

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 Accountant General (Accounts and Entitlements) within 12 months from the date of their sanction unless specified otherwise. 456 UCs amounting to ₹ 500.26 crore were pending as of March 2015. Of these, 273 UCs (59.87 per cent) involving ₹ 393.88 crore were pending for period up to two years and 183 UCs involving ₹ 106.38 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 March 2015

Sl. No.	Range of delay in number of years	Utilisation Certificates Outstanding	
		Number	Amount
1.	0-1	194	259.32
2.	1-2	79	134.56
3.	More than two years	183	106.38
Total		456	500.26

Source: Finance Accounts, 2014-15 prepared by AG (A&E), Uttarakhand.

However, due date of 194 utilisation certificates amounting ₹ 259.32 crore falls between April 2015 to March 2016.

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 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 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, Regulations on Audit and Accounts, 2007 provide that Government and the 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.

It was seen that none of the departmental heads had furnished the statement of such bodies and authorities to which grants and/ or loans aggregating ₹ 10 lakh or more were paid during the preceding year. 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 misutilization.

3.3 Delay in submission of Accounts in respect of 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 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 finalization 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 March 2015, out of two such undertakings, one had not prepared its accounts and was in arrears from the year 2002-03 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 finalization of accounts carries the risk of financial irregularities going undetected and, therefore, the accounts need to be finalised and submitted to audit at the earliest.

3.4 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 2015 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 2015

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	--	--	--	--	--
1 – 2	--	--	--	--	--
2 – 3	--	--	--	--	--
3 – 4	02 (2011-12)	109.87	Misappropriation/Loss of material	02 (2011-12)	109.87
4 & above	01 (2008-09) 01 (2010-11)	33.91	Misappropriation/Loss of material	01 (2008-09) 01 (2010-11)	33.91
--	--	--	Total	04	143.78
--	--	--	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 to ₹ 1.07 lakh and the other three cases involving a substantial amount of ₹ 142.71 lakh were awaiting finalization 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 in order to avoid recurrence of such cases in future.

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

Minor Heads 800-'Other Expenditure' and 'Other Receipts' under various Major Heads are intended to be operated only when the appropriate minor head has not been provided in the chart of accounts. Routine operation of Minor Heads 800 under various Major Heads is to be discouraged, since it renders the accounts opaque. During 2014-15, an amount of ₹ 24,28.79 crore under 39 Major Heads of account, constituting 11.48 *per cent* of the total revenue expenditure (₹ 2,11,63.71 crore) was classified under the Minor Head 'Other Expenditure' in the Revenue Account. Similarly, a total sum of ₹ 12,69.81 crore under 33 Major Heads of Account constituting 6.27 *per cent* of the total revenue receipts (₹ 2,02,46.55 crore) was classified under the Minor Head 'Other Receipts'. Instances where a substantial portion (50 *per cent* or more and exceeding ₹ ten crore), of the

receipts and expenditure were classified under Minor Head '800-Other Receipts' and '800-Other Expenditure' are depicted in **Table 3.3**.

Table 3.3: Substantial amount booked under Minor Head-'800' other receipts/expenditures.

(₹ in crore)

"800-Other Receipts"				"800-Other Expenditure"			
Major Head	Total Receipts	Booking under Minor Head 800	Percentage of receipts	Major Head	Total expenditure	Booking under Minor Head 800	Percentage of Expenditure
0023	22.04	22.04	100	2245	709.85	497.92	70.14
0030	714.06	714.06	100				
0059	28.29	28.22	99.75	2250	66.89	66.82	99.89
0210	37.78	37.78	100	2425	43.19	25.43	58.88
0406	351.24	351.24	100	2501	426.73	407.99	95.61
0801	45.01	45.01	100				
Total	11,98.42	11,98.35	99.99	Total	12,46.66	9,98.16	80.07

Source: Finance Accounts prepared by Accountant General (A&E) Uttarakhand.

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.

3.6 Conclusion and Recommendations

The departmental officers did not submit 262 Utilisation Certificates (due for submission by March 2015) to the Accountant General (A&E), Uttarakhand in respect of the grants of ₹ 240.94 crore given upto March 2015 for specific purposes. In the absence of these certificates it could not be ascertained whether the recipients had utilised the grants for the intended purposes.

The Government may ensure timely submission of utilisation certificates by the departments in respect of the grants released for specific purposes.

The departmental heads were not submitting statement of such bodies and authorities to Accountant General (Audit) Uttarakhand to which grants or loan aggregating ₹ 10 lakh or more were paid during preceding year. As such the institutions which attract audit by CAG could not be identified properly.

The Government may ensure timely finalization and submission of annual accounts of all autonomous bodies, and other entities that receive grants or loans, for ensuring accountability.

Significant amounts of expenditure and receipts under Central and State Schemes, booked under the Minor Heads '800-Other Expenditure' and '800-Other Receipts' under various Major Heads were not distinctly depicted in the State Finance Accounts of 2014-15, affecting the transparency in financial reporting.

The Government may consider ensuring correctness in financial reporting. The receipts and expenditure of major schemes should be distinctly depicted rather than camouflaging these under the Minor Heads '800-Other Expenditure' and '800-Other Receipts' across various major heads.

Dehradun
The 31 March 2016



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Countersigned



New Delhi
The 4 April 2016

(SHASHI KANT SHARMA)
Comptroller and Auditor General of India

