CHAPTER III

FINANCIAL REPORTING

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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 2015-16.

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 are given and after verification, the UCs should be forwarded to the Accountant General (Accounts and Entitlements) (AG (A&E)) within 18 months after the date of release of the grants, unless specified otherwise.

It was found that in respect of grants released up to 2014-15, 15 UCs for ₹ 381.24 crore were not furnished by the grantees as of September 2016. The Department-wise / Chief Controlling Officer-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 outstanding Utilisation Certificates

(₹ in crore)

Period	Utilisation certificates outstanding	
	Number	Amount
2014-15	12	371.37
2013-14	3	9.87
Total	**15**	**381.24**

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

Non-receipt of UCs indicates that the Departmental officers failed to comply with the rules to ensure accountability of the agencies which had received Government grants.

3.2 Non-reconciliation of Receipts and Expenditure

As per Rules 124 and 127 of the Tamil Nadu Budget Manual, departmental accounts maintained by the Chief Controlling Officers (CCOs) and the progressive actuals, month by month are required to be reconciled with those entered in the books of the AG (A&E), so as to ensure that the departmental accounts are sufficiently accurate to secure departmental financial control and also to ensure accuracy of the accounts maintained by the AG (A&E) from which final published accounts are compiled. As per Rule 128 of the Tamil Nadu Budget Manual, the CCO is required to send a Reconciliation Certificate (RC) to the AG (A&E) after necessary adjustments are made either in the accounts of the CCO or in the books of the AG (A&E).

It was, however, observed that out of 209 CCOs in the State, 56 CCOs for expenditure and 42 CCOs for receipts did not reconcile their accounts with AG (A&E), as detailed in **Appendix 3.2**.

Non-reconciliation of accounts, besides indicating non-compliance with prescribed instructions, also has an impact on the assurance on the completeness and correctness of receipts and expenditure figures depicted in the accounts.

3.3 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 department 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 376 autonomous bodies/authorities due up to 2015-16 were not received (June 2016). The details are given in **Appendix 3.3** 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 Bodies/Authorities
1.	Upto one year	126
2.	More than one year and upto three years	166
3.	More than three years and upto five years	30
4.	Five years and above	54
Total		**376**

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

The major defaulters were educational institutions receiving Government grants for salaries, maintenance, etc., and the enforcement of these requirements had been ineffective.

3.4 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 1,140 temporary advances amounting to ₹ 233.32 crore drawn up to 31 March 2016 by DDOs through Pay and Accounts Offices (PAO)/District Treasury (DT) Offices were remaining unadjusted as on 30 June 2016. 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	Number of Advances	Amount (₹ in crore)
1	More than 10 years	26	4.22
2	More than 5 years and less than 10 years	21	8.72
3	More than 1 year but less than 5 years	67	91.47
4	Less than one year	1,026	128.91
Total		**1,140**	**233.32**

(Source: Data compiled by the AG (A&E), Tamil Nadu)

Test Check of temporary advances drawn through PAO (North) revealed that there were 56 items amounting to ₹ 10.08 crore, which remained unadjusted as on 31 May 2016. This included temporary advances amounting to ₹ 2.66 crore drawn by Tahsildar (Elections) towards conduct of elections during 1995-96 to 2014-15 and advances drawn by Additional Personal Assistant (PA) to District Collector, Chennai towards flood expenses for enumeration purposes, during the year 2015-16 amounting to ₹ 4 crore pending adjustment.

The pendency, involving substantial amounts, indicated laxity on the part of Departmental officers in enforcing the codal provisions regarding adjustment of the advances.

3.5 Operation of Personal Deposit Accounts

Personal Deposit (PD) Accounts are created for specific purposes by debiting the service heads in the Consolidated Fund of the State and crediting Personal Deposits (Subhead – AA- Minor head - 106 under 8443 Civil Deposits) and authorisations are issued by AG (A&E). These are required to be closed by the administrators of PD Accounts at the end of the financial year by minus debiting the unspent balances, if any, to the relevant service heads. For every scheme, a PD account should exist.

There were 821 PD Accounts in operation during the previous year which included 130 inoperative accounts. Audit scrutiny revealed that PD Accounts not authorised by AG (A&E) were also included under the above said head. Action was initiated by the Government and PD Accounts not authorised by the AG (A&E) were identified and pooled under a separate subhead 'AC', which amounted to ₹ 355.88 crore. However, this amount which was kept outside the Consolidated Fund needs to be reviewed and reconciled by the Government.

During the year 2015-16, 208 authorisations were issued by AG (A&E) for incurring expenditure on various schemes. However, only 84 PD accounts were opened by the Administrators as multiple schemes were operated under single PD account. Operating a single PD account for multiple schemes paves the way for diversion of funds from one scheme to another. During Exit

Conference (October 2016), the Additional Chief Secretary, Finance Department also directed to issue Circulars to the DDOs to open separate PD account for each scheme with due authorisation for each scheme.

There were 28 PD accounts in 30 DT Offices and 5 PAOs with closing balances at the end of the year. Details of DTs and PAOs having more than ₹ 1 crore closing balance (across four PD accounts) totalling ₹ 6.03 crore, are indicated in **Table 3.4.**

Table 3.4: PAOs/District Treasuries having more than ₹ 1 crore closing balances

Sl. No.	Name of the PAO/DT	Number of accounts	Amount (₹ in crore)
1.	Tiruvannamalai	1	2.18
2.	Krishnagiri	1	1.59
3.	Villupuram	1	1.25
4.	PAO North	1	1.01
	Total	**4**	**6.03**

(Source: Data compiled by Accountant General (A&E), Tamil Nadu)

There were negative balances as on 31 March 2016 in respect of 11 PD accounts aggregating to ₹ 5.01 crore. However, there were no inoperative PD accounts during the year, as compared to 130 in the previous year.

3.6 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.

The State Government departments reported to Audit, 398 cases of misappropriation, shortage, theft and loss involving total amount of ₹ 13.06 crore up to March 2016 (as of September 2016) on which final action was pending. The department-wise break-up of pending cases and the nature of these cases are given in **Appendix 3.4**. The age-profile of the pending cases and the number of cases pending in each category – misappropriation, loss, theft, etc., are summarised in **Table 3.5**.

Table 3.5: Profile of misappropriations, shortage, 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	8	46.96	Theft	40	13.03
6-10	39	388.39	Loss and Shortages	147	231.69
11-15	36	278.05	Misappropriation	211	1,061.37
16 - 20	63	376.77	Cases of losses, written off during the year	Nil	Nil
21 - 44	252	215.92			
Total	**398**	**1,306.09**	**Total pending cases**	**398**	**1,306.09**

(Source: Information furnished by Heads of Departments)

The reasons for pendency of the cases are classified under the categories listed in **Table 3.6.**

Table 3.6: Reasons for pendency of the cases of misappropriations, shortage, thefts, losses, etc.

Reasons for the pendency		Number of cases	Amount (₹ in crore)
(i)	Awaiting departmental and criminal investigation	184	5.93
(ii)	Departmental action initiated but not finalised	128	2.70
(iii)	Criminal proceedings finalised but recovery of the amount still pending	16	1.64
(iv)	Awaiting orders for recovery or write off	48	0.78
(v)	Pending in Courts of law	22	2.01
	Total	**398**	**13.06**

(Source: Information received from Heads of Departments)

3.7 Deficiencies noticed in the Pay and Accounts Offices

Accumulation of unencashed cheques

Paragraph 92 (iii) of the PAO Manual and Rule 49 of Tamil Nadu Treasury Code specify that in cases where cheques are not encashed within three months after the month of their issue, the payees should be advised by the PAO/DT 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/DT and the fact of non-payment of cheque is also certified by the bank, action should be taken to cancel the cheque. However, six PAOs[1] failed to undertake these actions as described below:

It was noticed from the details of unencashed cheques furnished by the six PAOs that 56,593 cheques for ₹ 69.94 crore remained unencashed (June 2016) for periods up to 29 years. The age-wise profile of the number of cases and the value of cheques depicted as unencashed, as per the books of PAOs, are summarised in **Table 3.7**.

Table 3.7: Details of unencashed cheques

(₹ in crore)

Delay in number of years	Number of cases	Value of cheques
0-5 years	1,467	8.48
5-10 years	14,312	8.57
10-20 years	32,836	43.12
20-29 years	7,978	9.77
Total	**56,593**	**69.94**

(Source: Information furnished by PAOs)

[1] PAO (East), PAO (North), PAO (South), PAO (Madurai), PAO (High Court) and PAO (Secretariat)

Thus, the amount indicated in **Table 3.7** was neither paid to the eligible person nor could be utilised by the State Government and hence, the position of unencashed cheques needs to be reviewed.

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 or due to incorrect identification of receipts/expenditure under the available heads of account at the stage of budget preparation.

During 2015-16, under 16 major heads in the Revenue and Capital sections, expenditure aggregating ₹ 12,913.63 crore (71.46 *per cent* of the total expenditure of ₹ 18,072.28 crore in these heads) was classified under the minor head – 800 – Other Expenditure. The entire expenditure under "Capital Outlay on Nutrition", "Capital Outlay on Other Administrative Services" and "Flood Control and Drainage " were classified under the omnibus minor head "800 - Other Expenditure", instead of depicting the same under relevant minor heads below the functional major heads, as indicated in **Appendix 3.5**.

Similarly, under 14 major heads, revenue receipts aggregating ₹ 3,888.94 crore (69.07 *per cent* of the total receipts of ₹ 5,630.34 crore), were classified under minor head – 800 – Other Receipts. The entire receipts under "Family Welfare" and "Urban Development" were classified under the omnibus minor head "800 – Other Receipts", as indicated in **Appendix 3.6**.

Classification of large amounts under the omnibus minor head "800 – Other Expenditure/Receipts" reflected lack of transparency in financial reporting. During Exit Conference (October 2016), the Additional Chief Secretary, Finance Department replied that the classification was made due to urgency when new schemes were launched.

3.9 Conclusion

Certain departmental officers failed to ensure adherence to the terms and conditions relating to timely submission of utilisation certificates in respect of grants released. Similarly, 376 autonomous bodies/authorities did not submit their accounts due up to 2015-16 to Audit. Temporary advances drawn up to 31 March 2016 by the DDOs involving an amount of ₹ 233.32 crore in 1,140 cases remained unadjusted. Due to operation of multiple schemes under single PD Account, only 84 PD accounts were opened against 208 authorisations during 2015-16. The State Government departments reported 398 cases of misappropriations, losses, defalcation, etc., involving total amount of ₹ 13.06 crore up to March 2016, on which final action was pending. There were 56,593 number of cheques, amounting to ₹ 69.94 crore, remaining unencashed due to non-initiation of timely action by PAOs.

3.10 Recommendations

- The controlling officers may identify reasons for the delay in submission of accounts by the autonomous bodies/undertakings to Audit and institute measures to ensure that arrears in submission of accounts are cleared in a time bound manner.
- The Personal Deposit Account Administrators may adhere to the procedure of operating one PD account for each authorisation.
- In respect of outstanding cases of misappropriations, losses, defalcations, etc., Government may finalise cases where departmental action has been initiated and the cases awaiting orders for recovery or write off.
- The pendency of large number of unencashed cheques for a long period should be cleared by the PAOs, by following the prescribed procedure.

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