C h a p t e r – III

Financial Reporting

CHAPTER 3

FINANCIAL REPORTING

A sound internal financial reporting system based on compliance with financial rules is one of the attributes of good governance. This chapter provides an overview and status of compliance of the departments of the State Government with various financial rules, procedures and directives during the current year.

3.1 Non-submission of Utilisation Certificates

Financial Rules stipulate 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 AG (A&E) within 18 months from the date of their sanction unless specified otherwise. However, 173 UCs aggregating ₹723.94 crore in respect of grants released up to 2016-17 were in arrears as detailed in **Appendix 3.1**. The status of outstanding UCs is given in **Table 3.1**.

Table 3.1: Year-wise arrears of Utilisation Certificates

(₹ in crore)

Year	No. of utilisation certificates awaited	Amount
Up to 2014-15	53	61.98
2015-16	49	261.47
2016-17*	71	400.49
Total	**173**	**723.94**

Source: Finance Accounts

* *The year mentioned above relates to 'Due year' i.e., after 18 months of actual drawal.*

The majority of cases of non -submission of UCs related to the Medical and Public Health Department (66 *per cent*). Pendency in submission of UCs indicates lack of monitoring of utilisation of grants released to the grantees by the department. Non -submission of UCs defeats the very purpose of Legislative control over the public purse and is fraught with the risk of the funds released for various schemes/programme being locked up, misused or diverted for unauthorized purposes.

3.1.1 Non-submission of UCs by the Director of Municipal Administration

The devolution to ULBs are governed by the recommendations of the State Finance Commission. The devolution of grants to ULBs revealed non-utilisation of provision by ₹673.14 crore constituting seven *per cent* of total provision (₹9,231.14 crore). Out of the unutilised provision during 2016-17, 37 *per cent* of the (₹254.34 crore) was on account of non-submission of UCs by the Directorate. The matter was reported to the department in October 2017 and the reply is awaited.

3.2 Non-receipt of information pertaining to institutions substantially financed by the Government

To identify the institutions, which attract audit under Sections 14 and 15 of the CAG's (Duties, Powers and Conditions of Service) Act, 1971, heads of the

Government Departments are required to furnish to audit every year information about the institutions to which financial assistance of ₹25 lakh or more was given, the purpose for which assistance was granted and the total expenditure of the institutions.

Fourteen Departments did not furnish the information pertaining to 438 institutions receiving grants aggregating ₹25 lakh or more for periods ranging from one year to more than 20 years, as detailed in **Appendix 3.2**. As seen from the appendix, major defaulter was the department of Education.

Circular instructions were issued by the Finance Department (December 2013) to all the Secretaries of Administrative Departments to furnish the required information to the AG (A&E) directly. However, there was no significant improvement in compliance.

3.3 Status of submission of accounts of Autonomous Bodies and placement of Audit Reports before the State Legislature

Several Autonomous Bodies were set up by the State Government in the fields of Village and Small Industries, Urban Development, *etc*. The audit of accounts of 11 autonomous bodies in the State was entrusted to the C&AG under Sections 19 and 20 of CAG's DPC Act, 1971. These are audited with regard to their transactions, operational activities and accounts, conducting of regulatory/compliance audit, review of internal management and financial control, review of systems and procedures, *etc*.

Separate Audit Reports in respect of one autonomous body for the year 2014-15, five autonomous bodies for 2015-16 and four autonomous bodies for 2016-17 were yet to be placed before the State Legislature. The Separate Audit Report in respect of one autonomous body was not placed since 2006-07.

The status of entrustment of audit, rendering of accounts, issuing of Audit Reports and their placement before the State Legislature is indicated in **Appendix 3.3**.

3.4 Departmental Commercial Undertakings

The departmental undertakings of certain Government Departments performing activities of commercial and quasi-commercial nature are required to prepare proforma 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, the investment of the Government remains outside the scrutiny of Audit/State Legislature. Consequently, corrective measures, if any, required for ensuring accountability and improving efficiency cannot be taken in time. Besides, the delay in all likelihood also opens the system to the risk of fraud and leakage of public money.

The Heads of Departments in the Government are to ensure that the undertakings prepare and submit such accounts to the Accountant General for audit within a specified time-frame. Out of the nine undertakings, which are closed/transferred/converted into co-operative federations, proforma accounts in respect of two undertakings were due from 1969-70. The position of arrears in preparation of proforma accounts by the undertakings is given in **Appendix 3.4**.

In reply to the same issue being pointed out in earlier audit report, Finance Department stated (December 2013) that with the online computerisation of treasury and the system of drawal on treasuries by preferring bills, there appears to be no necessity for preparation of proforma accounts. The Administrative Departments of these undertakings will be instructed to examine the necessity or otherwise of maintaining of proforma accounts. The Karnataka Government Insurance Department will continue to render proforma accounts. Further development in this matter is awaited.

3.5 Misappropriations, losses, etc.

There were 29 cases of misappropriation, losses, etc., involving Government money amounting to ₹18.11 crore at the end of 2016-17, on which, final action was pending. The department-wise break up of pending cases and age-wise analysis is given in **Appendix 3.5** and the nature of these cases is given in **Appendix 3.6**. The particulars of the pending cases in each category of theft and misappropriation are given in **Table 3.2**.

Table 3.2: Profile of pending cases of misappropriations and theft

(₹ in crore)

Nature of the cases	Number of cases	Amount involved
Theft	04	0.05
Misappropriation	25	18.06
Total	**29**	**18.11**

Source: Offices of the AG (G&SSA) and AG (E&RSA)

Around 93 *per cent* of the amount involved pertained to Public Works, ports and Inland Water Transport Department (₹11.80 crore), Social Welfare Department (₹3.37 crore) and Home Department (₹1.68 crore).

3.6 Non-receipt of Stores and Stock Accounts

The annual accounts of Stores and Stock are required to be furnished by various departments to Audit by 15 June of the following year. The half yearly accounts of PWP and IWTD, Water Resources and Minor Irrigation Departments are due to be received by 15 December of the year and 15 June of the following year. Delay in receipt of stores and stock accounts is commented upon in successive Audit Reports.

The position of arrears relating to submission of stores and stock accounts by 11 departments involving 75 offices is indicated in **Appendix 3.7**.

3.7 Abstract Contingent Bills

Under Rule 36 of the Manual of Contingent Expenditure, 1958, the Controlling and Disbursing Officers are authorised to draw sums of money by preparing Abstract Contingent (AC) bills, by debiting service heads and are required to present Non-payment Detailed Contingent (NDC) bills (vouchers in support of final expenditure) to the AG(A&E) through treasuries before 15th of the month following the month to which the bill relates. Detailed bills aggregating to

₹84.81 crore, drawn on 3,272 AC bills, were pending at the end of March 2017, as detailed in **Table 3.3**. Controlling officers should also ensure that no amounts are drawn from the treasury unless required for immediate disbursement.

Table 3.3: Pending Abstract Contingent Bills

(₹ in crore)

Year	No. of pending AC Bills	Amount
Up to 2014-15	1,276	24.14
2015-16	396	18.62
2016-17	1,600	42.05
Total	**3,272**	**84.81**

Source: Finance Accounts

As compared to last year, the outstanding NDC bills (7,493 bills of ₹220.85 crore) was reduced due to the fact that the figures were adopted from the Treasury Network Management Centre (TNMC) as the responsibility of watching of NDC bills were rested with the Treasury as per the instructions contained in the Circular dated September 09, 2004.

Most of the outstanding NDC bills pertain to Major Head 2015 – Elections (115 bills amounting to ₹6.85 crore), Major Head 2055 – Police (72 bills amounting to ₹32.19 crore), 2406 - Forestry and Wildlife (349 bills amounting to ₹9.25 crore), 3475 – Other General Economic Services (101 bills amounting to ₹4.63 crore).

The withdrawal of money on an AC bill is accounted for against the functional Major Head in the Consolidated Fund. Unless the accounts are settled within the time allotted, the expenditure stands inflated. This impacts the fiscal indicators of the Government (Revenue surplus/fiscal deficit). Instructions were issued by the Finance Department to all Principal Secretaries/Secretaries to Government (August 2012) for settlement of accounts within the stipulated period, failing which action will be taken to stop the salary of the DDO concerned. However, it was observed in audit that the practice of drawal of salary by DDOs, who had substantial bills pending against them continued, indicating poor compliance with the instructions of the Finance Department.

PAC in its 5th Report (July 2015) took a serious note on this issue and stated that strict action should be taken for non-submission of NDC bills by the DDOs.

The Finance Department in its reply (October 2017) stated that due to relaxation given to DCs and Tahsildars during election to draw on AC bill irrespective of pending NDC bills, there may be outstanding DC bills in Revenue Department. It further stated that due to continuous instructions by FD to all the departments, the outstanding AC bills were coming down compared to previous year. It also stated that efforts to further reduce the numbers would be taken.

3.8 Personal Deposit Accounts

The Karnataka Financial Code provides for opening of Personal Deposit (PD) accounts with permission from Government in cases where the ordinary system of accounting is not suitable for transactions. PD accounts created by debit to the Consolidated Fund of the State should be closed at the end of the financial year. Administrators of the accounts should intimate the Treasury Officer the balance to be transferred to the Consolidated Fund. For continuation of PD accounts beyond the period of its currency, administrators are required to seek the permission of the Finance Department. Periodical reconciliation of PD accounts with treasury accounts is the responsibility of the administrators concerned.

3.8.1 Funds kept in PD Accounts

The transactions relating to PD accounts for the period 2012-13 to 2016-17 are detailed in **Table 3.4**.

Table 3.4: Funds in PD accounts

(₹ in crore)

Year	Opening Balance	Receipts/Deposits	Withdrawals	Closing balance
2012-13	1,478.25	3,582.23	2,974.30	2,086.18
2013-14	2,086.18	3,782.85	3,571.93	2,297.10
2014-15	2,297.10	3,915.81	3,784.62	2,428.29
2015-16	2,428.29	6,368.39	6,061.07	2,735.61
2016-17	2,735.61	5,516.51	5,310.01	2,942.12

Source: Finance Accounts

As the balances in the deposit account are showing an increasing trend over the years, action is required to follow the provisions of the code for write back/cleaning up of balances in respect of funds which have outlived their utility.

The net closing balance mainly related to the PD accounts as mentioned in **Table 3.5**.

Table 3.5: Closing balances in PD Accounts

(₹ in crore)

Sl. No.	Administrators	Amount
1	Personal Deposits - General	333.16
2	PD Accounts of Deputy Commissioners	5,797.32
3	PD Accounts of Director, Directorate of Minorities	260.29
4	PD Accounts of Director, Department of Scheduled Tribe	207.06

Source: DDR Ledger

Leaving significant balances in the Personal Deposit Accounts of the administrators is fraught with the risk of financial misappropriation and mismanagement.

3.8.2 Parking of funds in PD Accounts

During the year 2016-17, a PD account was opened under the head of account 8443-00-106-2-39 - Director, Directorate of Minority Welfare, Bengaluru, which was credited with an amount of ₹260.29 crore (March 2017). The amount credited related to Scholarship for Minorities and fee re-imbursement and incentive for Minority Students. The amount remained in the deposit account till April 2017 without utilisation.

The Department in its reply (October 2017) stated that the State had to wait for the finalisation of GOI Scholarships as the scholarships will be disbursed to those students who do not receive the GOI Scholarship and that the GOI provided the list only on 23 March 2017. It also stated that due to the merger of SBI and SBM, the procedure to disburse scholarship could not be taken up during April 2017 and disbursement process started from May 2017.

However, the fact remains that drawal of money in advance of requirement from the Consolidated Fund and depositing the same in Public Account inflated the expenditure on revenue account.

3.8.3 Reconciliation of Personal Deposit accounts

The purpose of PD accounts is to enable DDOs to incur expenditure pertaining to a scheme, for which funds are placed at their disposal, by transfer from the Consolidated Fund of the State. Administrators are required to close these accounts on the last working day of the year by crediting the unspent balances to the Consolidated Fund. Under the rules, Administrators of PD accounts are required to reconcile the balances of these accounts with the treasury officers (where the detailed accounts are maintained by the treasuries) and with the AG (A&E) (where the detailed accounts are maintained by the AG). Information on reconciliation of figures by the Administrators with the treasuries was not available, and none of the Administrators of the 64 PD accounts reconciled their accounts with the AG (A&E).

As per Article 286A of Karnataka Financial Code, the State Government is required to close all PD accounts remaining inoperative for more than three years. As brought out in Notes to Accounts of Finance Accounts 2017, 21 PD Accounts (with an outstanding credit balance of ₹4.75 crore in 10 PD Accounts and debit balance of ₹1.25 crore in nine PD Accounts and two PD accounts with nil balance) were inoperative (**Appendix 3.8**). Action may be taken by administrators to analyse the balance and retention of the account and duly reconcile the balance with the accounts office before embarking upon the process of closure of accounts by writing back the transactions to the Consolidated Fund of the State.

It was replied (October 2017) that out of 21 PD Accounts, 13 PD accounts were closed after getting certification from Treasury regarding the closing balances. However, as seen from the books of accounts office, the reconciliation in respect of these accounts have not been done and 21 PD accounts are outstanding as on date. The Finance Department in its reply (December 2017) stated that the action would be taken to close the in-operative PD accounts on getting reconciled figures from treasury.

3.9 Reconciliation of Receipts and Expenditure

To exercise effective budgetary control over revenue/expenditure and to ensure accuracy in accounts, all Controlling Officers are required to reconcile every month, the receipts and expenditure recorded in their books with the figures accounted for by the AG (A&E). Reconciliation of receipts was completed for a value of ₹1,32,901 crore (99.75 *per cent* of total receipts of ₹1,33,240.75 crore). Reconciliation of expenditure was completed for a value of ₹1,30,035 crore (81 *per cent* of total expenditure of ₹1,60,071 crore). No reconciliation was carried out in respect of receipts (₹99.84 crore) and disbursements (₹1,934.38 crore) under loans and advances. Necessary action for reconciliation in respect of receipts and expenditure under loans and advances is required to be taken.

PAC in its 5th Report (July 2015) instructed the Government to take strict action on implementation of circulars issued for reconciliation of Receipts and Expenditure.

The Finance Department replied (October 2017) that the observation is noted and instructions are being issued.

3.10 Comments on Accounts

3.10.1 Defective Budgeting resulting in excess expenditure under Demand No. 29 – Debt Servicing under Interest and Commitment Charges

The State Government avails external aids (Loans) through the Government of India for implementation of projects through different departments of Government and autonomous institutions. Such aid is passed on to the Government Departments on back-to-back basis[8] from the lender. The repayment of loan and payment of interest thereon is through the RBI books. These re-payments are initially in the books of the Controller of Aid Accounts and Audit, GOI, which are later on passed on to the State books through the banker (RBI). These external loans carry with them commitment charges, which is the fee levied on the total committed loan amount not drawn from time to time, the rate of which is as per the relevant loan/credit agreement. These payments are reimbursed by the State Governments.

As per Karnataka Budget Manual, 1975, and as per Article 204(3) of the Constitution, no money shall be withdrawn from the Consolidated Fund of the State except under appropriation made by law.

During the year 2016-17, no provision was made either in the original or supplementary estimates towards commitment charges. However, an expenditure of ₹5.35 crore was incurred during the year 2016-17 commencing from April 2017 onwards under the Major Head 2049-04-101-0-02-241(C/NP) in respect of External Loans to be released on back-to-back basis. The information relating to the amounts booked under the head was within the knowledge of the State Government (Finance Department) as the transactions carried out in the books of the RBI are made known to the Finance Department on a day-to-day basis by the Banker. Hence the FD could have taken action to make at least a token provision to cover the expenditure and informed the Legislature through the Supplementary Demand the nature of expenditure being accounted under the head. This issue was discussed even in the report of State Finances of earlier years.

[8] Back to back basis means that the assistance is passed on as per the loan conditions of the external agency and the fluctuation in the exchange rate is to be met by the concerned State.

In reply, the Department stated (June 2017) the provision for commitment charges was made in the Financial Year 2017-18 and shortfall if any, will be covered either by re-appropriation or supplementary estimates.

3.10.2 Irregular retention of scheme money

A GOI scheme, *viz,* Rastriya Swasthya Bhima Yojana (RSBY) was implemented with a view to provide health insurance cover to Below Poverty Line (BPL) workers in the unorganised sector and their families. In Karnataka, the scheme was being implemented by the Labour Department through Rastriya Swastya Bhima Yojana Society, Bengaluru till 2015-16. Consequent upon transfer of the scheme from Labour Department to Health and Family Welfare department with effect from 1 April 2016, the scheme was implemented by the H&FW department through Suvarna Arogya Suraksha Trust (SAST), a special purpose vehicle established under the Indian Trust Act, 1882.

At the time of transfer, the Rastriya Swastya Bhima Yojana Society, Bengaluru had ₹90.89 crore in their account, which was transferred to SAST during May 2016. Further, the Government of Karnataka released an amount of ₹106.96 crore for implementation of the scheme for the year 2016-17 for which, budget was made under the head of account 2210-80-800-0-27. The total expenditure for the year 2016-17 relating to the scheme was only ₹79.83 crore, which could have been met from out of the amount remaining unutilised of earlier years. Further, as on 31.03.2017, the closing balance under the scheme account was ₹121.28 crore (RSBY - ₹116.95 crore + RSBY Senior Citizen Scheme ₹4.33 crore).

Withdrawal of sums from the Consolidated Fund not required for immediate disbursement is not a prudent fiscal practice. In the instant case, the entire sum sanctioned during the year was withdrawn from the treasury just to avoid lapse of budget grants, which was not utilised. The sanctions issued by the department mentioned the measures to be followed before the release of further grants, which was not followed scrupulously. The action of the department in release of money resulted in overstatement of revenue expenditure, as also fiscal deficit.

In reply, the Executive Director, SAST, stated (November 2017) that though the amount of ₹90.37 crore was transferred by the Labour department during April 2016, the details of pending payment to insurance companies for the previous years were not provided during the transfer funds. It was also stated that, for the subsequent year 2017-18, though the provision of ₹183 crore was made, the Government released ₹91.81 crore only based on UC submitted with actual funds available with SAST. However, the fact remained that for the year 2016-17, the amount released was unnecessary as the trust already had an opening balance of ₹90.37 crore.

3.10.3 Avoidable payment of interest of ₹7 crore to National Thermal Power Corporation Limited (NTPC)

During the year 1990-91, M/s NTPC deposited an amount of ₹3.47 crore with M/s Karnataka Industrial Area Development Board (KIADB), for acquisition of 2982 acres of land for construction of power project near Mangaluru. However, 97.85 acres of land was only acquired for an amount of ₹1.65 crore and the remaining amount of ₹1.82 crore was continued to remain in Government books

(Udupi Treasury). The project was subsequently abandoned and M/s. NTPC had requested for refund of the balance amount along with interest (February 2007). The Government vide GO dated 26 December 2016 ordered the release of ₹8.81 crore inclusive of compounded interest for 20.5 years calculated at eight *per cent* per annum. A provision of ₹8.81 crore was made in the Supplementary Estimate – II installment for payment of the same and was paid to M/s. NTPC in January 2017.

Scrutiny of the above transaction revealed that the balance amount of ₹1.82 crore remained in the Udupi Treasury from 1990-91 till date and was not refunded to NTPC soon after the project was abandoned. Had the amount was refunded in time, the payment of interest to an extent of ₹7 crore[9] on the above principal amount could have been avoided.

Further the provision made in the budget for refund of ₹8.81 crore was also not correct as an amount of ₹1.82 crore was remained in the Udupi Treasury in the Public Account and was not adjusted to Consolidated Fund of the State.

In reply to the observation, the department stated (July 2017) that a letter was addressed to Deputy Commissioner, Udupi District to nominate a suitable authority (as per KFC Section 271 and 280) and directed to deposit the unspent amount to the Government Account.

3.10.4 Government money kept outside the Government Account for avoiding lapse of budget grants

As per Article 161 of the Karnataka Financial Code, while sanctioning the grants, the authorities are required to sanction only such amounts, which was to be utilized within the financial year. The authority signing and countersigning the grant-in-aid bills are required to ensure that the money was not drawn in advance of requirements. Further, the Rule 17 of the Manual of Contingent Expenditure prescribes that no money shall be drawn from the treasury unless it is required for immediate disbursement.

During the year 2016-17, Government of Karnataka released an amount of ₹115.10 crore under the object head 422/423 for purchase of laptops for SC/ST students as detailed in **Table 3.6**.

Table 3.6: Release of funds

(₹ in crore)

Sl. No.	Head of Account	GO No. & Date	Amount	Purpose
1	2202-03-103-2-01 2202-03-103-2-04 2202-03-103-2-09 2202-03-001-0-02	ED 4 HPC 2017 dated 21.03.2017	75.86	Purchase of laptops to SC/ST students
2	2202-03-001-0-02	ED 89 HPC 2016 dated 22.10.2016	39.24	Purchase of laptops to SC/ST students

[9] Calculated @ 8% compounded interest on ₹1.82 crore for 20.5 years (from 1996 onwards).

The above amounts were directed to be deposited in Bank account of the Karnataka State Higher Education Council, which was approved by the Finance Department vide its order dated FD 198 EXP-8/2017 dated 20.03.2017 and FD 199 EXP-8/2017 dated 20.3.2017. Finance Department also directed the department to use the same before the end of the first quarter of the year 2017-18. However, the funds were not utilised by the Council and held in the Bank Account (July 2017).

3.11 Transparency in Accounts

3.11.1 Erroneous provisions made under omnibus head – 911 in the Budget estimate/Supplementary estimates

a) As per the instructions contained in Paragraph 3.10 of the List of Major and Minor Heads, recoveries of overpayment made during the same financial year shall be recorded as reduction of expenditure under the concerned Service Head. Recoveries of overpayments pertaining to previous year(s) shall be recorded under distinct minor head '911 – Deduct – Recoveries of Overpayments' below the concerned Major/sub-Major Head without affecting the gross expenditure under the functional major/sub-major head. It is incorrect to make provision under the minor head '911' as the payments are to be made with reference to the service rendered as per relevant laws/rules in force.

Contrary to the above, it was noticed from the Budget/Supplementary estimates for the year 2016-17, that apart from fund transactions, for which, deduct entry (recoveries) were made in the budget, provisions relating to recoveries of overpayments pertaining to earlier years were made. Provision of ₹2,704 crore in the original budget and ₹615.48 crore in the Supplementary Estimate – II instalment were made across grants and functional major heads stating that it was the recovery of overpayment of previous years relating to Zilla Panchayats/Taluk Panchayats (**Appendix 3.9)**.

In reply, the Finance department stated (May 2017) that since the amount remained unspent under the ZP/TP Fund – II over the years, which resulted in increased outstanding liability of the State, the write back of these amounts was required and henceforth these unspent balances of the ZP/TP funds will be adjusted under the Minor Head '911' as brought out in GO dated 22 December 2016. The reply of the department is not satisfactory as the write-back transaction is not similar to recoveries of overpayments made under various functional major heads.

b) Misclassification under minor head '902'

The demands for grants placed before the Legislature are for gross amounts which include recoveries. The recovery transaction embrace such of those Fund transactions, for which budget is obtained for incurring the expenditure under the Consolidated Fund and later transferred to the Public Account through a deduct entry. For this purpose, budget is obtained under the Minor head '902 – Deduct amount met from (Name of the fund). However, it was noticed that budget provisions were made under the fund adjustment head (Minor head 902) for recovery of overpayments relating to the previous years of ZPs and TPs (eg. under Grants 17, 22 etc.) under which, no fund transactions existed. On being pointed out, the department issued a corrigendum on 31 March 2017 for changing the Minor head 902 to Minor head 911.

3.11.2 Provision/expenditure made under defunct object heads of account

Provisions/expenditure in Government Accounts are classified according to Sector/Sub-sector/Function/Sub-function/Programme/Detailed/Object head using 15 digit classifications. Expenditure classifications as per object head, last tier of classification, exhibits the object/nature of expenditure, required to be prepared by exercising high degree of accuracy/Acumen/competency. In order to simplify the classifications of expenditure, new object heads were formed during the year 2003-04, by merging certain object heads of account. The object head ‘050 – Office Expenses’ was merged under the head ‘051 – General Expenses’ and hence the object head ‘050-office expenses’ ceases to be in operation.

However, it was noticed that during the year 2016-17, a provision of ₹0.60 crore under the head of account 2202-02-001-0-04-050(NP) – Office expenses and ₹5 crore under the head of account 2202-02-001-0-04-050(P) – Office expenses were made against which an expenditure of ₹0.49 crore and ₹4.57 crore was booked.

The Finance department replied (September 2017) that the object head, which are defunct like 050 – Office Expenses will not be enabled so that budget sections of FD cannot make provision under the head. It also stated that the Treasury will also be instructed not to incur expenditure under defunct head.

3.12 Important factors affecting accuracy of accounts

The accounts of the Government are kept on cash basis. Certain transactions that arise in Government Account, the receipts and payments of which, cannot at once be, taken to a final head of receipt or expenditure owing to lack of information as to the nature or for any other reasons, are to be booked temporarily under the suspense head. This head is cleared on receipt of relevant details/information. Debt, Deposit and Remittances (DDR) heads of account for such transactions where the Government, as a custodian of public money, receives and holds such money in trust.

The accuracy of the State Finance Accounts 2016-17 was adversely affected by factors like (i) large number of transactions under suspense heads awaiting final classification and (ii) increasing number and magnitude of adverse balances under DDR heads. On a general review of the transactions, the following were observed:

a) Outstanding balances under major suspense accounts

Certain intermediary/adjusting heads of accounts known as ‘Suspense heads’ are operated in Government accounts to reflect transactions 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 un-cleared, the balances under the suspense heads would accumulate and would not reflect Government’s receipts and expenditure accurately. The balances under certain major suspense heads of accounts, as recorded in the ledger maintained by AG (A&E), are indicated in **Table 3.7**.

Table 3.7: Suspense Head (8658 – Suspense Accounts)

(₹ in crore)

Name of the Minor Head	2014-15		2015-16		2016-17	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
101-Pay and Accounts Office Suspense	67.40	0.70	86.90	0.68	118.86	0.45
Net	**Dr.66.70**		**Dr.86.22**		**Dr.118.41**	
102-Suspense Account (Civil)	17.93	7.35	24.29	34.42	17.22	60.74
Net	**Dr.10.58**		**Cr.10.13**		**Cr.43.52**	
110-Reserve Bank Suspense	15.44	56.20	20.20	57.56	41.02	148.41
Net	**Cr.40.76**		**Cr.37.36**		**Cr.107.39**	

Source: Finance Accounts

The Finance Accounts reflect the net balances under these heads. The outstanding balances are worked out by aggregating the outstanding debit and credit separately. The implications of the balances under these heads are discussed in the succeeding paragraphs:

❖ Pay and Accounts Office (PAO) Suspense

This head is intended for settlement of transactions between the Accountant General and the various separate Pay and Accounts Officers. The transactions initially recorded under this head in the books of the AG are cleared on receipt of the Cheque/Demand Drafts from the Pay and Accounts Officer and on the issue of Cheque/Demand Draft in respect of amounts received in the State Treasuries on behalf of the Pay and Accounts Officer. Outstanding debit balance under this head would mean that payments were made by the AG on behalf of a PAO, which were yet to be recovered. Outstanding credit balance would mean that payments have been received by the AG on behalf of a PAO, which were yet to be paid. The net debit balance under this head showed an increasing trend. On clearance/settlement of this, the cash balance of the State Government will increase. The transactions mainly related to National Highways, and payments made by State Government to Central Government Civil Pensioners.

❖ Suspense Account (Civil)

Transactions where full particulars of the classification are not available, or where the relevant vouchers/schedules in support thereof are not available or where there is some discrepancy between the figures reported in the Treasury Schedules of payment/cash accounts and those appearing in the supporting vouchers, schedules, etc., constitute the major portion of outstanding under this head.

Transactions taking place at State Treasuries on behalf of Railways, Defence and P&T are also initially classified under this head, pending settlement of claims by these authorities.

The net credit balance under this head increased by ₹33.39 crore during the year. However, in so far as accounts with Railways (₹3.19 crore) and accounts with Defence (₹0.59 crore) are concerned, the cash balance will increase on clearance. There is no impact on cash balance on the rest of the items on clearance.

❖ **Reserve Bank Suspense, Central Accounts Office**

This head is operated for recording inter-governmental transactions where monetary settlement between the cash balances of two Governments is done by sending advice to the Central Accounts Section of the Reserve Bank of India. This head is cleared by transferring the amount to the final head of account on receipt of intimation of the monetary settlement having been carried out by the RBI. The main transaction, which gets settled through this suspense head are grants/loans received from the Government of India and their repayments, discharge of securities and interest paid thereon by the Public Debt offices of RBI, and payments made by the Director General of Supplies and Disposals for materials supplied to Government Departments.

During 2016-17, the credit balance under this head was ₹107.39 crore, which was an increase of ₹70.03 crore over the previous year, indicating that corresponding clearances were not made.

b) Adverse Balances under DDR Heads

Adverse balances are negative balances appearing under those heads of accounts, where there should not be a negative balance. For example, against the accounting head of any loan or advance, a negative balance will indicate more repayment than the original amount advanced. As revealed by Finance Accounts for the year 2016-17, adverse balance of e- Public Debt amounting to ₹123.33 crore (Major Head 6003-Internal Debt- debit) was on account of credits of the direct release of loans by National Co-operative Development Corporation (NCDC) to loanee entities without routing these loans through the Consolidated Fund of the State, while repayments are made through the Consolidated Fund. In respect of the adverse balance of ₹23.66 crore - debit (Major Head 6004- Loans and Advances from Central Government) was on account of write-off of Central Loans on the recommendations of XIII FC (balances outstanding as per books of accounts as on 31 March 2010). The excess payments made during 2010-12 to various PAOs are to be adjusted against the dues of the Finance Ministry, Government of India. In respect of loans and advances, the adverse balance was ₹199.33 crore, which was on account of non-reconciliation/misclassification in accounts.

3.13 Conclusion

Non-payment Detailed Contingent (NDC) bills against Abstract Contingent (AC) bills were found wanting for a long period. Large sums of money were being retained in PD Accounts thereby going against the principle of legislative financial control. Non-submission of Utilisation Certificates by grantee institutions were noticed. There were unnecessary releases of scheme funds to the implementing agencies. There were errors in making provisions under omnibus heads. Suspense Accounts balances showed an increasing trend.

There were adverse balances under certain accounts in Consolidated Fund heads, which required remedial action for clearance.

3.14 Recommendations

- ***The Government should ensure adjustment of Abstract Contingent Bills within stipulated period;***
- ***The Government needs to adopt a stringent follow-up mechanism to ensure that the department adheres to the rules and regulations in submission of UCs;***
- ***Cleaning up of balances in the PD Accounts which outlived their utility needs to be examined and steps need to be taken for review of status of PD accounts and closure of inoperative ones, in consultation with the Administrators and Treasury;***
- ***Amount due from GOI due to excessive settlements to PAO's during 2010-12 consequent to write off of central loans, to be pursued with Finance Ministry, GOI for expeditious clearance;***
- ***Review of suspense heads needs to be done to bring the transactions to the final heads in the accounting year itself; and***
- ***Release of money from Consolidated Fund to the implementing agencies should be based on requirement of funds rather than releases made to avoid lapse of budget grants.***

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