

CHAPTER-3

FINANCIAL REPORTING

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A sound internal financial reporting system 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 compliance 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, decision making and accountability of the stakeholders. This Chapter provides an overview and status of State Government's compliance with various financial rules, procedures and directives during the current year.

3.1 Delay in furnishing Utilisation Certificates

Financial Rules 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 (Accounts and Entitlements) within 18 months from the date of their sanction unless specified otherwise. 599 UCs amounting to ₹ 617.59 crore were pending as of August 2013. Of these, 213 UCs (35.56 per cent) involving ₹ 256.84 crore were pending for periods up to two years and 386 UCs involving ₹ 360.75 crore were pending for more than two years. The age-wise delays in submission of UCs have been summarised in **Table 3.1**.

Table-3.1
Age-wise arrears of Utilization Certificates as on August 2013

(₹ in crore)

Sl. No.	Range of delay in number of years	Utilisation Certificates Outstanding	
		Number	Amount
1	0-1	97	146.36
2	1-2	116	110.48
3	More than two years	386	360.75
Total		599	617.59

In the absence of UCs, it could not be ascertained whether the recipients had utilised the grants for the intended purpose for which these were sanctioned. Thus, efforts may be made by the departments for expeditious submission of UCs by the recipients.

3.2 Delay in submission of Accounts in respect of Departmental 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 annual 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 annual accounts, the investment of the Government remains outside the scrutiny of the Audit/ State Legislature. Consequently, corrective measures, if required, for ensuring accountability and improving efficiency cannot be taken in time. Besides, the delay in all likelihood may also open the system to risk of fraud and leakage of public money.

The Heads of Department in the government are to ensure that the undertakings prepare such accounts and submit the same to Accountant General (Audit), Uttarakhand, Dehradun for audit within a specified time frame. As of September 2013, out of three such undertakings, two had not prepared accounts and their accounts were in arrears from the year 2003-04 onwards. The department-wise position of arrears in preparation of *pro forma* accounts and investment made by the Government are given in **Appendix-3.1**.

Delay in finalisation of accounts carries the risk of financial irregularities going undetected and, therefore, the accounts need to be finalised and submitted to the audit at the earliest.

3.3 Misappropriations, Losses, Defalcations, etc.

Audit observed four cases of misappropriation, defalcation *etc.*, involving Government money amounting to ₹ 1.44 crore up to the period March 2013 on which final action was pending. The department-wise break-up of pending cases showing age wise analysis and nature of these cases are given in **Appendix-3.2** and **Appendix-3.3** respectively. The age-profile of the pending cases and the number of cases pending in each category; and misappropriation/ loss are summarised in **Table 3.2**.

Table-3.2
Profile of cases of misappropriations, losses, defalcations, etc.,
as on 31 March 2013

Age-Profile of the Pending Cases			Nature of the Pending Cases		
Range in Years	Number of Cases	Amount involved (₹ in lakh)	Nature/Characteristics of the Cases	Number of Cases	Amount involved (in ₹ lakh)
0 - 1	01	37.18	Misappropriation/Loss of material	04	143.78
1 - 2	02	105.53			
2 - 3	--	---			
3 - 4	--	---			
4 - 5	01	1.07	Total	04	143.78
5 & above	--	---	Cases of Loss Written off during the Year	--	--
Total	04	143.78	Total Pending cases	04	143.78

Of these four cases of misappropriation/ loss amounting to ₹ 143.78 lakh pending for final action, one case was pending in the Department of 'Education' amounting ₹ 1.07 lakh and the other three cases involving substantial amount of ₹ 142.71 lakh were awaiting finalisation by the Department of Forest.

An effective mechanism needs to be put in place to ensure speedy settlement of cases relating to misappropriation, loss and theft and in order to avoid recurrence of such cases in future.

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

During 2012-13, an amount of ₹ 858.18 crore under 39 Major Heads of account (representing functions of the Government) was classified under the Minor Head 'Other Expenditure' in the revenue account constituting 6.15 *per cent* of the total revenue expenditure recorded under the respective Major Heads. Similarly, a total sum of ₹ 2,462.87 crore under 38 Major Heads of account (representing functions of the Government) was classified under the Minor Head 'Other Receipts' in the accounts constituting 15.64 *per cent* of the total receipts recorded under the respective Major Heads. In three Major Heads of accounts, substantial amount of expenditure (₹ 119.90 crore) was booked under 'Other Expenditure' and in nine Major Heads of accounts, substantial amount of receipts (₹ 1,830.78 crore) was booked under 'Other Receipts'. The major schemes are not depicted distinctly in the Finance Accounts, though the details of these expenditures 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/ fair picture in financial reporting.

3.5 Inaccurate Booking of GPF Figures under Major Head 8009 & 2049

Interest figures pertaining to GPF of Class IV employees of State Government are not being provided to the Office of the Principal Accountant General (A&E), Uttarakhand, Dehradun. Hence, budgeted figures (₹ 80 crore) of the same are being incorporated in Finance Accounts 2012-13. This is reducing accuracy of accounts while at the same time increasing the risk of fraudulent withdrawals of GPF.

3.6 Conclusion

Internal control system within the Government departments is not functioning as envisaged with regard to compliance with various rules, procedures and directives formulated by the Government. In absence of compliance with the basic requirement of the preparation of annual pro forma accounts by the Departmentally Managed Government Undertakings and non-adjustment of large amounts drawn on AC bills by the departmental authorities, financial reporting may not be accurate and reliable. Delay in submission of Utilisation Certificates to the Principal Accountant General (Accounts & Entitlements) against the loans and grants given to various grantee institutions indicates the need for strengthening the monitoring system of the Government as 599 UCs amounting to ₹ 617.59 crore, which were due for submission, were not furnished to the Principal Accountant General (Accounts & Entitlements) for reconciliation of accounts and keeping a watch on the proper utilisation of funds.

Departmental enquiries in the cases of misappropriation, loss and defalcation should be expedited to bring the defaulters to book. Due to non-receiving of actual figures of interest on GPF of Class IV employees from the State Government, the budgeted figures are being incorporated in Finance Accounts.

3.7 Recommendations

The Government may consider ensuring:

- timely submission of utilization certificates in respect of the grants released for specific purposes to the grantee institutions;
- expediting departmental enquiries in respect of all fraud and misappropriation cases and strengthening internal controls to prevent such cases; and
- 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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