

Chapter III

Financial Reporting

A sound internal financial reporting with relevant and reliable information significantly contributes to efficient and effective governance. The reports on compliance and controls, if operational, accurate and effective, assist the State Government to meet its basic stewardship responsibilities, including strategic planning and decision making. It contributes to accurate fair and transparent depictions of the financial and operational health of the State Government and its various instrumentalities like local bodies, autonomous bodies etc.

This chapter provides an overview and status of compliance of various broad significant financial rules, procedures and directives in so far as financial reporting is concerned by the State Government and its various subordinate offices during the current year.

3.1 Delay in furnishing Utilisation Certificates

General Financial and Accounts Rules (GF&AR) 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, these should be forwarded to the Principal Accountant General (A&E) within 12 months from the date of their sanction unless specified otherwise.

Of 15,632 UCs due in respect of grants and loans aggregating to ₹ 2,948.23 crore paid during 1997-98 to 2011-12, 197 UCs (₹ 30.82 crore) were in arrears. Department-wise break-up of outstanding UCs is given in *Appendix 3.1*. Age-wise position of delays is summarised in the following table:

Table 3.1: Age-wise arrears of Utilisation Certificates

(₹ in crore)

Range of Delay in Number of Years	Grants/loans paid		Utilisation certificates outstanding as on 31 August 2013	
	Number	Amount	Number	Amount
0-1	75	22.52	70	22.32
1-3	147	9.27	68	4.25
3-5	523	46.07	52	4.10
5-7	1,474	85.74	1	0.03
7-9	1,424	84.50	2	0.12
9 and above	11,989	2,700.13	4	.*
Total	15,632	2,948.23	197	30.82

Source: Finance Accounts and vouchers compiled by PAG (A & E)

* Only ₹ 0.38 lakh

Pendency of UCs mainly pertained to Science and Technology Department (156 UCs: ₹ 9.77 crore), Social Welfare Department (30 UCs: ₹ 14.64 crore) and Family Welfare Department (7 UCs: ₹ 6.41 crore). The oldest ones (1997-99) pertained to Environment Department (₹ 0.38 lakh)

3.2 Non-submission/delay in submission of accounts

In order to identify the institutions which attract audit under Section 14 of the Comptroller and Auditor General's (Duties, Power and Conditions of Services) Act, 1971, the Government/ Heads of the Department are required to furnish to Audit every year the detailed information about the financial assistance given to various institutions, the purpose for which the assistance is granted and the total expenditure of the institutions. Further, Regulation on Audit and Accounts 2007 provides that Governments and heads of departments which sanction grants and / or loans to bodies or authorities shall furnish to the Audit Office by the end of July every year, a statement of such bodies and authorities to which grants and/ or loans aggregating ₹ 10 lakh or more were paid during the preceding year indicating (a) the amount of assistance (b) the purpose for which the assistance was sanctioned and (c) the total expenditure of the body or authority.

Out of 321 accounts received during the year 2011-12, accounts of 122 bodies/authorities attracted audit by CAG of India. Of these, accounts of 59 bodies/ authorities were audited up to July 2013. The details of the pendency in receipt of accounts in respect of the bodies and authorities who received grants during preceding year from various Government departments are given in *Appendix 3.2* and their age-wise pendency is as follows:

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

Delays in number of years	Number of Bodies/ Authorities	Grants received during preceding year (₹ in crore)	Expenditure incurred during preceding year (₹ in crore)
0-1 year	48	532.62	744.66
1-3 years	35	74.20	86.92
3-5 years	11	14.03	26.42
5-10 years	16	10.31	10.99
Total	110	631.16	868.99

It would be seen that delay in submission of accounts by 27 bodies/ authorities ranged between 3 and 10 years. It was also seen that no department had furnished the purposes for which the assistance was sanctioned. Consequently, audit could not provide assurance to the Legislature/Government, the manner in which the sanctioned grant was utilised, specifically on the issues of diversion or misutilisation.

287 annual accounts in respect of 110, out of total 241 autonomous bodies/ authorities due up to 2011-12, had not been received by the Principal Accountant General (G & SSA), Rajasthan as of July 2013.

3.3 Delay in submission of Accounts/Audit Reports of Autonomous Bodies

Four¹ autonomous bodies have been set up by the State Government in the field of legal aid, human rights, development of khadi and welfare of construction workers. These bodies are audited by the CAG of India. The audit of accounts of Rajasthan *Khadi* and Village Industries Board (RKVIB) has been entrusted to the CAG under section 20(1) of the DPC Act while the audit of other three bodies have been entrusted to the CAG as per provision in their respective Acts.

The status of entrustment of audit, rendering accounts to Audit, issue of separate audit report and its placement in the legislature are indicated in *Appendix 3.3*. Funding of Rajasthan State Human Rights Commission was being done by the Government through treasury as such their annual accounts have not been received since 2007-08 and therefore audit of accounts could not be conducted under section 19(2) of the Act.

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 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, corrective measures, if any required, for ensuring accountability and improving efficiency cannot be taken in time.

The Heads of Department 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. All the 10 such undertakings have prepared and submitted their accounts up to 2011-12. The department-wise position of preparation of *pro forma* accounts as on 31 May 2013 and investment made by the Government is given in *Appendix 3.4*.

3.5 Misappropriations, losses, defalcations etc.

Rule 20 of GF & AR (Part-I) provides that any loss of public money, departmental revenue or receipts, stamps, stores or other property held by or on behalf of Government caused by misappropriation, fraudulent drawal/payment or otherwise discovered in a treasury, any other

1. Rajasthan State Legal Services Authority, Jaipur; Rajasthan State Human Rights Commission, Jaipur; Rajasthan *Khadi* and Village Industries Board, Jaipur and Rajasthan Building and Other Construction Workers Welfare Board, Jaipur.

office/department shall be reported immediately by the officer concerned to the next higher authority as well as to the Principal Accountant General.

State Government reported 979 cases under various departments, of misappropriation (334) and theft/loss (645) of government money amounting to ₹ 46.84 crore up to 31 March 2013, on which final action was pending (June 2013). The department-wise break up of pending cases and age-wise analysis is given in *Appendix 3.5* and nature of these cases is given in *Appendix 3.6*. The age profile of pending cases and the number of cases pending in each category of theft/loss and misappropriation as emerged from these appendices are summarised in the **Table 3.3**:

Table 3.3: Profile of Misappropriation, losses, defalcations 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	275	2095.63	Theft/loss of material	645	994.65
5-10	274	1139.12	Misappropriation/ embezzlement	334	3689.49
10-15	183	781.86			
15-20	128	368.71			
20-25	72	212.36			
25 and above	47	86.46	Cases of losses written off during the year	83	188.55
Total	979	4684.14	Total pending cases	979	4684.14

Source: Information received from the Departments

Reasons for pendency of outstanding cases could be classified in the categories as listed in the following table:

Table 3.4: Classification of reasons for outstanding cases of Misappropriations, losses, defalcations etc.

Reasons for the Delay/ Outstanding Pending Cases	Number of cases	Amount (₹ in lakh)
Awaiting departmental and criminal investigation	388	2011.17
Awaiting orders for recovery/write off	514	2161.91
Pending in the courts of law	77	511.06
Total	979	4684.14

Source: Information received from the Departments

3.6 Personal Deposit Accounts

Rule 260(1) of GF & AR provides that no moneys shall be received for deposit in the Government accounts unless they are such as by virtue of any statutory provisions or of any general or special orders of the Government are required or authorised to be held in the custody of the Government.

Review of position of Personal Deposit (PD) Accounts held by various departments revealed the following:

(1) Inoperative PD Accounts

A sum of ₹ 12,424.21 crore was transferred to 1,491 PD accounts during 2012-13, of which ₹ 2,919.83 crore (23.5 percent) was transferred in March 2013 alone. As of 31 March 2013, there was unspent balance of ₹ 2,173.73 crore under these PD accounts including three PD accounts of Rajasthan Urban Infrastructure Financial Development Corporation, Jaipur (Secretariat), Managing Director & Financial Adviser, Rajasthan State Bridge Construction Corporation Limited, Jaipur and Director/Commissioner, Dy. Development Commissioner, Rural and Panchayati Raj Department, Jaipur (Secretariat) having huge balances of ₹ 118.34 crore, ₹ 112.69 crore and ₹ 170.11 crore respectively. 41 PD accounts totalling ₹ two crore (*Appendix 3.7*) remained inoperative for the last five years (2008-13), out of which mainly three PD Accounts namely Project Director, District Rural Development Agency, Sirohi, District Supply Officer, Karauli and Assistant Engineer, Soil Conservation and Water Resources, Bharatpur had balances of ₹ 0.68 crore, ₹ 0.25 crore and ₹ 0.22 crore respectively.

(2) Drawal of money from PD Accounts despite negative balances

According to Rule 264(1)(iii) GF & AR, payment shall on no account be allowed to exceed the balance at credit on the deposit account. A sum of ₹ 27.30 crore pertained to minus balances in 46 PD Accounts (*Appendix 3.8*) of which one PD Account of Dr M P Khunteta Homeopathic Medical Mos and Kes, Jaipur (Jaipur Treasury) having a sum of ₹ 12.24 crore. This indicates drawal of funds from PD Accounts more than the available balances.

(3) Blocking of funds in PD Accounts and their non-utilisation for intended purposes for long period

Test check of certain PD Accounts revealed that sums deposited in PD Accounts by various departments remained unutilized for a long period up to 31 March 2013, as mentioned below:

(i) A sum of ₹ 13.49 crore released by the State Government in March 2011 and deposited in PD Accounts of the Department of Information Technology and Communication for issuing Unique Identification (UID) Numbers to Below Poverty Line families, was lying unutilized till 31 March 2013. On being pointed out, the Department intimated (June 2013) that the grant could not be utilised in absence of directions from UID Authority of India.

(ii) A sum of ₹ 9.52 crore was lying unutilised in the PD Accounts of Rajasthan Water Supply and Sewerage Corporation Limited as shown below:

(₹ in crore)			
S. No.	Name of the Scheme	Balance Amount	Balance remaining unutilised since
1.	Rajasthan Integrated Gini Worm Eradication Program	3.30	2003-04
2.	Udaipur (Jamar Kotra) scheme under Special Central Assistance	0.39	2005-06
3.	Jodhpur City (Imp of D/s) scheme under Special Central Assistance	5.83	2005-06
TOTAL		9.52	

The State Government while accepting the facts stated (October 2013) that PD accounts becoming inoperative due to absence of transactions for last five years, is a continuous process. The power of their closure has been given to Treasury Officers (TOs) and instructions have also been issued to TOs for taking necessary action for closing/settlement of balances.

3.7 Booking under Minor Head “800-Other Expenditure” and “800-Other Receipts”

One crucial component of a transparent system of accounting is that the forms of account in which the receipts and expenditure of the Government are reported to the legislature, are constantly reviewed and updated so that they truly reflect receipt and expenditure on all major activities of the Government in a transparent manner, for meeting the basic information needs of all the important stakeholders.

Scrutiny of State Government Finance Accounts 2012-13 disclosed that ₹ 4,888.85 crore under 60 Major Heads of accounts (representing functions of the Government) were classified under the Minor Head ‘800-Other Expenditure’ in the accounts constituting more than 6.60 *per cent* of the total Expenditure (Revenue and Capital) recorded under respective Major Heads. The major schemes such as “Grants-in-aid/Subsidies given to various power companies: ₹ 400.00 crore, Interest on major/medium irrigation projects: ₹ 1,002.86 crore, National Agriculture Development Project: ₹ 350.61 crore, funds released to Local Bodies: ₹ 221.74 crore, District and Other Roads: ₹ 1,072.09 crore (Revenue expenditure ₹ 513.28 crore and Capital expenditure ₹ 558.81 crore) , Interest Grant under Taxes on Sales, Trade etc: ₹ 155.32 crore, grants transferred to State Disaster Response Fund: ₹ 101.90 crore and Interest Grant to good debtors of Cooperatives under Cooperation: ₹ 114.21 crore ” etc. were not depicted distinctly in the Finance Accounts but were rolled up under the Minor Head ‘800-Other Expenditure’. The details of these expenditure are, however, depicted at the sub-head (Scheme) level or below in the Detailed Demands for Grants and corresponding headwise Appropriation Accounts forming part of the State Government accounts.

Similarly, ₹ 2,364.10 crore under 44 Major Heads of accounts (representing functions of the Government) were classified under the Minor Head ‘800-Other Receipts’ in the accounts constituting about 3.96 *per cent* of the total receipts (except Grants-in-aid received from GoI) recorded under the respective Major Heads.

Large amounts booked under the Minor head ‘800’ affect the transparency in financial reporting. This shows that the existing structure of the Government Accounts does not truly reflect the current activities of the Government in these Departments.

3.8 Book Adjustment

Certain transactions are in the nature of periodical adjustments and book adjustments and do not represent actual cash transaction, as mentioned below.

- (i) Creation of funds/ adjustment of contribution to funds in Public Account by debit to Consolidated Fund e.g. State Disaster Response Fund, Reserve Funds etc.
- (ii) Crediting of deposit heads of accounts in Public Account by debit to Consolidated Fund.
- (iii) Annual adjustment of interest on General Provident Fund and State Government Group Insurance Scheme where interest on General Provident Fund of State Government is adjusted by debiting '2049-Interest Payments' and crediting '8009-State Provident Funds'.

During 2012-13, there were 60 items² of book adjustment involving ₹ 5,849.68 crore, which were transferred from Consolidated Fund to Public Account and *vice versa*. These book adjustments were mainly under Interest on balance of State Provident Fund: ₹ 1,390.05 crore, Interest on capital expenditure on Irrigation Projects: ₹ 1,002.86 crore, Transfer of Central and State share to State Disaster Response Fund: ₹ 662.22 crore, Interest on balance of Life Insurance Fund: ₹ 594.39 crore, Expenditure on drought and flood etc. met from State Disaster Response Fund: ₹ 257.80 crore, State share transfer to National Rural Employment Guarantee Fund: ₹ 266 crore, Transfer of Cess to State Road and Bridge Fund: ₹ 239.01 crore and Guarantee Fees transfer to Guarantee Redemption Fund: ₹ 236.04 crore.

3.9 Reconciliation of Receipt and Expenditure

As per the provisions of financial code, all controlling officers are required to reconcile the receipt and expenditure figures of the State Government with the figures accounted for by the Principal Accountant General (Accounts and Entitlements).

During 2012-13, hundred per cent reconciliation of the total expenditure of ₹81,263.91 crore (net) has been done by all the 383 controlling officers.

Similarly, out of 131 controlling officers, 122 have reconciled State Government receipts to the extent of ₹66,558.43 crore (99 per cent) against the total receipts (including Miscellaneous Capital Receipts) of ₹66,921.13 crore.

² Details of the items are given in the Finance Accounts (Volume-I) Government of Rajasthan-2012-13

3.10 Outstanding balances under Suspense Accounts

According to List of Major and Minor Heads of Account of Union and States, certain intermediary/adjusting heads of accounts known as “Suspense” heads are operated in Government accounts to reflect transaction of receipts and payments which cannot be booked to a final head of account, due to lack of information as to their nature or for other reasons. These heads of accounts are finally cleared by *minus* debit or *minus* credit when the amounts under them are booked to their respective final heads of accounts. If these amounts remain uncleared, the balances under the suspense heads would accumulate and would not reflect Government’s receipts and expenditure accurately.

The ledger of suspense balances is to be maintained by Pay and Accounts Office (PAOs) sub/detailed head-wise, as may be necessary.

The aggregate net balance under the Major Heads “8658-Suspense Accounts” in the Finance Accounts of the Government of Rajasthan was ₹ 10.27 crore (Credit) as on 31 March 2013. The Finance Accounts reflect the net balances under Suspense accounts and, therefore, the real magnitude of balances outstanding under these heads does not get reported in the annual accounts of the Government presented to the State Legislature. The correct balances under these heads can be worked out only by aggregating the debit and credit balances separately under various Suspense Heads, Netting of debit/credit balances leads to significant understatement of Suspense balances in the Finance Accounts. This understatement takes place both at the minor head as well as major head level. The position of suspense balances under “8658-Suspense Accounts” for the last three years is given in *Appendix 3.9*.

The aggregate net balance of Suspense Accounts was reduced by ₹ 14.57 crore leaving a balance of ₹ 10.27 crore (Credit) in 2012-13 from ₹ 4.30 crore (Debit) in 2010-11. The reduction was mainly under Pay and Accounts Office-Suspense (₹ 17.80 crore) which was counterbalanced by increase in Suspense Account (Civil) (₹ 5.30 crore). It would also be seen that net debit balances under Pay and Accounts Office-Suspense has decreased in 2012-13 in comparison to 2010-11.

3.10.1 Pay and Accounts Office- Suspense

This minor head is operated for the settlement of inter-departmental and inter-governmental transactions arising in the books of PAOs under the Union Government, PAOs of the Union Territories and the Accountants General. Transactions under this minor head represent either recoveries effected or payments made by an Accounts Officer on behalf of another Accounts Officer against whom the minor head “PAO Suspense” has been operated. Credit under the head is cleared by ‘*minus* credit’ when cheque is issued by the Accounts Officer in whose books initial recovery was accounted for. Debit under ‘PAO Suspense’ is cleared by ‘*minus* debit’ on receipt and realisation of cheque from the Accounts Officer on whose behalf payment was made. Outstanding debit balance under this head would mean that payments have been made by the PAO on behalf of other PAO, which are yet to be recovered.

Outstanding credit balance would mean that payments have been received by the PAO on behalf of other PAO, which are yet to be paid.

In March 2013, the outstanding debit balance under this head was ₹ 10.43 crore and the credit balance was ₹ 0.57 crore. The outstanding balances were mainly in respect of PAO (National Highways) Ministry of Road, Transport and Highways, Jaipur: ₹ 9.72 crore (Debit) and ₹ 0.07 crore (Credit), PAO (ERIS and Banking) Department of Economic Affairs, Ministry of Finance, New Delhi: ₹ 0.47 crore (Debit), PAO Electoral Office Ministry of Law and Justice, New Delhi: ₹ 0.29 crore net (Credit) and PAO (Legal Affairs) Ministry of Law and Justice and Supreme Court of India, New Delhi: ₹ 0.02 crore (Debit) and ₹ 0.21 crore (Credit), indicating the payments made (Debit) or received (Credit) by these departments/ministries on behalf of other PAOs were yet to be recovered/paid by them as on 31 March 2013. The debit and credit balance under PAO suspense and their continuous accumulation indicated significant control deficiencies.

As per Finance Account 2012-13, ₹ 0.47 crore (Debit) pertaining to Central Government securities and interest thereon were pending prior to 1999-2000 with PAO (ERIS and Banking) Department of Economic Affairs, Ministry of Finance, New Delhi.

3.10.2 Suspense Account (Civil)

This transitory minor head is operated for accounting of transactions, which for want of certain information/documents viz., vouchers, challans etc., cannot be taken to the final head of expenditure or receipt. This minor head is credited for recording receipts and debited for expenditure incurred. On receipt of the requisite information/documents etc., the minor head is cleared by 'minus' debit or 'minus' credit by contra debit or contra credit to the concerned major/sub-major/minor heads of accounts. Outstanding debit balance under this head would mean payments made which could not be debited to final expenditure head for want of details. Outstanding credit balance would mean accounts received which could not be credited to the final receipt head for want of details.

The outstanding balance under this minor head as on 31 March 2013 was ₹ 3.82 crore (Debit) and 'minus' ₹ 0.01 crore (Credit) indicating that receipts and expenditure of ₹ 3.83 crore, which were required to be handled individually for settlement, had not been booked to their final heads of accounts. The major balances outstanding under Accounts of Defence pertained to Controller of Defence Accounts (Pension), Allahabad: ₹ 2.40 crore (Debit), Controller of Defence Accounts (Southern Command), Pune: ₹ 0.34 crore (Debit), House Building Advance Suspense under Director, Postal Accounts, Kolkata: ₹ 0.72 crore (Debit) and unclassified suspense: ₹ 0.35 crore (Debit) and 'minus' ₹ 0.02 crore (Credit).

As per Finance Accounts, Accounts with Defence, balances of ₹ 2.74 crore (Debit) were outstanding for the period from 1977-78 to 2012-13 and balance of ₹ 0.72 crore (Debit) was outstanding for House Building Advance Suspense with Postal Accounts, Kolkata from 1969-70.

3.10.3 Material Purchase Settlement Suspense Account

The cost of stores received either by purchase or through inter-divisional transfers, shall be accounted for initially under this suspense head in all cases where the payment had not been made in the same month of receipt of stores. This head shall be cleared by a contra entry (*minus* credit) on making payment to the supplier/Division supplying stores. Unclaimed balances for more than three complete account years under this minor head shall be cleared by credit to revenue.

The outstanding balance was '*minus*' ₹ 2.09 crore (Credit) as on 31 March 2013 under this minor head for want of adjustment of Store Purchase in Accounts. The uncleared '*minus*' credit balance under this minor head indicates lack of significant controls in the Government.

3.11 Conclusion and Recommendations

Five departmental officers did not submit Utilisation Certificates, in respect of the grants (₹ 30.82 crore) given for specific purposes, to the Principal Accountant General (A & E), Rajasthan till August 2013. In the absence of these certificates it could not be ascertained whether the recipients had utilised the grants for the intended purposes. Annual Accounts (287 numbers) in respect of 110 autonomous bodies/authorities due up to 2011-12 had not been received by the Principal Accountant General (G & SSA) as on 31 July 2013. As such the institutions which attract audit by CAG could not be identified.

Out of 979 outstanding cases of misappropriation, theft and losses of Government money amounting to ₹ 46.84 crore, departmental and criminal investigation was awaited in 388 cases involving ₹ 20.11 crore, indicating lack of initiative on the part of the Government to fix accountability.

An unspent balance of ₹ 2,173.73 crore was lying in 1,491 PD Accounts at the end of 2012-13. Significant amounts of expenditure and receipts under Central and State Schemes, booked under the Minor Heads '800-Other Expenditure' and '800-Other Receipts' were not distinctly depicted in the State Finance Accounts of 2012-13, affecting the transparency in financial reporting. *The Controlling Officers reconciled the Government expenditure and receipts with the Principal Accountant General (Accounts & Entitlement) to the extent of 100 per cent and 99 per cent respectively.*

Recommendations

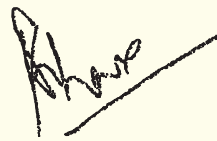
- The Departments should ensure timely submission of utilisation certificates in respect of the grants released for specific purposes and the annual accounts in respect of the autonomous bodies.
- Departmental enquiries in all fraud and misappropriation cases should be expedited to bring the defaulters to book. The internal controls in all the organisations should be strengthened to prevent recurrence of such cases.
- 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'.



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