

CHAPTER III
FINANCIAL REPORTING

CHAPTER III

FINANCIAL REPORTING

A sound internal financial reporting system and the availability of relevant and reliable information significantly contribute to efficient and effective governance by a State Government. Compliance with financial rules, procedures and directives as well as timeliness and quality of reporting are some of the attributes of good governance. Reports on compliance and controls, if effective and operational, assist State Governments in meeting their basic stewardship responsibilities, including strategic planning and decision-making. This chapter provides an overview of the State Government's compliance with some of the financial rules, procedures and directives during 2011-12.

3.1 Delay in furnishing of Utilisation Certificates

Article 210A of the Tamil Nadu Financial Code provided that for grants released during a year for specific purposes, Utilisation Certificates (UCs) should be obtained by the departmental officers from the organisations to whom grants were given and after verification, the UCs should be forwarded to the Accountant General within 18 months from the date of release of the grants, unless specified otherwise. It was found that in respect of grants and loans given upto 2010-11, 813 UCs for ₹ 5,169.37 crore were not furnished by the grantees as of September 2012. The department-wise break-up of outstanding UCs is given in **Appendix 3.1** and the year-wise analysis of delays in submission of UCs is summarised in **Table 3.1**.

Table 3.1: Year-wise position of the Utilisation Certificates

Period	Utilisation certificates outstanding	
	Number	Amount (₹ in crore)
2010-11	698	3,884.50
2006-10	113	1,281.43
2004-06	2	3.44
Total	813	5,169.37

(Source: Compiled from the information furnished by the Principal Accountant General (A&E), Tamil Nadu)

Out of the above, 436 UCs for ₹ 848.80 crore were due from the Department of Adi Dravidar and Tribal Welfare, 102 UCs for ₹ 731.50 crore were due from the Department of Municipal Administration and Water Supply and 132 UCs for ₹ 1,894.01 crore were due from the Revenue Department. Non-receipt of UCs for huge amounts indicates that the departmental officers failed to comply with the rules to ensure accountability of the agencies that received Government funds.

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 heads of departments are required to furnish to Audit every year, detailed information about the financial assistance given to various institutions, the purposes for which the assistance was granted and the total expenditure of these institutions.

The annual accounts of 275 autonomous bodies/ authorities due upto 2011-12 had not been received as of July 2012 by the Principal Accountant General (General and Social Sector Audit). The details are given in **Appendix 3.2** and their age-wise pendency is presented in **Table 3.2**

Table 3.2: Age-wise arrears of Annual Accounts due from Autonomous Bodies/Authorities

Sl. No.	Delay in Number of Years	Number of the Bodies/ Authorities
1.	0 – 1	97
2.	1 – 3	88
3.	3 – 5	40
4.	5 & above	50
Total		275

(Source: Data compiled by Audit from information furnished by the Head of Departments)

The major defaulters were educational institutions receiving Government grants for salaries, maintenance etc. The heads of departments failed to ensure that the bodies/authorities submit their accounts to Audit.

3.3 Non-adjustment of Temporary Advances

The 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 Article 99 of the Tamil Nadu Financial Code, the advances should be adjusted by presenting detailed bills and vouchers as soon as possible.

It was noticed that 5,080 temporary advances drawn upto 31 March 2012 by DDOs through 30 Pay and Accounts offices/District Treasury Offices amounting to ₹ 369.47 crore were remaining unadjusted as on 30 June 2012. Age-wise analysis of the advances pending is given in **Table 3.3**.

Table 3.3 Age-wise Analysis of Advances Pending

Sl. No	Pendency	No of Advances	Amount (₹ in crore)
1	More than 10 years	33	0.28
2	More than five years upto 10 years	81	0.89
3	More than one year but less than five years	936	61.09
4	Less than one year	4,030	307.21
Total		5,080	369.47

(Source: Data furnished by the Principal Accountant General (A&E), Tamil Nadu)

The pendency indicated laxity on the part of departmental officers in enforcing the codal provisions regarding adjustment of the advances involving substantial amount.

Test check of records maintained by the Principals, District Institute of Education and Training revealed that out of 370 advances pertaining to 2007-11 under Article 99 of Tamil Nadu Financial Code, Volume I, 204 advances amounting to ₹ 8.08 crore were adjusted belatedly, ranging from over one to three years as detailed in **Table 3.4**:

Table 3.4 Details of temporary advances adjusted belatedly

Year	Delay of more than 3 years		Delay of more than 2 years		Delay of more than one year		Total	
	Number of advances	Amount (in ₹)	Number of advances	Amount (in ₹)	Number of advances	Amount (in ₹)	Number of advances	Amount (in ₹)
2007-08	--	--	24	9649400	57	23410000	81	33059400
2008-09	6	2235451	14	4663641	37	14334627	57	21233719
2009-10	--	--	--	--	28	11390272	28	11390272
2010-11	--	--	--	--	38	15158808	38	15158808
Total	6	2235451	38	14313041	160	64293707	204	80842199

(Source: Data furnished by the Director, State Council of Educational Research and Training, Chennai)

3.4 Operation of the Personal Deposit Accounts

Personal Deposit (PD) Accounts are created for specific purposes by debit to service heads in the Consolidated Fund of the State and are required to be closed by the administrators of PD Accounts at the end of the financial year by minus debit to the relevant service heads. There were 1,297 PD accounts in operation in 31 District Treasuries and five Pay and Accounts Offices. Of these accounts 987 accounts were not closed as of March 2012 and the balance of ₹ 368.19 crore in these accounts was not transferred back to the respective service heads. Out of 987 accounts, 439 accounts with a balance of ₹ 18.08 crore were not operated at all during 2011-12. The PAOs/District Treasuries having large number of such accounts are Coimbatore (22 Accounts - ₹ 6.32 crore), PAO, East (13 Accounts - ₹ 3.65 crore), Tirunelveli (13 Accounts - ₹ 1.46 crore) and Villupuram (26 Accounts - ₹ 1.11 crore). There were negative balances as of March 2012 in respect of 34 PD accounts aggregating to ₹ 8.34 crore.

3.5 Misappropriations, losses, defalcations, etc.

Article 294 of the Tamil Nadu Financial Code stipulates that heads of offices should report all cases of defalcations or loss of public moneys, stores or other movable or immovable properties to the Accountant General. Further, the Financial Code prescribes the principles and procedures to be followed for enforcing responsibility for losses and disposal of such cases.

(i) The State Government departments reported 493 cases of misappropriation, shortages, theft and loss involving a total amount of ₹ 20.27 crore upto March 2012, on which final action was pending. The department-wise break-up of pending cases and the nature of these cases are given in **Appendix 3.3**. The age-profile of the pending cases and the number of cases pending in each category – misappropriation, defalcation, loss, theft etc., are summarised in **Table 3.5**.

Table 3.5: Profile of misappropriations, defalcations, thefts, losses, etc.

Age-Profile of the Pending Cases			Nature of the Pending Cases		
Range in years	Number of cases	Amount involved (₹ in lakh)	Nature of the cases	Number of cases	Amount involved (₹ in lakh)
0 - 5	42	870.70	Theft, loss, shortages etc.	219	288.57
5 - 10	51	429.14	Misappropriation / defalcation	274	1738.80
10 - 15	49	338.69	Total	493	2,027.37
15 - 20	99	118.40	Cases of losses, written off during the year	Nil	Nil
20 - 25	97	167.30			
25 and above	155	103.14			
Total	493	2,027.37	Total pending cases	493	2,027.37

(Source: Compiled from the information received from heads of departments)

The reasons for the outstanding cases could be classified under the categories listed in **Table 3.6**.

Table 3.6: Reasons for the outstanding cases of misappropriation, defalcation, theft, loss etc.

Reasons for the delays	Number of cases	Amount (₹ in lakh)
(i) Awaiting departmental and criminal investigation	234	737.70
(ii) Departmental action initiated but not finalised	154	816.02
(iii) Criminal proceedings finalised but recovery of the amount still pending	21	174.06
(iv) Awaiting orders for recovery or write off	54	78.64
(v) Pending in courts of law	30	220.95
Total	493	2,027.37

(Source: Compiled from the information received from heads of departments)

(ii) Test check (August 2012) of records of the Commissioner of Labour by Audit revealed that one case of defalcation of ₹ 75.19 lakh committed by the Deputy Commissioner of Labour, Salem in August 2010 was not reported to the Accountant General. When specific reasons for not reporting the case were called for, the Commissioner of Labour, while stating that a criminal case was filed against the officer and is pending in the court, stated that due to administrative reasons the case could not be reported to Accountant General. The reply of the Commissioner of Labour was not acceptable as he failed to follow the codal provisions.

3.6 State Funds kept in Bank Accounts

The Government permitted the drawing and disbursing officers and agencies under their control to keep funds of certain schemes in bank accounts, so that the funds could be easily accessed. A review of such funds kept in bank accounts by the departmental officers/agencies in four districts viz. Coimbatore, Dharmapuri, Madurai and Thanjavur showed that State funds of ₹ 19.89 crore, were kept in bank accounts (as of March 2012) by those officers/agencies without incurring expenditure therefrom for periods ranging from six to 36 months, as detailed in **Appendix 3.4**. The fund balances included interest of ₹ 1.48 crore.

As Anaithu Grama Anna Marumalarchi Thittam has been discontinued from 2011-12, the balance available in the bank accounts of the scheme should have been remitted to the Government Account. But, funds of ₹ 10.13 crore relating to the scheme in three districts (Dharmapuri, Madurai and Thanjavur) were available with the officers/agencies without being remitted into the Government account.

Accumulation of funds in bank accounts, without expenditure being incurred therefrom shows that the departments/heads of departments do not have sufficient control over the funds kept in bank accounts by the drawing and disbursing officers/agencies.

3.7 Deficiencies noticed in the Pay and Accounts Offices and Treasury Offices

Audit of vouchers at the Pay and Accounts Office, South (PAO), Chennai for the period 2008-09 and 2010-11 revealed non-compliance to the provisions of the Tamil Nadu Treasury Code and Pay and Accounts Office Manual as discussed below:

(i) Non-checking of the arithmetical accuracy

Rules 16 and 26 of the Tamil Nadu Treasury code provide that the sub-vouchers attached to the contingent bills are passed for the correct amount as per the totals, after checking the arithmetical accuracy.

In March 2009, a bill for ₹ 81.91 lakh presented to the PAO (South), Chennai by the Director of School Education was passed for payment to the Tamil Nadu Text Book Corporation towards supply of text books. Audit of the paid vouchers revealed that a sum of ₹ 31.45 lakh was claimed in excess due to wrong exhibition of the total number of books supplied as 3,25,874 against the actual supply of 19,732 books. The PAO passed the bill for the total claim of ₹ 81.91 lakh without ensuring the arithmetical accuracy resulting in excess payment of ₹ 31.45 lakh. On this being pointed out by Audit (March 2010), the department admitted the excess payment, recovered the amount from the Corporation and remitted ₹ 31.45 lakh to Government account in December 2010.

The PAO stated (September 2012) that this lapse occurred due to rush of bills for payment at the end of the year i.e., March 2009.

(ii) Accumulation of uncashed cheques

Paragraph 92 (iii) of the Pay and Accounts Office Manual and Rule 49 of Tamil Nadu Treasury Code specify that in cases where cheques are not cashed within three months after the month of their issue, the payees should be advised by the PAO/Treasury of the fact of those cheques having become time-barred and should be requested to obtain fresh cheques surrendering the time-barred cheques. If no reply is received from the payee, within a month after the issue of intimation by the PAO/Treasury and the fact of non-payment of cheque is also certified by the bank, action should be taken to cancel the cheque.

It was noticed from the details of uncashed cheques furnished by three PAOs, that 49,568 cheques for ₹ 518.50 crore remained uncashed (July 2012) for periods upto 25 years. The age-wise profile of the number of cases and the value of cheques depicted as uncashed as per the books of PAOs are summarised in **Table 3.7**.

Table 3.7: Details of uncashed cheques

Delay in number of years	Number of cases	Value of cheques (₹ in crore)
0 – 5	17,496	477.23
5 – 10	17,125	26.80
10 – 15	7,954	5.42
15 – 20	5,150	5.97
20 – 25	1,843	3.08
Total	49,568	518.50

(Source: Information furnished by PAOs)

The PAO (South) stated (July and September 2012) that due to shortage of manpower and as large number of cheques (2,500 per month) were being returned by the banks, all the payees could not be addressed and that strictly following the manual provisions was very difficult in view of shortage of manpower. Replies from the PAO (East) and PAO (Madurai) were not received.

Information furnished by the PAOs on the pendency of huge number of such cheques for a long period reflects that the PAOs failed to exercise the required action and in the process some of the payees might have lost the payment due to them.

3.8 Large scale booking under Minor Head “800”

Booking of receipts or expenditure under the minor head – “800 Other Receipts” and “800 - Other Expenditure” is considered opaque classification of receipts and expenditure as these heads do not disclose the schemes, programmes, etc, to which the amounts relate. These minor heads normally accommodate the receipts/expenditure which cannot be classified under the available programme minor heads.

During 2011-12, expenditure aggregating ₹ 3,630.52 crore (74.15 per cent of the total expenditure of ₹ 4,896.47 crore), was classified under the minor head – 800 – Other Expenditure in 11 major heads in the Revenue and Capital Sections. The entire expenditure under “Flood Control and Drainage” and “Capital Outlay on Other Administrative Services” were classified under the omnibus minor head 800-Other Expenditure, instead of depicting the same under relevant minor heads below the functional major heads in the Finance Accounts as indicated in **Appendix 3.5**.

Similarly, Revenue Receipts aggregating ₹ 1,289.44 crore (83.32 per cent of the total receipt of ₹ 1,547.52 crore), were classified under minor head – 800 – Other Receipts under 10 major heads. The entire receipts under “Family Welfare”, “Urban Development” and “Ports and Light Houses” were classified under the omnibus minor head 800 – Other Receipts as indicated in **Appendix 3.6**.

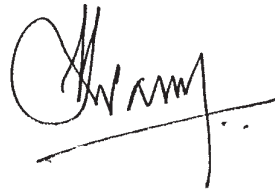
Classification of the large amount under the omnibus minor head ‘800 – Other Expenditure/Receipts’ reflected lack of transparency in financial reporting.

3.9 Conclusion

Some departmental officers failed to ensure adherence to the terms and conditions relating to timely submission of utilisation certificates and annual accounts by the grantee institutions. Temporary advances drawn upto 31 March 2012 by the Drawing and Disbursing Officers involving an amount of ₹ 369.47 crore in 5080 cases remained unadjusted. The State Government departments reported 493 cases of misappropriation, defalcation, etc., involving a total amount of ₹ 20.27 crore up to March 2012, on which final action was pending. In three Pay and Accounts Offices, 49568 cheques involving an amount of ₹ 518.50 crore remained uncashed for a period upto 25 years.

3.10 Recommendations

- The internal control mechanism of the Government departments needs to be strengthened to watch timely submission of the utilisation certificates by the organisations to whom grants were given.
- Timely submission of accounts by the autonomous bodies to Audit should be ensured.
- Action to clear the pendency in adjustment of temporary advances and recovery/write off of the outstanding cases of misappropriation, theft, loss, etc., needs to be initiated by the Government.
- Action to clear the large number of cheques issued by the Pay and Accounts Offices, but remained uncashed for a long period after expiry of validity period of the cheques needs to be expedited by the Government.



(K. SRINIVASAN)

Principal Accountant General
(General and Social Sector Audit),
Tamil Nadu and Puducherry

Chennai
The

Countersigned



(VINOD RAI)

Comptroller and Auditor General of India

New Delhi
The