

CHAPTER III
FINANCIAL REPORTING

CHAPTER III

FINANCIAL REPORTING

A sound internal financial reporting system and 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 2018-19.

3.1 Delay in furnishing of Utilisation Certificates

Article 210A of the Tamil Nadu Financial Code provides that Utilisation Certificates (UCs) should be obtained by the departmental officers from the organisations to whom grants were given and after verification, the UCs should be forwarded to the Accountant General (Accounts and Entitlements) (AG (A&E)) within 18 months from the date of release of the grants, unless specified otherwise.

It was found that in respect of 401 grants released during 2014-18, 29 UCs for ₹ 353.47 crore were not furnished by the grantees as of June 2019. Department/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	1	10.50
2015-16	3	10.56
2016-17	7	184.17
2017-18	18	148.24
Total	29	353.47

(Source: Accountant General (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 that received Government grants. Huge pendency in submission of UCs is fraught with the risk of fraud and misappropriation of funds.

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).

However, it was seen that out of 207 CCOs in the State, 52 CCOs for expenditure and 73 CCOs for receipts did not reconcile their accounts with AG (A&E) as detailed in **Appendix 3.2**. It was observed that two CCOs did not reconcile their expenditure with the AG (A&E) for the whole year as given in **Table 3.2**.

Table 3.2: Non-reconciliation of expenditure for the whole year

Sl.No.	CCO	Major Head	Amount pending reconciliation (₹ in crore)
1	Secretariat	7610	117.50
2	Secretary to Government, Finance	2049	28,757.11
Total			28,874.61

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

Non-reconciliation of accounts impacted 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

Sections 14 and 15 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 (DPC Act) envisages audit of accounts of institutions receiving Government grants, subject to conditions stipulated based on the quantum of the grants received, etc. In order to identify the institutions which attract audit under the DPC Act, every year, the heads of department were required to furnish to Audit the information about the financial assistance given to various institutions, the purposes for which the assistance was granted and the total expenditure of these institutions/bodies.

The annual accounts of 243 institutions/bodies, due up to 2018-19, were not received (June 2019) by Audit from the heads of department who released the financial assistances to them. The details are given in **Appendix 3.3** and their age-wise pendency is presented in **Table 3.3**.

Table 3.3: Age-wise arrears of annual accounts due from Institutions/Bodies

Sl. No.	Delay in number of years	Number of the Institutions/Bodies
1	Up to one year	36
2	More than one year and up to three years	82
3	More than three years and up to five years	41
4	Five years and above	84
Total		243

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

The major defaulters were educational institutions receiving Government grants for salaries, maintenance, etc. The delay in finalisation of accounts would hamper Audit in providing an assurance to the legislature that the grants were being utilised for the intended objective.

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 988 temporary advances amounting to ₹ 425.51 crore drawn upto 31 March 2019 by DDOs through Pay and Accounts Offices/District Treasury Offices were not adjusted as on 30 June 2019. Age-wise analysis of the advances pending adjustment is given in **Table 3.4**.

Table 3.4: Age-wise analysis of advances pending

Sl. No.	Pendency	Number of Advances	Amount (₹ in crore)
1	More than 10 years	17	3.83
2	More than 5 years and less than 10 years	14	4.09
3	More than 1 year but less than 5 years	68	179.63
4	Less than one year	889	237.96
Total		988	425.51

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

Temporary Advances other than under Article 99 of TNFC Vol. I were granted by Pay and Accounts Offices to make advance payments for implementation of various schemes, which are to be adjusted after meeting the actual expenditure and remittance of the unspent balance, if any. Scrutiny of the records of PAOs in Chennai revealed that 2,233 advances totalling to ₹ 1,428.83 crore granted up to 31 March 2019 were pending adjustment as on 31 October 2019, as detailed in the **Table 3.4(a)**.

Table 3.4(a) Advances drawn under other than Art 99 pending adjustments

Sl. No.	Name of Office	Number of Advances	Amount (₹ in crore)
1	PAO (High Court)	38	63.78
2	PAO South	1,363	934.19
3	PAO East	832	430.86
Total		2,233	1,428.83

(Source data collected from PAOs)

The pendency, involving substantial amounts, indicated laxity on the part of departmental officers in enforcing the codal provisions regarding adjustment of the advances. These advances were to be settled within the stipulated period of three months from the date of drawl of advances. In these cases, there is no assurance that the expenditure has actually been incurred before the close of the respective financial years. Advances drawn and not accounted for increased the possibility of wastage/misappropriation/malfeasance, etc.

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 (Sub-head 'AA- Minor head - 106' under '8443 Civil Deposits') and

authorisations are issued by AG (A&E). Under extant Rules, these PD Accounts are required to be closed by the Administrators at the end of the financial year by minus debit to the relevant service heads. Further, there should be a separate PD Account for every scheme implemented by the Administrator.

During 2018-19, based on requests from GoTN, AG (A&E) issued permissions to open PD Accounts for incurring expenditure on various schemes. It was noticed that in violation of the permission to open separate PD Account for each of the scheme, several Administrators opened a single PD Account to book expenditure under multiple schemes, rendering it impossible to ensure that funds allotted for different schemes were utilised for the intended scheme.

A total of 16 PD Accounts in nine District Treasuries (DTs) and three Pay and Accounts Offices (PAOs) with a total balance of ₹ 13.59 crore were not closed on 31 March 2019, by minus debit to the service head concerned. The PD Accounts which were not closed on 31 March 2019 included one account at DT, Karur with negative balances aggregating ₹ 6,000/-. The negative balance indicated possible excess withdrawal, over and above the amount transferred from the service head. Non-closure of PD Accounts created by debiting service head led to depiction of inflated expenditure under the related service head. Non-transfer of unspent balances lying in PD accounts to consolidated fund of the State entails the risk of misuse of public fund, fraud and misappropriation.

3.5.1 Operation of 8443-800- Other Deposits

The transactions under 8443-800-Other Deposits during 2014-19 are given in **Table 3.5**.

Table 3.5: Transactions under 8443-800 - Other Deposits

(₹ in crore)

Year	OB	Receipts	Disbursements	CB
2014-15	4,040.16	19,120.97	19,841.75	3,319.38
2015-16	3,319.38	23,598.81	23,277.92	3,640.27
2016-17	3,640.27	21,290.86	20,585.62	4,345.51
2017-18	4,345.51	25,415.84	25,294.80	4,466.55
2018-19	4,466.55	32,490.16	29,456.00	7,500.71

(Source: Finance Accounts of respective years)

The closing balance of ₹ 7,500.71 crore, as on 31 March 2019, was held in the Deposit Accounts of 212 PSUs and autonomous bodies of GoTN. A list of PSUs/autonomous bodies holding more than ₹ 10 crore in their Deposit Accounts under 8443-800 is given in **Appendix 3.4**. GoTN utilised the head 8443-800-Other Deposits mainly for releasing funds to various PSUs/autonomous bodies for implementing schemes/programmes. Funds debited to the service heads are placed at the disposal of PSUs/Agencies implementing schemes/programmes as agents of the Government. Audit scrutiny disclosed that:

- 59 of the 212 PD Accounts maintained under the head 8443-800 had negative balances totalling to ₹ 5,411.37 crore (minus) as of 31 March 2019. As overdrawal from PD Accounts is not allowed,

these minus balances required detailed examination. A list of PD Accounts with negative balances are given in **Appendix 3.5**. These minus balances indicated laxities on the part of Treasuries/PAOs in administering these accounts.

- 136 PD Accounts with a total balance of ₹ 964.88 crore, including 44 of them with negative balances of ₹ 1,834.51 crore (minus), did not have any transaction during 2018-19 (**Appendix 3.6**).
- 24 PD Accounts had zero balance as of 31 March 2019, 20 of them had no transactions during 2018-19.

3.6 Misappropriations, losses, defalcations

Article 294 of the Tamil Nadu Financial Code stipulates that heads of office should report all cases of defalcations or loss of public moneys, stores or other movable or immovable properties to the AG (A&E). Further, the Financial Code prescribes the principles and procedures to be followed for enforcing responsibility for losses and disposal of such cases.

As on 31 March 2019, 348 cases of misappropriation, shortages, theft and loss involving a total amount of ₹ 14.71 crore, were pending disposal. The department-wise break-up of pending cases and the nature of these cases are given in **Appendix 3.7**. The age-profile of the pending cases and the number of cases pending in each category viz., misappropriation, loss, theft, etc., are summarised in **Table 3.6**.

Table 3.6: Profile of misappropriations, shortages, 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	2	198.16	Thefts	28	8.83
6-10	15	173.03	Losses and shortages	118	224.88
11-15	40	377.84	Misappropriations	202	1,237.07
16 - 20	34	366.44			
21 and above	257	355.31			
Total	348	1,470.78	Total pending cases	348	1,470.78

(Source: Information furnished by Heads of Department)

The reasons for pendency of the cases are classified under the categories listed in **Table 3.7**.

Table 3.7: Reasons for pendency of the cases of misappropriations, shortages, thefts, losses, etc.

Reasons for the pendency		Number of cases	Amount (₹ in crore)
(i)	Awaiting departmental and criminal investigation	170	7.91
(ii)	Departmental action initiated but not finalised	116	2.43
(iii)	Criminal proceedings finalised but recovery of the amount still pending	16	1.64
(iv)	Awaiting orders for recovery or write off	24	0.72
(v)	Pending in Courts of law	22	2.01
Total		348	14.71

(Source: Information received from Heads of Department)

3.7 Deficiencies noticed in the Pay and Accounts Offices

Accumulation of unencashed cheques and return Electronic Clearance Service

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, action should be taken to cancel the cheque with appropriate action to correct the expenditure under the relevant head.

It was, however, noticed from the details of unencashed cheques furnished by the seven PAOs that 57,009 cheques for ₹ 87.13 crore remained unencashed (June 2019) for periods up to 30 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 3.8**.

Table 3.8: Details of unencashed cheques

(₹ in crore)		
Delay in number of years	Number of cases	Value of cheques
0-5 years	818	13.12
5-10 years	2,142	14.40
10-20 years	36,023	42.53
More than 20 years	18,026	17.07
Total	57,009	87.13

(Source: Information furnished by PAOs)

No action was taken by Government to resolve these long pending issues.

Payments through Electronic Clearance Service (ECS) has been the norm in respect of direct benefit transfer, payment of salaries, wages, etc. Payments made through ECS return to the PAO/Treasury if the payee details as per the bank account do not match with the details of the payee maintained by the PAO/Treasuries. In November 2017, Commissioner of Treasuries and Accounts issued guidelines to be followed regarding return of funds paid through ECS. As per the guidelines, if the beneficiaries are not traceable, the unclaimed amount lying for more than three months should be remitted back into Government account by giving intimation to concerned DDOs. Returned ECS payments pertaining to 7,869 cases amounting to ₹ 2.64 crore, were kept pending in Pay and Accounts Offices. Neither the money was disbursed to the beneficiaries nor remitted back into Government account. The details are given in **Table 3.9**.

Table 3.9: Details of Returned ECS

(₹ in crore)		
Name of the PAO	Number of cases	Amount
PAO South	5,264	1.05
PAO North	1,510	0.51
PAO Secretariat	42	0.03
PAO High Court	94	0.04
PAO East	959	1.01
Total	7,869	2.64

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

3.8 Amounts booked 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 2018-19, under 12 major heads in the Revenue and Capital sections, expenditure aggregating to ₹ 12,955.64 crore (71.76 *per cent* of the total expenditure of ₹ 18,053.58 crore in these heads) was classified under the minor head ‘800 - Other Expenditure’. The entire expenditure under “Flood Control and Drainage”, and “Capital Outlay on General Economic Services” were classified under the omnibus minor head ‘800 - Other Expenditure’. Under Industries department the expenditure of ₹ 2,197.46 crore (97.69 *per cent* of the total expenditure of ₹ 2,249.50 crore) was classified under minor head ‘800 Other Expenditure’, instead of depicting the same under relevant minor heads below the functional major heads as indicated in **Appendix 3.8**.

Similarly, under 24 major heads, revenue receipts aggregating ₹ 2,355.45 crore (91.16 *per cent* of the total receipt of ₹ 2,583.89 crore), were classified under minor head ‘800 - Other Receipts’. The entire receipts under “Urban Development”, “Family Welfare” and “Other Rural Development Programme” were classified under the omnibus minor head ‘800 - Other Receipts’ as indicated in **Appendix 3.9**.

Classification of the large amount under the omnibus minor head “800 - Other Expenditure/Receipts” reflected lack of transparency in financial reporting.

3.9 Functioning of Treasuries

The significant irregularities in Working of Treasuries, PAOs and PPO during the year 2018-19 pointed out by the Accountant General (A&E) are detailed below.

3.9.1 Excess payment of Pensionary benefits

A test check of the payments made under pensionary benefits in 32 District Treasuries, six PAOs and one Pension Pay Office (PPO) revealed excess payment of pension, family pension and other allowances amounting to ₹ 2.48 crore during 2018-19. The excess payment unearthed by Audit had increased from ₹ 2.43 crore in 2017-18 to ₹ 2.48 crore in 2018-19, indicating failure of internal controls in Treasuries/PAOs.

Despite computerisation of Treasuries, the issue of excess payment continue to exist, pointing to the need for strengthening the internal controls.

3.9.2 Deposits not lapsed to Government

As per the provisions of Article 271 of Tamil Nadu Financial Code Volume I, deposits lying unclaimed for more than four financial years shall be lapsed to Government. Various deposits amounting to ₹ 38.38 crore from 73 Treasuries/Sub-Treasuries have not been lapsed to Government. Details of deposits of more than ₹ 1 crore, which were unclaimed for more than four years in seven Treasuries, but not lapsed to Government account are given in **Appendix 3.10**.

Further, in respect of 11 District Treasuries and eight Sub Treasuries, the details of amount lying unclaimed with year wise break up was not available. The details are shown in **Appendix 3.11**. In the absence of the information regarding the deposits lying unclaimed and the period of pendency, the total amount to be lapsing to Government account could not be ascertained.

3.10 Accounting of transactions under the object head “002 - Other contingencies” under Office Expenses

During the year, total expenditure of ₹ 557.68 crore was incurred under the detailed head “050-Office Expenses” across all the Departments/Grants. Out of this expenditure, an amount of ₹ 151.89 crore was incurred under the object head “002-Other Contingencies” across all the Departments/Grants, which is 27.23 *per cent* of the total expenditure under Office Expenses.

Audit observed that booking of large sums under 002-Other Contingencies makes the Accounts opaque as it would make it impossible to ascertain the object head-wise expenditure with accuracy.

3.11 Conclusion

Departmental officers failed to ensure adherence to the terms and conditions relating to timely submission of Utilisation Certificates in respect of grants released. Similarly, 243 autonomous bodies/institutions did not submit their accounts due upto 2018-19 to Audit. Temporary advances drawn up to 31 March 2019 by the DDOs involving an amount of ₹ 425.51 crore in 988 cases remained unadjusted. Personal Deposit Accounts opened by transferring funds from service heads of consolidated fund with a balance of ₹ 13.59 crore were not closed by returning the balance to the service heads concerned. The State Government departments reported 348 cases of misappropriations, losses, defalcation, etc., involving a total amount of ₹ 14.71 crore upto March 2019 on which final action was pending. There were 57,009 number of cheques amounting to ₹ 87.13 crore remaining unencashed and 7,869 returned ECS amounting to ₹ 2.64 crore pending due to non-initiation of timely action by PAOs.

3.12 Recommendations

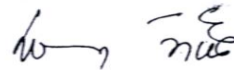
- Government may ensure receipt of UCs for grants already released before releasing further grants.
- Institutions/Bodies receiving Government grants may be made responsible to submit their audited accounts in time.
- Operation of PD Accounts by Government officers and Other Deposits under 8443-800 by public sector undertakings and autonomous bodies require closer monitoring.

Chennai
The 24 July 2020



(DEVIKA NAYAR)
Principal Accountant General
(Audit I), Tamil Nadu

Countersigned



New Delhi
The 31 July 2020

(RAJIV MEHRISHI)
Comptroller and Auditor General of India