

**CHAPTER-III**  
**FINANCIAL REPORTING**

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### 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.

#### 3.1 Delay in furnishing of Utilization Certificates

Autonomous bodies/authorities having no sufficient resources of their own are assisted financially by the Government through release of Grant-in-Aid (GIA) to be spent on specific purposes. The position of GIA provided by the State to Autonomous Bodies/ Authorities during 2009-12 is given in **Table 3.1** below:

Table-3.1

#### Grant-In-Aid provided by the State to Autonomous Bodies/ Authorities

(₹ in crore)

Sl. No.	Body/Authority	2009-10	2010-11	2011-12
1.	Srinagar Municipal Corporation	73.33	107.18	112.42
2.	Jammu Municipal Corporation	76.93	74.60	69.98
3.	Urban Local Bodies (Kashmir)	29.56	42.67	62.39
4.	Urban Local Bodies (Jammu)	20.24	26.96	41.30
5.	SKUAST – Kashmir	55.58	75.73	90.63
6.	SKUAST – Jammu	25.37	28.29	30.59
7.	Kashmir University	44.48	59.83	61.85
8.	Jammu University	50.85	43.28	63.70
9.	J&K Sports Council	7.23	8.30	10.26
10.	J&K Academy of Art and Culture	9.93	11.68	19.93
11.	IMPA	4.97	5.89	10.51
12.	Khadi and Village Industries Board	8.60	10.60	12.01
13.	Others	75.40	47.18	44.96
	<b>Total</b>	<b>482.47</b>	<b>542.19</b>	<b>630.53</b>

Financial Rules provide that for the grants provided for specific purposes, Utilization Certificates (UCs) should be obtained by the departmental officers from the grantees and after verification, these should be forwarded to the Accountant General (A&E), Jammu and Kashmir within 18 months from the date of their sanction unless specified otherwise.

The position of outstanding utilization certificates (UCs) at the end of 2011-12 has deteriorated *vis-à-vis* the position at the end of 2010-11 as detailed in **Table 3.2** below:

**Table-3.2**

**Age-wise arrears of Utilization Certificates: Status as on 31 March 2012**

Range of delay (in number of years)	Total Grants Paid		Utilization Certificates Received		Utilization Certificates Outstanding	
	Number of items	Amount (₹ in crore)	Number of items	Amount (₹ in crore)	Number of items	Amount (₹ in crore)
0 – 1	838	604.43	73	214.01	765	390.42
1 – 3	1439	1242.44	609	351.74	830	890.70
3 – 5	1460	996.31	124	159.81	1336	836.50
<b>Total</b>	<b>3737</b>	<b>2843.18</b>	<b>806</b>	<b>725.56</b>	<b>2931</b>	<b>2117.62</b>

A total number of 2,931 UCs involving ₹ 2,118 crore were outstanding as on 31 March 2012 of which 2,166 UCs amounting to ₹ 1,727 crore were outstanding for more than one year.

**3.2 Non-submission/ delay in submission of Annual accounts by Autonomous Bodies**

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 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. A total of 301 annual accounts of 32 Bodies were awaited in Audit (**Appendix-3.1**) as on 31 March 2012. Six Autonomous Bodies required to be audited by the Comptroller and Auditor General (C&AG) of India under Sections 19 (3) and 20 (1) of the said Act had also not furnished the annual accounts as tabulated in **Table 3.3** below:

Table 3.3

## Non-submission of accounts by Autonomous Bodies

Name of Body/Authority	Delay in number of years	No of accounts	Grants during 2011-12 (₹ in crore)
Ladakh Autonomous Hill District Council, Leh	1-17	17	263.14
Ladakh Autonomous Hill District Council, Kargil	1-8	08	243.33
Sher-i-Kashmir University of Agricultural Science and Technology, Srinagar	1-2	2	90.78
Sher-i-Kashmir University of Agricultural Science and Technology, Jammu	1-2	1	30.74
Jammu & Kashmir Legal Services Authority, Srinagar	1-15	15	4.35
Provident Fund Organization, Srinagar	1-12	13	Nil
		<b>56</b>	<b>632.34</b>

The audit of Ladakh Autonomous Hill District Council (LAHDC), Leh and LAHDC, Kargil has been entrusted to the C&AG of India upto 2011-12. LAHDC, Leh has failed to submit accounts for audit since its inception in 1995-96 although substantial sums are being released to the Council and unspent balances at the end of the year remain credited in a non-lapsable Fund in the Public Account of the State. Same is the position in respect of LAHDC, Kargil which came into existence in 2004-05 and the accounts are in arrears since inception.

Non submission/delay in submission of accounts by these Bodies receiving substantial funding from the State Budget is a serious financial irregularity persisting for years. In view of this non-compliance, the audited accounts of these Statutory Bodies have not so far been presented to the State Legislature as required under the Statutes under which these Bodies were created. This has deprived the State Legislature to get a feedback on their activities and financial performance.

### 3.3 Departmentally Managed Commercial Undertakings

The departmental undertakings of certain Government departments performing activities of commercial nature are required to prepare *pro forma* accounts in the prescribed format annually. The finalized 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 finalization of accounts, the investment of the Government, corrective measures, if any required, for

ensuring accountability and improving efficiency cannot be taken on time. Besides, the delay is fraught with risk of fraud and leakage of public money.

The Heads of the Government Departments are required to ensure that the undertakings prepare such accounts and submit the same to the Principal Accountant General (Audit), Jammu and Kashmir for audit within a specified time frame. The Government has two such departmental undertakings: (a) Government Printing Presses at Srinagar and Jammu and (b) Public Distribution System (PDS) by the Consumer Affairs and Public Distribution Department. The *pro forma* accounts of the commercial operations of both these undertakings are in arrears. The two Government Presses have not prepared their *pro forma* accounts from 1968-69 and onwards (July 2012). In Kashmir and Ladakh Divisions, the PDS operations are directly carried out by departmentally run PDS shops. The *pro forma* accounts have not been prepared in these two Divisions from 1975-76 (Revised Account) and onwards (July 2012). In Jammu Division, the PDS operations are mainly through network of private dealers (about 91 *per cent*) and the *pro forma* accounts have not been prepared from 1973-74 to 1997-98 and 1999-2000 and onwards. The *pro forma* accounts for 1998-99 were finalized during 2002-03 (July 2012).

### **3.4 Bookings under Minor Head 800-'Other Receipts' and 'Other Expenditure'**

During 2011-12, ₹ 3,179 crore under 59 Major Heads of account (representing functions of the Government) was classified under the Minor Head 'Other Expenditure' in the revenue and capital account constituting 19 *per cent* of the total expenditure recorded under all the Major Heads of accounts. Similarly, a total sum of ₹ 4,071 crore under 36 Major Heads of account (representing Revenue Resources of the Government) was classified under the Minor Head 'Other Receipts' in the accounts constituting 16 *per cent* of the total receipts recorded under all the revenue heads of accounts. In eight Major Heads of accounts, substantial amount of expenditure was booked under 'Other Expenditure' and in five Major Heads of accounts substantial amount of receipts was booked under 'Other Receipts'. The major schemes are not depicted distinctly in the Finance Accounts, though the details of this expenditure are depicted in the sub-head (scheme) level or below in the Detailed demands for Grants and corresponding head-wise Appropriation Accounts forming part of the State Government Accounts. Classification of large amounts booked under the minor head '800-Other receipts/ expenditure' affects the transparency and the fair picture in financial reporting.

### **3.5 Conclusion**

Internal control system within the Government Departments is not functioning effectively to ensure compliance with various rules, procedures and directives formulated by the Government. Non-compliance with the basic requirements of the preparation of annual *pro forma* accounts by the Departmentally Managed Commercial Undertakings and non-adjustment of large amounts drawn on AC bills by the departmental authorities, financial reporting may not be accurate and reliable. The

position regarding outstanding Utilization Certificates has deteriorated. A total number of 2,931 UCs involving a total amount of ₹ 2,118 crore remained outstanding as on 31 March 2012 which was as high as 7.4 *per cent* of the total expenditure incurred in 2011-12 and requires close monitoring. Similarly, 301 Annual Accounts of 32 Autonomous Bodies were awaited for audit as on 31 March 2012.

### **3.6 Recommendations**

The Government may consider ensuring:

- timely submission of utilization certificates in respect of the grants released for specific purposes to the grantee institutions.
- timely preparation of Annual accounts by the Autonomous Bodies to facilitate auditing.
- correctness in financial reporting instead of clubbing the receipts and expenditure of major schemes under the Minor Head '800-Other Expenditure' and '800-Other Receipts'.

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