

## **CHAPTER-III**

# **FINANCIAL REPORTING**



## CHAPTER III Financial Reporting

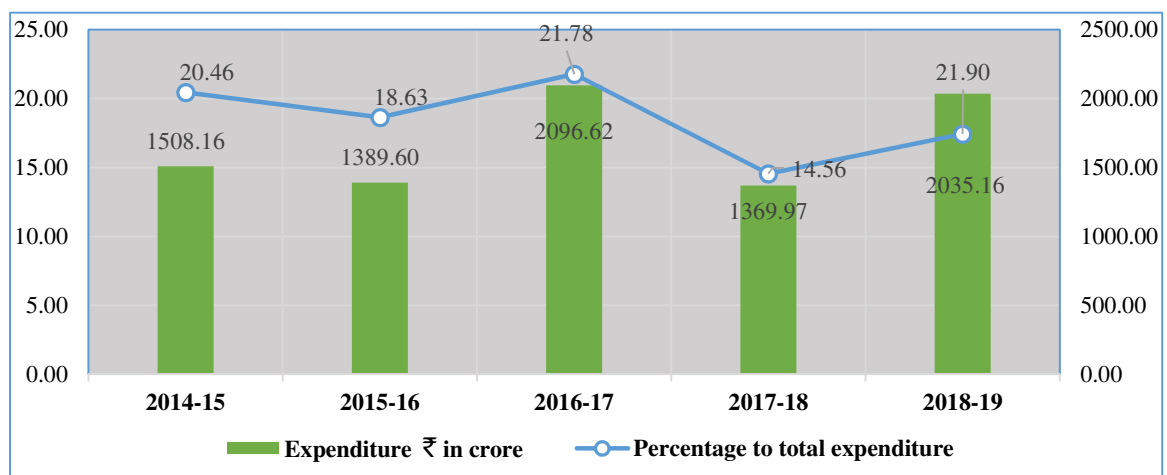
A sound internal financial reporting system with relevant and reliable information significantly contributes to efficient and effective governance by the State Government. Compliance with financial rules, procedures and directives as well as the timeliness and quality of reporting on the status of such 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 with various financial rules, procedures and directives during the current year with respect to financial reporting.

### 3.1 Opaqueness in Accounts - Operation of Omnibus Minor Head 800

The omnibus Minor Head 800 relating to Other Receipts/ Other Expenditure is to be operated only in cases where the appropriate Minor Head has not been provided under a Major Head in the accounts. If such instances occur on a regular basis, it is the responsibility of the State Government to discuss with the Accountant General (A&E) and obtain approval to open appropriate Minor Heads. Indiscriminate booking of receipts and expenditure under Minor Head 800 affects transparency and nature of transactions, and renders the accounts opaque.

Government of Meghalaya operated this Minor Head extensively during the five year period 2014-19. Government of Meghalaya has however, drastically reduced operation of Minor Head 800 under Receipts Major Heads. The quantum of bookings of Receipts under Minor Head 800 has come down from 26.74 *per cent* of Total Receipts during 2016-17 to 1.37 *per cent* during 2018-19. The quantum of expenditure booked under this Minor Head showed a mixed trend over the years. During 2018-19, the State Government booked an expenditure of ₹ 2,035.16 crore under Minor Head 800 under 56 Revenue and Capital Major Heads of Account, constituting 17.43 *per cent* of the total Revenue and Capital Expenditure of ₹ 11,673.22 crore. The extent of operation of Minor Head 800 for Other Expenditure, as a percentage of Total Expenditure during 2014-19 is given below:

**Chart 3.1: Operation of Minor Head 800 - Other Expenditure during 2014-19**



Above chart shows that there has been largescale operation of 800 for Other Expenditure, with its share in total expenditure ranging from 14.56 per cent to 21.90 per cent during the period. Instances of substantial proportion (50 per cent or more) of the expenditure within a given Major Head, classified under the Minor Head 800 – ‘Other Expenditure’, are given below:

**Table 3.1: Significant expenditure booked under Minor Head 800 – Other Expenditure during 2018-19 (₹ in crore)**

Major Head and Description		Details of Expenditure		Per cent
		Total	Under Minor Head - 800	
2225	Welfare of Schedule Castes, Schedules Tribes and Other Backward Classes	92.81	92.81	100
2501	Special Programmes for Rural Development	87.90	63.41	72
2515	Other Rural Development Programmes	245.68	163.34	66
2575	Special Programmes for Rural Development	47.28	41.24	87
2853	Non-ferrous mining and Metallurgical Industries	94.68	76.62	81
3451	Secretariat-Economic Services	383.17	196.53	51
4055	Capital Outlay on Police	9.27	4.90	53
4235	Capital Outlay on Social Security and Welfare	28.75	28.75	100
4401	Capital outlay on Crop Husbandry	0.86	0.86	100
4405	Capital outlay on Fisheries	4.12	3.75	91
5054	Capital outlay on Roads and Bridges	746.26	746.25	100
5055	Capital outlay on Road Transport	2.78	2.78	100

Classification of large amounts under the omnibus Minor Head 800 affects transparency in financial reporting and distorts proper analysis of allocative priorities and quality of expenditure.

### 3.2 Delay in Furnishing Utilisation Certificates

Rule 515 (Appendix 14) of the Meghalaya Financial Rules, 1981, provides that unless otherwise ruled by the State Government, every grant made for a specified object is subject to the implied conditions that the grant will be spent upon that object within a reasonable time (one year from the date of issue of the letter sanctioning the grant, if no time-limit has been fixed by the sanctioning authority). Grantee Institutions receiving Grants-in-Aid from Government are required to furnish Utilisation Certificates (UCs) to the Principal Accountant General (Accounts & Entitlement) countersigned by the disbursing authority after thorough verification. The purposes for which the Grant-in-Aid were utilised can be confirmed only on receipt of UCs which would safeguard against diversion of funds for other purposes. To the extent of non-receipt of UCs, the expenditure shown in the accounts can neither be treated as final nor can it be confirmed that the amount has been utilised for the intended purposes. The year-wise details of outstanding UCs during 2014-19 are given in **Table 3.2**.

**Table 3.2: Details of submission of Utilisation Certificates from 2014-15 to 2018-19 (₹ in crore)**

Year	Opening Balance		Addition During the Year		Disposal		Closing Balance	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount
2014-15	262	876.89	319	917.30	356	972.25	225	821.94
2015-16	225	821.94	279	705.68	217	430.49	287	1097.13
2016-17	287	1097.13	447	1620.70	226	716.45	508	2001.39
2017-18	508	2001.39	382	1222.10	174	489.81	716	2733.59
2018-19	716	2733.59	527	1892.51	133	326.48	1110	4299.62

Source: Office of the Principal Accountant General (A&E), Meghalaya, Shillong.

It was seen that at the close of March 2019, 1,110 UCs amounting to ₹ 4,299.62 crore remained outstanding in the books of the Principal Accountant General (Accounts & Entitlement), Meghalaya. The age-wise arrears of the 1,110 UCs are given in **Table 3.3**.

**Table 3.3: Age-wise arrears of Utilisation Certificates** (₹ in crore)

Year*	Number of Utilisation Certificate awaited	Amount
Up to 2016-17	508	2001.39
2017-18	208	732.20
2018-19	394	1566.03
<b>Total</b>	<b>1110</b>	<b>4299.62</b>

\*The year mentioned above relates to 'Due Year' i.e. after 12 months of actual drawal.

Major defaulting departments which have not submitted UCs and their percentage out of total outstanding amount under Grants-in-Aid are Education Department (₹ 1,757.25 crore, 40.87 per cent); Economic Service Department (₹ 532.87 crore, 12.39 per cent); Rural Employment Department (₹ 506.06 crore, 11.77 per cent); Rural Development Department (₹ 424.50 crore, 9.87 per cent); Health & Family Welfare Department (₹ 410.79 crore, 9.55 per cent); Welfare of Scheduled Castes/ Scheduled Tribes and Other Backward Classes (₹ 273.30 crore, 6.36 per cent); Power Department (₹ 123.55 crore, 2.87 per cent); Arts and Culture Department (₹ 76.78 crore, 1.79 per cent), Social Security & Welfare (₹ 58.83 crore, 1.37 per cent) and Sports & Youth Affairs (₹ 45.24 crore, 1.05 per cent).

In the absence of UCs, it could not be ascertained whether the recipients had utilised the grants for the purposes for which these were disbursed. Huge pendency in submission of UCs is fraught with the risk of fraud and misappropriation of funds.

### **3.3 Detailed Countersigned Contingent Bills Against Abstract Contingent Bills**

According to the Meghalaya Treasury Rules, 1985, the Controlling Officers are required to submit Detailed Countersigned Contingent (DCC) bills against the drawal of Abstract Contingent (AC) bills to the Accountant General (AG) within a month from the date of receipt of such bills in his office. As per Finance Accounts for the year 2018-19, against AC bills of an amount of ₹ 88.09 crore, no DCC Bills were received. Major defaulter in this regard is the Election Department where AC bills for ₹ 87.89 crore remained outstanding as of March 2019.

Advances drawn and not accounted for increase the possibility of wastage/ misappropriation/ malfeasance, etc. It amounts to unhealthy practices and therefore, requires close monitoring by the DDOs for ensuring timely adjustment.

Government may consider fixing responsibility on officials for failing to settle the outstanding AC bills within the stipulated period of one month.

### **3.4 In-operative Personal Deposit Accounts**

Personal Deposit (PD) Accounts are created for discharging the liabilities of the Government arising out of special enactment. As per Rule 392 of the Meghalaya Treasury Rules, 1985, if PD accounts are created by transferring funds from the Consolidated Fund for discharging liabilities of the Government arising out of the special enactment, such

accounts should be closed at the end of the financial year and the unspent balance should be transferred to the Consolidated Fund. The amount credited to these accounts will be debited to the Consolidated Fund of the State and booked as expenditure of the year. Further, if a PD Account is not operated for a considerable period and there is reason to believe that the need for deposit account has ceased, the same should be closed in consultation with the officer in whose favour the deposit account had been opened.

As on 01 April 2018, there were seven PD accounts with an opening balance of ₹ 18.81 crore. One account was closed after disbursement during 2018-19. As on 31 March 2019, there were six PD accounts with a closing balance of ₹ 16.38 crore. Out of these six PD accounts, one PD account having a balance of ₹ 0.02 crore remained inoperative for more than five years and had not been closed in compliance with the rule.

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. Further, the State Government should take necessary steps to close the inoperative PD account and transfer the balances to the Consolidated Fund of India.

### 3.5 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 (DPC Act), the Government/ Heads of the Department are required to furnish to Audit every year detailed information about the financial assistance given to various institutions, the purpose of assistance granted and the total expenditure of the institutions. On receipt of this information, the following was observed:

The annual accounts of 25 bodies/ authorities due up to 2018-19 had not been received (October 2019) by the Principal Accountant General (Audit). The details of these accounts are given in **Appendix 3.1** and their age-wise pendency is presented in **Table 3.4**.

**Table 3.4: Age-wise arrears of Annual Accounts due from Government Bodies**

Sl. No.	Delay in number of years	Total No. of Accounts
1.	0 to 1 year	02
2.	Above 1 year to 3 years	20
3.	Above 3 years to 5 years	19
4.	Above 5 years to 7 years	18
5.	Above 7 years to 9 years	34
6.	Above 9 years	65
<b>Total</b>		<b>158</b>

### 3.6 Delay in Submission of Accounts of Autonomous Bodies

Several autonomous bodies have been set up by the State Government in the field of Khadi and Village Industries, Labour, etc. The position of annual accounts of three of the autonomous bodies whose audit was entrusted to the Comptroller and Auditor General of India (CAG) under Section 19 & 20 of DPC Act is given in **Table 3.5**.

**Table 3.5: Position of outstanding annual accounts**

Name of Autonomous Body	Section of DPC Act under which audit is conducted	Due date for submission of Annual Accounts	Year of Annual Accounts received	Outstanding Annual Accounts
Meghalaya Khadi and Village Industries Board	19(3)	June every year	2016-17	2017-18 to 2018-19
Special Purpose Vehicle Society for Development of the Lafarge Umiam Mining Areas, Shillong	20(1)	June every year	2015-16	2016-17 to 2018-19
Meghalaya Building and Other Construction Workers' Welfare Board	19(2)	- Do -	2014-15	2015-16 to 2017-18

### 3.7 Building and Other Construction Workers Welfare Cess

Meghalaya Building and Other Construction Worker's Welfare Board (MBOCWFB) was constituted on 02 September 2009 and reconstituted in 23 April 2018 to oversee implementation of welfare schemes for its beneficiaries from the funds collected by the Board.

As per information furnished by the Board, the total amount of labour cess collected since inception till 2018-19 was ₹ 137.70 crore while the total amount spent was only ₹ 4.15 crore (Three per cent). Less utilisation of the cess amounts indicated that the welfare measures for workers were not being undertaken at a scale as envisaged in the Meghalaya Building and Other Construction Workers' Welfare Act.

Moreover, the cess so collected was not credited into the Government Accounts but was deposited into the Board's Bank Account. While agreeing to the audit observation, the Finance Department instructed (February 2020) the Secretary, Labour Department to henceforth deposit the cess under the appropriate Head of Account.

### 3.8 Misappropriation, Loss, etc.

According to Rule 112 of the Meghalaya Financial Rules, 1981, any defalcation or loss of public money or other property discovered in Government Treasury or other office or department, which is under the audit of the Accountant General, should be immediately reported to the Accountant General, even when such loss has been made good by the person responsible for it. Further, in all cases of theft, misappropriation, fraud and loss involving Government money, the First Information Report (FIRs) should invariably be lodged with the Police Department.

State Government reported 74 cases of theft, misappropriation and loss involving Government money amounting to ₹ 200.75 lakh up to March 2019 on which final action was pending. A break up of pending cases and age-wise analysis is given in **Appendix 3.2** and department-wise break up of pending cases is given in **Table 3.6**.

**Table 3.6: Department-wise break-up of pending cases**

(₹ in lakh)

Name of Department	Cases of Theft		Cases of Misappropriation		Cases of loss of Government material		Total	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Public Works	2	3.75	1	9.96	1	3.80	4	17.51
Health & Family Welfare	1*	-*	0	0	1* + 2	0.92	2* + 2	0.92

\* Amount not intimated.

Name of Department	Cases of Theft		Cases of Misappropriation		Cases of loss of Government material		Total	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Public Health Engineering	57	7.41	0	0	1	0.18	58	7.59
Legislative Assembly	0	0	2	44.09	0	0	2	44.09
Finance	1	86.50	0	0	1	1.94	2	88.44
Mining	0	0	1	16.55	0	0	1	16.55
Community & Rural Development	1	3.03	0	0	0	0	1	3.03
Land Record & Survey	1	1.56	0	0	0	0	1	1.56
Horticulture	0	0	0	0	1	21.06	1	21.06
<b>Total</b>	<b>63</b>	<b>102.25</b>	<b>4</b>	<b>70.60</b>	<b>1* + 6</b>	<b>27.90</b>	<b>74</b>	<b>200.75</b>

The age-profile of pending cases and the number of cases pending in each category (theft, misappropriation and loss) are summarised in **Table 3.7**.

**Table 3.7: Age Profile of Pending cases of Theft, Misappropriation and Loss (₹ in lakh)**

Age-Profile of the Pending Cases			Nature of the Pending Cases		
Range in years	Number of cases	Amount involved	Nature/characteristics of the cases	Number of cases	Amount involved
0 - 5	-	-	Theft	63	102.25
5 - 10	3	41.81			
10 - 15	2	21.24	Misappropriation/ loss of material	11	98.50
15 - 20	5	6.64			
20 - 25	34	22.62			
25 & above	30	22.62	<b>Total</b>	<b>74</b>	<b>200.75</b>
			Cases of theft and loss written off during the year	-	-
<b>Total</b>	<b>74</b>	<b>200.75</b>	<b>Total Pending Cases</b>	<b>74</b>	<b>200.75</b>

Out of 74 cases, Departments concerned had filed FIRs with the Police Department only in respect of 69 cases involving ₹ 154.73 lakh. In the remaining five cases involving ₹ 46.02 lakh, information on filing of FIRs had not been furnished.

A further analysis indicated that the reasons due to which the cases were outstanding could be classified in the categories listed in **Table 3.8**.

**Table 3.8: Reasons for Outstanding cases of Misappropriation, loss, defalcation etc.**

(₹ in lakh)

Reasons for the Delay/Outstanding Pending Cases		Number of cases	Amount
1.	Awaiting departmental investigation/enquiry	54	28.20
2.	Departmental action initiated but not finalised	9	44.54
3.	Awaiting orders for recovery or write off	10	111.46
4.	Pending in the court of law	1	16.55
	<b>Total</b>	<b>74</b>	<b>200.75</b>

Out of ₹ 200.75 lakh, the highest amount of theft and loss of ₹ 88.44 lakh pertained to Finance Department involving two cases. The highest amount of misappropriation of ₹ 44.09 lakh pertained to Meghalaya Legislative Assembly involving two cases. Loss of Government material of ₹ 21.06 lakh pertained to the Horticulture Department involving one case.

### 3.9 Follow up Action on Audit Reports

The Audit Reports can achieve the desired results only if they evoke positive and adequate response from the administration itself. To ensure accountability of the executive about the issues contained in the Audit Reports, the Public Accounts Committee of Meghalaya Legislative Assembly issued instructions (July 1993) for submission of *suo motu*





