provisions of Sub Rule 284 and 543 of MPTC Part-I.

### **3.6 Conclusion**

Forty two thousand two hundred four utilisation certificates in respect of grants for an aggregate amount of ₹ 16,286.97 crore were awaited from grant sanctioning authorities. There was delay of 12 to 24 months and above, in submission of accounts by 47 autonomous bodies affecting their transparency and accountability. The Government's compliance towards disposal of cases of losses, misappropriations, etc. amounting to ₹ 46.21 crore was deficient. Detailed Contingent bills for an amount of ₹ 21.43 crore against Abstract Contingent bills for the period 1996 to 2011 were awaited. ₹ 2,063 crore were retained in 812 Personal Deposit accounts as at the end of March 2011 in violation of the provisions of Madhya Pradesh Treasury Code. Non-reconciliation of expenditure amounting to ₹ 808 crore in respect of Controlling Officers of ten departments and 66 per cent of the total non-debt receipt of ₹ 52,257 crore was also noticed. All these deficiencies reflected lack of internal controls in the departments and ineffective governance by the Government.

**3.7 Recommendations**

Departmental enquiries in all the cases of misappropriations, losses, etc., should be expedited. Timely submission of accounts by autonomous bodies should be ensured. Closing of PD accounts having huge balances as of 31 March 2011 may be taken up on priority and funds transferred to Consolidated Fund. The departments should ensure that grants are released only after ascertaining proper utilisation of the grants released earlier. Temporary advances lying outstanding at the end of 2010-11 should be recovered/adjusted forthwith. Internal controls in various departments should be strengthened to prevent recurrence of such cases.

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