

CHAPTER - III
FINANCIAL REPORTING

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Financial Reporting

A sound internal financial reporting 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 compliances 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 and decision-making. This chapter provides an overview and status of the State Government's compliance/non-compliance with various financial rules, procedures and directives during the current year.

3.1 Non-submission/delay in furnishing Utilisation Certificates

The Bombay Financial Rules, 1959 provide that for the Grants provided for specific purposes, Utilisation Certificates (UCs) should be obtained by the Departmental Officers from the grantee institutions and after verification, the UCs should be forwarded to the concerned Accounting Offices *i.e.* Principal Accountant General (Accounts and Entitlements)-I, Mumbai, Accountant General (Accounts and Entitlements)-II, Nagpur and Pay and Accounts Office, Mumbai within 12 months from the dates of their sanction unless specified otherwise. However, 38,884 Utilisation Certificates aggregating to ₹ 60,321.78 crore in respect of grants released up to 2016-17 were in arrears as detailed in **Appendix 3.1**. The status of outstanding Utilisation Certificates is given in **Table 3.1**.

Table 3.1: Year-wise position of Outstanding Utilisation Certificates

| Year | Number of UCs awaited | Amount involved (₹ in crore) |
|-----------------------------------|-----------------------|---------------------------------|
| Upto 2014-15 | 18881 | 19154.82 |
| 2015-16 | 3685 | 16732.72 |
| 2016-17 | 16318 | 24434.24 |
| Total | 38884 | 60321.78 |
| Source : Finance Accounts 2016-17 | | |

The majority of cases of non-submission of Utilisation Certificates related to Department such as Urban Development (48 *per cent*); Planning (eight *per cent*); School Education and Sports (eight *per cent*); Tribal Development (seven *per cent*); Industries, Energy and Labour (six *per cent*); Rural Development and Water Conservation (five *per cent*); and Revenue and Forest (three *per cent*). 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/ programmes being locked up or diverted.

3.1.1 Pending Utilisation Certificates in Planning and Tribal Development Departments

3.1.1.1 Introduction

Audit of records pertaining to submission of UCs in Planning Department (PD), Tribal Development Department (TDD) and Home Department (HD) was conducted to assess whether the Grants-in-aid (GIA) disbursed by the Controlling Officers were properly utilized by the grantee institutions for the purpose for which it was sanctioned.

3.1.1.2 Audit Coverage

Audit examined the process of submission of UCs and their pendency in respect of GIA given to the PD, TDD and HD during the period 2011-12 to 2015-16. In this regard, test check of records of 12 DDOs under Planning/Tribal Development/Home Department was conducted as shown in **Appendix-3.2**.

3.1.1.3 Audit Criteria

- Bombay Financial Rules (BFR) 1959;
- Annual circulars/instructions of Finance Department, Government of Maharashtra; and
- Instructions/directives issued by Government of Maharashtra (GoM) from time to time through Government Resolutions.

3.1.1.4 Audit Findings

Non-maintenance of Grants-in-aid register

As per Rule 149 read with Section-II of Appendix 22 of BFR 1959, a Register of Grants indicating the Grant sanctioned and released, purpose of Grant, conditions attached to the Grant, date by which statement of accounts are required to be furnished by the grantee institutions and the reasons for the delay if any, date by which the UC is to be furnished to the Principal Accountant General (Accounts & Entitlement)-I, Maharashtra, Mumbai, and the reasons for delay, if any, unspent balances etc. should be invariably maintained by the sanctioning authority.

Audit observed that no such register was being maintained by the Planning Department and Tribal Development Department and the offices under these Departments wherever test check by audit was carried out. As a result, audit could not verify the status of pending UCs with respect to the sanctions and releases of GIA, unspent balances etc. made by the Departments and respective offices under them.

Submission of Utilisation Certificates before expenditure

On scrutiny of relevant records pertaining to UCs made available to audit it was seen that five DDOs under Planning and Tribal Development Department had submitted UCs for 51 vouchers amounting to ₹ 186.61 crore to the PAG (A&E)-I, Maharashtra, Mumbai in respect of Grants-in-aid received during 2011-12 to 2015-16. The actual expenditure incurred against ₹ 186.61 crore was ₹ 136.09 crore on the date of submission of UCs. The unspent amount on the date of submission of UCs was ₹ 50.52 crore as shown in the **Table 3.2**.

Table 3.2: Details showing submission of Utilisation Certificates before expenditure

| | | | | | | | (₹ in crore) |
|---|---|-----------------|---------------|-----------------|----------------|--------------------|--|
| Sr No | DDO | No. of Vouchers | Amount drawn | Amount utilised | Unspent amount | Period | Remarks |
| Planning Department | | | | | | | |
| 1 | Assistant District Planning Officer, Thane | 6 | 12.84 | 10.07 | 2.77 | 2011-12 to 2015-16 | |
| 2 | Chief Accounts and Finance Officer (CAFO), ZP, Nashik* | 5 | 4.39 | - | 4.39 | March 2016 | |
| 3 | Chief Accounts and Finance Officer, ZP, Ahmednagar | 7 | 70.44 | 67.94 | 2.50 | 2013-14 to 2015-16 | UC submitted before actual distribution of GIA |
| Tribal Department | | | | | | | |
| 4 | Chief Accounts and Finance Officer, ZP, Nashik* | 3 | 10.00 | - | 10.00 | March 2016 | |
| 5 | Project Officer, Integrated Tribal Development Project, Nandurbar | 12 | 48.13 | 36.75 | 11.38 | March 2016 | |
| 6 | Project Officer, Integrated Tribal Development Project, Taloda, Nandurbar | 18 | 40.81 | 21.33 | 19.48 | 2014-15 to 2015-16 | |
| Total | | 51 | 186.61 | 136.09 | 50.52 | | |
| * Pending UCs were checked for Planning and Tribal Development in CAFO, ZP, Nasik | | | | | | | |

CAFO, Ahmednagar submitted UCs for ₹ 70.44 crore for seven vouchers even before distributing the GIA as shown in the above table.

These Departments stated that UCs were submitted before expenditure as regular bills were held up at the Treasury level till the pending UCs were cleared. The Department further stated as the State Government had allowed (Government Resolution dated 06 June 2008) the DDOs to use the unspent GIA amount in the succeeding year also, submission of UCs would get delayed. To avoid the delay in following the procedures, these Departments submitted the UCs in advance.

The reply is not tenable, since the UCs are required to be submitted within 12 months from the dates of their sanction and only after utilisation of the funds for the purpose for which they were granted.

Internal control mechanism

Rule 4 under Appendix 22 BFR 1959 states that the Administrative Department shall devise its own inspectoral and supervisory machinery to satisfy itself regarding the proper utilisation of grants made to body or institutions.

It was, however observed that in the selected units these internal controls were not in existence.

3.2 Non-submission/delay in submission of Accounts by Grantee Institutions

According to Rule 149 of Bombay Financial Rules, 1959 read with Appendix 22, for identification of institutions which attract audit under Section 14 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971, the Government/ Heads of Departments are required to furnish to audit every year detailed information about the financial assistance given to various institutions, the purpose of assistance granted and the total expenditure of the institutions. The details of such assistance released to the institutions during the year were awaited from Government Departments (September 2017).

Table 3.3 shows age-wise arrears of Annual Accounts due up to 2016-17 in respect of 4,349 Annual Accounts as of August 2017.

Table 3.3: Age-wise arrears of Annual Accounts due from Institutions

| Delay in number of years | Number of Accounts |
|---------------------------------|---------------------------|
| 0-1 | 1873 |
| 1-3 | 859 |
| 3-5 | 748 |
| 5-7 | 547 |
| 7-9 | 278 |
| 9 and above | 44 |
| Total | 4349 |

Major pendency in submission of Accounts pertained to Higher and Technical Education Department and School Education and Sports Department.

As per Section 103 of Maharashtra Universities Act, 1994, the Accounts of the University are required to be audited within six months of the close of the financial year. The Annual Accounts of Mumbai University have not been submitted since 2012-13 onwards.

Non-submission of information regarding Grants and loans paid to various institutions and non-furnishing of Accounts by them, increase the risk of mis-utilisation of the funds and the same is brought to the notice of the Government for remedial action.

3.3 Delay in submission of Accounts/Audit Reports of Autonomous Bodies and placement of Audit Reports before the State Legislature

Several Autonomous Bodies have been set up by the State Government in the fields of Environment, Housing, Industries, Irrigation, Urban Development and Water Supply and Sanitation. The audit of Accounts of 26 autonomous bodies in the State has been entrusted to the Comptroller and Auditor General of India under Section 19 and 20 of CAG's DPC Act 1971. The status of entrustment of audit, rendering of Accounts to audit, issuance of Separate Audit Reports and their placement in the Legislature by the Autonomous Bodies are indicated in **Appendix 3.3**.

The delay in submission of Annual Accounts ranged between two months and 156 months. The Maharashtra State Human Rights Commission rendered the accounts from 2003-04 to 2013-14 in July 2017 after a delay ranging from 156 months to 36 months. The Maharashtra Building and Other construction Workers Welfare Board rendered the accounts from 2007-08 to 2011-12 in March 2017 after a delay ranging from 104 months to 56 months. The Maharashtra Khadi and Village Industries Board rendered the accounts from 2012-13 to 2015-16 in January 2017 after a delay ranging from 43 months to seven months. The Accounts of Maharashtra State Legal Services Authority, Mumbai had been received only up to 2008-09 which was yet to be presented in the Legislature. The Annual Accounts of Maharashtra State Minorities Commission had been rendered only up to 2012-13. The Annual Accounts from 2015-16 onwards of six¹ bodies were yet to be received. Further,

¹ Maharashtra Jeevan Pradhikaran; Maharashtra State Commission for Women; Maharashtra Pollution Control Board; The Maharashtra State Human Rights Commission; Godavari Marathwada Irrigation Development Corporation; and Maharashtra Water Conservation Corporation

Annual Accounts 2016-17 of nine² bodies were yet to be received. After entrustment, the Annual Accounts of four³ Autonomous Bodies were yet to be received.

Inordinate delays in submission of Accounts and their presentation to the State Legislature resulted in delayed scrutiny of the functioning of these Bodies by the Legislature where Government investments are made.

3.4 Delay in finalisation of *Proforma* Accounts by departmentally managed Commercial Undertakings

As per Rule 18 of Government Accounting Rules, 1990, the Departmental Undertakings of certain Government Departments, performing activities of Quasi-Commercial nature, are required to prepare *Proforma* Accounts in the prescribed format annually showing the working results of financial operations so that Government can assess their performance. The finalised Accounts of the departmentally managed Commercial and Quasi-Commercial Undertakings reflect their overall financial health and efficiency in conducting their business.

Heads of Government Departments have to ensure that the Undertakings prepare such Accounts and submit the same to the Principal Accountant General (Audit)-I, Maharashtra, Mumbai for audit within a specified time frame. As of March 2017, there were 49 such Undertakings of which, 34 had prepared Accounts up to 2015-16 and nine up to 2014-15. In respect of five Undertakings, there was large pendency in finalisation of *Proforma* Accounts ranging from 18 to 31 years as these were sick units and not operational and had stopped preparing Accounts. Milk Transport Scheme, Worli has been closed since 2008-09 and Accounts have not been prepared. The Department-wise position of arrears in preparation of *Proforma* Accounts and investments made by the Government are given in **Appendix 3.4**.

3.5 Misappropriations, losses, defalcations *etc.*

The Bombay Financial Rules, 1959 provide that misappropriation, fraudulent drawal/payment or otherwise discovered in a Treasury or any other Office/Department should be reported immediately by the Office concerned to the next higher authority as well as to the Principal Accountant General (Audit)-I, Maharashtra, Mumbai and Accountant General (Audit)-II, Maharashtra, Nagpur.

The State Government reported 354 cases of misappropriations, losses, defalcations *etc.*, involving ₹ 1,018.60 crore up to March 2017 on which final action was pending. The Department-wise breakup of pending cases and age analysis are given in **Appendix 3.5**.

The nature of these cases is given in **Appendix 3.6**. The age-profile of the pending cases and the number of cases pending in each category as emerged from these appendices are summarised in **Table 3.4**.

² Konkan Irrigation Development Corporation; Maharashtra Maritime Board; Slum Rehabilitation Authority; Maharashtra Water Resources Regulatory Authority; Rajiv Gandhi Science and Technology Commission; Maharashtra State Commission for Protection of Child Rights; Maharashtra Electricity Regulatory Commission; Tapi Irrigation Development Corporation; and Vidharba Irrigation Development Corporation

³ Fees Regulatory Authority; Maharashtra State Haj Committee; Admission Regulatory Authority; and Slum Rehabilitation Authority, Pimpri-Chinchwad, Pune

Table 3.4: Profile of Misappropriations, 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/ characteristic of the cases | Number of cases | Amount involved (₹ in lakh) |
| 0-5 | 51 | 1871.47 | Theft | 87 | 74.80 |
| 5 - 10 | 48 | 1820.88 | | | |
| 10 - 15 | 47 | 96964.08 | Misappropriation/ Loss of material | 267 | 101785.64 |
| 15 - 20 | 46 | 505.44 | | | |
| 20 - 25 | 33 | 513.69 | | | |
| 25 and above | 129 | 184.88 | | | |
| Total | 354 | 101860.44 | Total pending cases | 354 | 101860.44 |

Source: Data furnished by various Departments and Accountant General (Accounts and Entitlements)-II, Maharashtra, Nagpur and Pay and Accounts Office, Mumbai

Around 92 per cent of the amount involved pertains to Finance Department (₹ 937.40 crore). The reasons for which the cases were outstanding have been broadly categorised in **Table 3.5**.

Table 3.5: Reasons for the delay/pendency of cases

| Reasons for the delay/pendency of cases | Number of cases | Amount (₹ in lakh) |
|--|-----------------|--------------------|
| Departmental and criminal investigation awaited | 115 | 98992.72 |
| Departmental action initiated but not finalised | 89 | 1332.69 |
| Criminal proceedings finalised but recoveries were pending | 19 | 432.57 |
| Orders for recovery or write-off were awaited | 54 | 64.17 |
| Pending in the courts of law | 77 | 1038.29 |
| Total | 354 | 101860.44 |

Source: Data furnished by various Departments and Accountant General (Accounts and Entitlements)-II, Maharashtra, Nagpur and Pay and Accounts Office, Mumbai

It may be seen from **Table 3.5** that of 354 cases involving ₹ 1018.60 crore, 255 cases (72 per cent) involving ₹ 981.68 crore (96 per cent) were pending for more than 10 years. Further, while 89 cases involving ₹ 13.33 crore were pending for final Departmental action, 54 cases involving ₹ 0.64 crore were pending recovery or write-off orders.

3.6 Opaqueness in Government Accounts

The omnibus Minor Head 800 accommodates the expenditure which could not be classified under the available programme minor heads. During 2016-17, expenditure aggregating ₹ 16,956.85 crore was classified under Minor Head 800 –Other expenditure against 43 Major Heads under Revenue and Capital sections. Similarly, revenue receipts aggregating ₹ 914.96 crore were classified under omnibus Minor Head ‘800 – Other Receipts’ under 10 Major Heads under Revenue and Capital Sections.

The revenue receipts under the minor head 800 have also increased significantly during the same period from ₹ 105.85 crore to ₹ 914.96 crore.

Details of significant transactions (involving more than ₹ 20 crore and constituting more than 20 *per cent* of the relevant Major Head) of receipts (10 items involving ₹ 914.96 crore) and expenditure (43 items involving ₹ 16,956.85 crore) at sub-head level are given in **Appendix 3.7**.

Substantial receipts from 'Land Revenue' (₹ 376.27 crore) and 'Power' (₹ 460.16 crore) were booked under the Head '800-Other Receipts', while subsidy to the Distribution/Transmission Licenses for reduction in Agriculture and Power loom Tariff (₹ 7,641.22 crore), grants-in-aid to 'Maharashtra State Electricity Board Holding Co. Ltd.' (₹ 991.75 crore), Capital investment in Power projects (₹ 646.72 crore) were classified as '800-Other Expenditure'. Further, it was also observed that the expenditure under the Minor Head 800 had increased from ₹ 14,829.25 crore in 2015-16 to ₹ 16,956.85 crore in 2016-17.

More efforts are required on the part of Finance Department to classify the expenditure/receipts under correct respective minor heads instead of Minor Head 800. Budgeting of large amounts under the omnibus Minor Head 800 – Other Expenditure/Receipts affects the transparency in financial reporting as it fails to indicate disaggregated information on different activities of the Government separately in the accounts.

3.7 Reconciliation of receipts and expenditure

All Controlling Officers are required to reconcile the receipts and expenditure of the Government with the figures accounted for by the Offices of the Principal Accountant General (Accounts and Entitlements)-I, Maharashtra, Mumbai or Accountant General (Accounts and Entitlements)-II, Maharashtra, Nagpur or the Pay and Accounts Office, Mumbai, as the case may be. Such reconciliation had been completed for an expenditure of ₹ 1,82,809 crore (83 *per cent*) against the total expenditure of (₹ 2,20,064 crore) excluding the expenditure adjusted through Transfer Entry and Periodical Adjustments and for Receipts of ₹ 1,40,954 crore (95 *per cent*) against the total receipts of (₹ 1,48,232 crore) excluding the receipts adjusted through Transfer Entry and Periodical Adjustments.

Major defaulting Departments were School Education and Sports, Agriculture, Animal Husbandry, Dairy Development and Fisheries, Home, Tourism and Cultural Affairs, Food, Civil Supplies and Consumer Protection, Urban Development, Skill Development and Entrepreneurship, Water Supply and Sanitation, Industries, Energy and Labour, Finance *etc.* Non-reconciliation of Accounts has an impact on the assurance of completeness and correctness of the receipt and expenditure figures by the Department which may result in frauds, defalcation and overdrawals *etc.* remaining undetected.

3.8 Pendency in submission of Detailed Contingent Bills against Abstract Contingent Bills

As per the Maharashtra Treasury Rules, 1968, the Drawing and Disbursing Officers are required to submit Detailed Contingent (DC) bills which are vouchers in support of final expenditure, against Abstract Contingent (AC) bills drawn, within 30 days to the Offices of the Principal Accountant General (Accounts and Entitlements)-I, Maharashtra, Mumbai or the Accountant General (Accounts and Entitlements)-II, Maharashtra, Nagpur or the Pay and Accounts Office, Mumbai, as the case may be.

As on 31 March 2017, 2,864 DC bills amounting to ₹ 950.53 crore were not received in the Offices of the Principal Accountant General (Accounts and Entitlements)-I, Maharashtra, Mumbai/Accountant General (Accounts and Entitlements)-II, Maharashtra, Nagpur/Pay and Accounts Office, Mumbai. Year-wise details and the Department-wise position are given in **Table 3.6** and **Appendix 3.8** respectively.

Table 3.6: Pendency in submission of Detailed Contingent Bills against Abstract Contingent Bills
(₹ in crore)

| Year | AC bills drawn | | DC bills received | | Outstanding AC bills | |
|---------------|----------------|----------------|-------------------|----------------|----------------------|---------------|
| | Number | Amount | Number | Amount | Number | Amount |
| Up to 2014-15 | 112626 | 4762.05 | 111493 | 4176.03 | 1133 | 586.02 |
| 2015-16 | 2508 | 182.42 | 2154 | 85.91 | 354 | 96.51 |
| 2016-17 | 2716 | 322.46 | 1339 | 54.46 | 1377 | 268.00 |
| Total | 117850 | 5266.93 | 114986 | 4316.40 | 2864 | 950.53 |

Source : Finance Accounts 2016-17

Most of the outstanding Abstract Bills relate to Home Department (795 bills amounting to ₹ 770.30 crores). Un-adjusted AC bills increase the risk of misuse, forgery, fraud and wasteful expenditure.

3.9 Conclusion

Non-submission of Utilisation Certificates (38,884) amounting to ₹ 60,321.78 crore as on 31 March 2017 indicated absence of proper monitoring by the Departments in utilisation of grants sanctioned for specific purposes. Similarly, 2,864 Detailed Contingent Bills amounting to ₹ 950.53 crore were not submitted by the Drawing and Disbursing Officers of various Departments of which, 1,377 bills amounting to ₹ 268 crore pertained to 2016-17. These violations of Treasury Rules indicated poor financial management on behalf of Departments/agencies.

There were delays in submission/finalisation of Accounts by Autonomous Bodies/Commercial Undertakings which dilutes accountability and defeats the purpose of preparation of Accounts.

3.10 Recommendations

- *Issues holding up submission of Utilisation Certificates should be identified to ensure their submission within the stipulated time. The Government may also ensure timely submission of Detailed Contingent Bills by the Drawing and Disbursing Officers as stipulated in Maharashtra Treasury Rules, 1968, and disallow drawal of funds on Abstract Contingent Bills to Departments who have not rendered Detailed Contingent Bills for previous withdrawals.*
- *The Controlling Departments may identify the reasons for delay in finalisation of Accounts of Autonomous Bodies/Undertakings and institute remedial measures to ensure that arrears in Accounts are cleared in a time bound manner.*

Mumbai,
The 07 May 2018


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Countersigned

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The 09 May 2018


(RAJIV MEHRISHI)
Comptroller and Auditor General of India