



**CHAPTER-III:  
FINANCIAL REPORTING**



## CHAPTER III

### FINANCIAL REPORTING

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 Delay in submission of Utilisation Certificates

Rule 115 of Sikkim Financial Rules, 1979 states that in the case in which conditions are attached with the utilisation of a Grant in the form of specification or particular objects or expenditure or the time within which the money must be spent, or otherwise, the sanctioning authority shall be primarily responsible for certifying to the Accountant General, where necessary, the fulfilment of conditions attaching to grant, unless there is any special rule or order to the contrary.

Further, Rule 116 (1) of the Sikkim Financial Rules, 1979 stipulates that every grant made for a specific object is subject to implied conditions: (i) that the grant shall be spent upon the object within a reasonable time of one year from the date of issue of the letter sanctioning grant and (ii) that any portion of the amount which is not ultimately required for expenditure upon that object shall be duly surrendered to Government.

Utilisation Certificates (UCs) outstanding beyond the specified periods indicate absence of assurance on utilisation of the grants for intended purposes and the expenditure shown in the accounts to that extent cannot be treated as final.

Status of outstanding UCs as per the records of the office of the Senior Deputy Accountant General (Accounts & Entitlement) {(Sr. DAG) (A&E)} Sikkim is at **Appendix 3.1**.

**Table 3.1: Outstanding Utilisation Certificates**

(₹ in crore)

Year	Total Grant Paid		UCs Received		UCs Awaited	
	No.	Amount	No.	Amount	No.	Amount
Up to 2016-17 <sup>1</sup>	8484	1597.88	7493	1546.11	991	51.77
2017-18	281	95.18	164	45.05	117	50.13
2018-19*	230	87.06	32	16.75	198	70.31
<b>Total</b>	<b>8995</b>	<b>1780.12</b>	<b>7689</b>	<b>1607.91</b>	<b>1306</b>	<b>172.21</b>

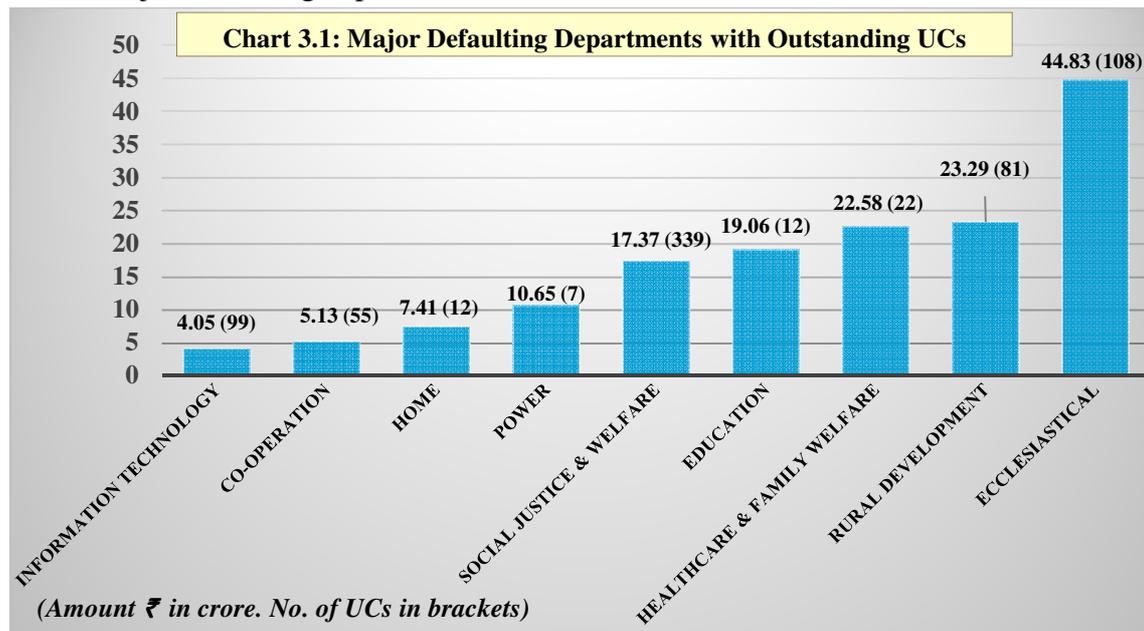
Source: Finance Accounts and VLC data

\* Except where the sanction order states otherwise, utilisation certificates in respect of grants disbursed during 2018-19 become due only during 2019-20.

It can be seen from the above table that 1,306 UCs involving an amount of ₹ 172.21 crore were awaited as on 31 March 2019. Out of these, at the close of March 2019 accounts, 1108 UCs worth ₹ 101.90 crore were outstanding as on 31 March 2019 and 198 UCs for ₹ 70.31 crore pertaining to 2018-19 are due in 2019-20 only.

<sup>1</sup> The oldest UCs pertains to the year 2002-03 amounting to ₹1.24 crore.

List of major defaulting departments who had not submitted UCs are as below:



Source: VLC Data

Grantor obtains assurance through means of UCs about proper utilisation of the funds placed at the disposal of the Grantee for the sanctioned purpose. Any delay in furnishing UCs to the Grantor or an inaccuracy in such reporting essentially undermines the control mechanism designed to prevent the diversion from the intended purposes as well as timely utilisation of grants. To the extent of non-receipt of UCs, the expenditure shown in accounts cannot be treated as final nor can it be confirmed that the amount has been expended for the purpose sanctioned. Moreover, high pendency of UCs was fraught with the risk of misappropriation and fraud.

### 3.2 Pendency in submission of Detailed Contingent (DC) Bills against Abstract Contingent (AC) Bills

Government of Sikkim, Finance Department Office Circular No. 168/Fin (Accts) dated 27 December 1983 states that Drawing and Disbursing Officers (DDOs) are required to present Detailed Contingent (DC) Bills containing vouchers in support of final expenditure within three months of the withdrawal of Abstract Contingent (AC) Bills. Besides, the DDOs should not make payments through AC Bills unless DC Bills for previous month have been submitted to the Controlling Officers. Non-submission of DC Bills renders the expenditure under AC Bills opaque. Details of AC Bills outstanding as on 31 March 2019 are given below.

**Table 3.2: Details of AC Bills**

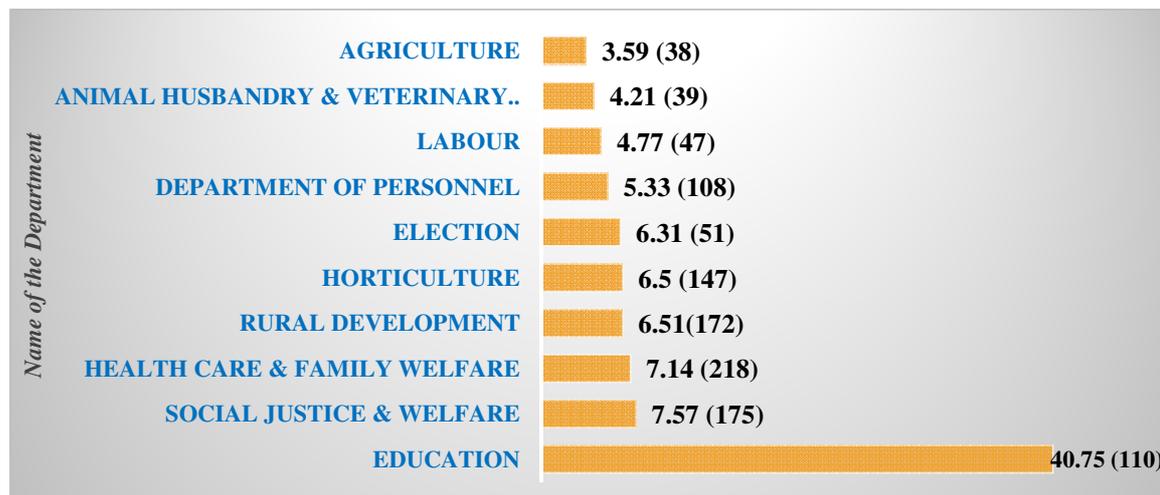
Year	AC Bills Drawn		DC Bills submitted		Unadjusted AC Bills	
	No.	Amount (₹ in crore)	No.	Amount (₹ in crore)	No.	Amount (₹ in crore)
Upto 2016-17 <sup>2</sup>	16622	457.72	14724	420.19	1898	37.53
2017-18	1312	38.39	949	23.07	363	15.32
2018-19	1131	77.78	385	9.86	746	67.92
<b>Total</b>	<b>19065</b>	<b>573.89</b>	<b>16058</b>	<b>453.12</b>	<b>3007</b>	<b>120.77</b>

Source: VLC data of office of the Sr. DAG (A&E).

<sup>2</sup> The oldest outstanding AC bills pertains to the year 2001-02 amounting to ₹0.18 crore.

During 2018-19, out of ₹ 77.78 crore drawn against 1131 AC Bills, ₹ 18.43 crore against 146 AC Bills was drawn in March 2019 and of this, ₹ 3.29 crore against 36 AC Bills was drawn on the last day of the financial year. Significant draws against AC Bills in March indicates that it was done primarily to exhaust the budget provisions. Advance drawn and not accounted for increased the possibility of wastage/misappropriation/ malfeasance, etc. The departments with high outstanding AC bills are shown in **Chart 3.2**.

**Chart 3.2 Departments with high outstanding AC Bills as on 31 March 2019**



(Amount ₹ in crore and Outstanding number of AC Bills in Bracket)

Due to the non-submission of DC bills, there was no assurance that expenditure has actually been incurred before the close of the financial year, for the stated purpose. Department-wise pending DC bills for the years up to 2018-19 are detailed in **Appendix 3.2**.

The office of Sr. DAG (A&E) has been highlighting the status of outstanding DC bills to the Finance Department on monthly basis, however the outstanding balances persisted.

The Education Department was a major defaulting department with highest amount of outstanding AC bills amounting to ₹40.75 crore (33.74 per cent of total outstanding AC bills) with 110 numbers of outstanding AC bills. In terms of number of outstanding AC bills the Police Department with 374 numbers and Home Department with 289 numbers of outstanding AC bills are the top defaulters.

### 3.3 Indiscriminate use of Minor Head 800

Minor Head 800-Other Expenditure/ Other Receipts is intended to be operated only when appropriate minor heads have not been provided in the accounts. Routine operation of Minor Head -800 is to be discouraged., since it renders the accounts opaque. During year 2018-19, the State government booked ₹ 386.32 crore under Minor Head-Other Receipts in 30 Receipt Heads and ₹ 805.89 crore under Minor Head- Other Expenditure in 32 Expenditure Heads, constituting 6.53 per cent of total revenue receipts and 12.36 per cent of total expenditure. It was seen that substantial proportions (more than 50 percent of total amount in the Major Head) were booked under the Minor Head 800 in 16 Receipts Heads and 12 Expenditure Heads as shown in **Appendix 3.3**.

### 3.4 Outstanding balances under Suspense and Remittances Heads

Certain intermediary/adjusting Heads of Account known as "Suspense Heads" are operated in Government Accounts to reflect transactions of receipt 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 Account are finally cleared by minus debit or minus credit, by debit or credit to the final Heads of Account. Similarly, Remittance Heads are only adjusting heads for temporary parking of transactions till their eventual clearance. If these amounts remain uncleared, the balance under these heads would go on accumulating and reflect a distorted picture of Government Accounts.

The outstanding balances under Suspense and Remittance heads for three years is shown in the following **Table 3.3**.

**Table 3.3: Outstanding Balances under Suspense and Remittance Heads**

(Amount ₹ in crore)

Particulars	2016-17		2017-18		2018-19	
<b>(I) Major Head (MH) 8658- Suspense</b>						
<b>Minor Head</b>	<b>Dr.</b>	<b>Cr.</b>	<b>Dr.</b>	<b>Cr.</b>	<b>Dr.</b>	<b>Cr.</b>
101-PAO Suspense	11.75	7.13	17.57	13.68	21.48	20.57
<b>Net</b>	<b>Dr. 4.53</b>		<b>Dr. 3.89</b>		<b>Dr. 0.91</b>	
102- Suspense Account (Civil)	0.35	3.95	14.15	14.57	28.66	29.56
<b>Net</b>	<b>Cr. 3.60</b>		<b>Cr 0.42</b>		<b>Cr.0.90</b>	
112- Tax Deducted at Source	25.83	30.57	46.44	51.70	50.82	57.17
<b>Net</b>	<b>Cr. 7.74</b>		<b>Cr 5.26</b>		<b>Cr. 6.35</b>	
123- AIS Suspense	0.01	0.30	0.01	0.31	0.01	0.33
<b>Net</b>	<b>Cr. 0.29</b>		<b>Cr. 0.30</b>		<b>Cr. 0.32</b>	
135- Cash Settlement between AG Sikkim and other states	2.11	0.80	2.47	2.34	2.83	2.75
<b>Net</b>	<b>Dr. 1.31</b>		<b>Dr. 0.13</b>		<b>Dr. 0.08</b>	
<b>(II) MH 8658- Cash Remittance and adjustment between officers rendering accounts to same Accounts Officers</b>						
<b>Minor Head</b>						
102 Public Works Remittances	1276.49	1518.09	1957.16	2338.37	2162.11	2416.17
<b>Net</b>	<b>Cr. 241.60</b>		<b>Cr. 381.21</b>		<b>Cr. 254.06</b>	
103 Forest Remittances	52.23	50.76	36.36	48.50	33.22	29.90
<b>Net</b>	<b>Dr. 1.47</b>		<b>Cr. 12.14</b>		<b>Cr. 16.68</b>	
108 Other Remittances	90.68	75.51	74.05	85.56	121.05	124.50-
<b>Net</b>	<b>Dr. 15.17</b>		<b>Cr. 11.51</b>		<b>Cr. 3.45</b>	

Source: Finance Accounts Vol-I

Outstanding debit balance under 101-PAO Suspense head would mean that payments have been 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 decreasing trend during 2016-19 and decreased from ₹ 4.53 crore 2016-17 to ₹ 0.91 crore in 2018-19. On clearance/settlement of this, the cash balance of the State Government will increase.

Receipts on account of TDS are credited to Major Head 8658 – Suspense accounts under Minor Head 112 – TDS Suspense. These credits are to be cleared by the end of each financial year and credited to the Income Tax Department. However, there was outstanding credit balance of ₹ 6.35 crore under this head as on 31 March 2019.

### 3.5 Submission of Accounts/Separate Audit Reports of Autonomous Bodies

#### 3.5.1 Non-submission/ delay in submission of accounts by Autonomous Bodies/ Authorities

In order to identify new institutions which, attract audit under Sections 14 and 15 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) {C&AG (DPC)} Act, 1971, the State Government/Heads of the 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. None of the departments had submitted this information though specifically called for.

The substantially funded Autonomous Bodies/Authorities are required to submit their annual accounts for audit by the CAG under the provision, *ibid.* A total of 39 annual accounts of 19 Autonomous Bodies/Authorities for the period from 2014-15 to 2017-18 had not been received in the office of Principal Accountant General till November 2019 as detailed in **Appendix 3.4**. The age-wise delay in submission of accounts is detailed in the table below.

**Table 3.4: Statement Showing Age-wise Non-furnishing of Accounts**

Sl.No.	Range of delays in number of years	Total number of accounts
1	Five years and above	02
2	Between three years and less than five years	08
3	Between one year and less than three years	10
4	Upto one year	19
<b>Total</b>		<b>39</b>

Due to non-finalisation of accounts, the same could not be audited. Thus, it could not be ensured whether the grants and expenditure had properly been accounted for and whether the purpose for which the grants were provided had actually been achieved.

Due to non-finalisation of accounts, the stakeholders were not able to assess financial status of these bodies. Besides, delay in finalisation of accounts carries the risk of financial irregularities remaining undetected apart from violation of the provision of the respective legislations under which these bodies were constituted.

Thus, there is a need for the Autonomous Bodies/ Authorities to submit their accounts to Audit in a timely manner.

#### 3.5.2 Submission of Accounts by Autonomous Bodies: Audit entrusted to C&AG

The audit of accounts of seven Autonomous Bodies<sup>3</sup> (ABs) has been entrusted to the CAG under Section 20(1) of the C&AG (DPC) Act, 1971 in the State.

Twenty-four accounts of above seven ABs were pending for submission to Audit with pendency ranging between one and 12 years. Sikkim Khadi and Village Industries Board

<sup>3</sup> (i) Sikkim Buildings & other Construction Workers Welfare Board; (ii) Sikkim Khadi & Villages Industries Board; (iii) Sikkim Housing Development Board; (iv) Sikkim Commission for Backward Classes; (v) Sikkim Biodiversity Board; (vi) State Compensatory Afforestation Fund Management and Planning Authority and (vii) Sikkim Human Rights Commission

had highest pendency as it had not submitted accounts of 12 years. The AB-wise details of pendency are given in **Appendix 3.5**.

### **3.5.3 Placement of Separate Audit Reports before the State Legislature**

The audit of accounts of four bodies in the State has been entrusted to the CAG of India under Sections 19(3) and 20(1) DPC for which Separate Audit Reports (SARs) are prepared for placing before the Legislature under Section 19 A (3) of DPC and provisions of the Acts governing these bodies.

Eleven SARs issued by the office of Pr. Accountant General (Audit), were pending for being laid before the State Legislature. The details of years up to which accounts have been audited and SARs issued, dates of issue of SARs are given in **Appendix 3.6**.

## **3.6 Funds outside the Consolidated Fund of the State**

### **3.6.1 Building and other Construction Worker's Welfare Board (BOCW)**

As per provisions of Building and Other Construction Worker's (Regulation of Employment and Conditions of Service) Act, 1996 (BOCW Act), the State Government constituted (February 2010) Sikkim Building and Other Construction Worker's Welfare Board (SBOCW) to carry out welfare schemes for building and other construction workers. The Government levied Cess at the rate of one *per cent* on construction works as mandated by the Building and Other Construction Workers Welfare Cess Act 1996.

During the period from 2010-11 to 2018-19, cess collection was ₹ 112.84 crore, out of which ₹ 23.13 crore (20.50 *per cent* of the total collection) has been spent by the Board on welfare of the workers viz.; Educational Scholarship, Maternity benefits, Medical assistance, Personal Protective equipment, *etc.* Administrative and other than welfare schemes<sup>4</sup> expenses during the period amounted to ₹ 4.34 crore (3.85 *per cent* of the total collection). The Board has been able to spend less than 25 *per cent* of collection.

The cess so collected is not credited into the Government Accounts but is deposited into the Board's Bank Account in the State Bank of Sikkim.

## **3.7 Funds transferred directly to Implementing Agencies in the State**

As per GoI decision (8 July 2015), all assistance to Centrally Sponsored Schemes (CSS) and Additional Central Assistance (ACA) under the various schemes would be released directly to the State Government and not to the Implementing Agencies (SIA)<sup>5</sup> in the State and hence these funds would be routed through the State Budget from 2015-16 onwards. However, during 2018-19, the GoI transferred ₹ 18.83 crore directly to Implementing Agencies in the state (Details in **Appendix 3.7**). The out-side the budget funds transferred

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<sup>4</sup> Section 24 (3) of the Building and Other Construction Workers (Regulation of Employment and Conditions of Service) Act, 1996 states that no Board shall, in any financial year, incur expenses towards salaries, allowances and other remuneration to its members, officers and other employees and for meeting the other administrative expenses exceeding five per cent of its total expenses during the financial year.

<sup>5</sup> State Implementing Agencies include Organisations/ Institutions such as Non-Governmental Organisation which are authorised by the State Government to receive the funds from the GoI for implementing specific programmes in the State.

by GoI to SIAs during 2018-19 was less as compared to the previous year's amount which stood at ₹ 29.89 crore.

Out of ₹ 18.83 crore, major portion *i.e.* ₹ 10 crore (53.11 *per cent*) was transferred for MPLAD (Member of Parliament Local Area Development) Scheme.

As the funds were not routed through the State Budget/ State Treasury System, the Annual Finance Accounts did not capture these funds and to that extent, the State's receipts and expenditure as well as other fiscal variables/ parameters derived from them did not represent the complete picture. Further, direct transfers from the GoI to the SIAs run the risk of poor oversight.

With the release of these funds directly to the Implementing Agencies in the State, the resources of the State during the year 2018-19 stood at ₹ 15,083.48 crore (including the net receipts of ₹ 15,064.65 crore in the State) as on 31 March, 2019.

### 3.8 Reconciliation of Departmental Figures

To exercise effective control over expenditure, to keep it within budget grants and to ensure accuracy of accounts, all the Chief Controlling Officers (CCOs) are required to reconcile the receipt and expenditure recorded in their books every month during the financial year with the figures accounted for in the office of Sr. Deputy Accountant General (Accounts). All the CCOs had completed their reconciliation for all Revenue and Capital Expenditure of ₹ 6,517.89 crore; and Revenue Receipts of ₹ 5,920.36 crore for the financial year 2018-19.

### 3.9 Reconciliation of Cash Balances

The Cash Balance of the State as per records of Sr. Deputy Accountant General (A&E) Sikkim was ₹ 70.20 crore on 31 March 2019 whereas as per the State Bank of Sikkim, the balance was ₹ 38.78 crore, resulting in net difference of ₹ 31.42 crore. The difference was mainly due to non-reconciliation of figures by the State Treasuries with the State Bank of Sikkim.

### 3.10 Misappropriation, Losses, etc.

There were five cases of misappropriation involving Government money amounting to ₹ 106.44 lakh {RDD (₹ 97.40 lakh), Transport Department (₹ 8.78 lakh) and Finance Department (₹ 0.26 lakh)} at the end of 2018-19 where the final action was pending. The department-wise break-up of pending cases and age-wise analysis of misappropriation cases are as following.

**Table 3.5: Profile of pending cases of misappropriation, loss, defalcation, etc.**

Age-profile of the pending cases				Nature of the cases	Action taken by the Department	Amount Received
Range in years	Number of cases	Name of the Department	Amount involved ₹ in lakh			
0-5	02	RDD	7.99	Cash transaction was not recorded in the cash book	Action yet to be taken by the Department	Nil
			89.41	Short supply of stock materials by Block Office to the Beneficiaries	Enquiry conducted by the O/o the ADC (Dev), Rabongla, South Sikkim	Nil
5-10	02	Finance	00.26	Cash embezzlement by staff	The person involved in the case is still untraceable.	Nil
		Transport	01.78	Shortage of POL during transportation in SNT tanker	Driver of the SNT tanker involved. Departmental enquiry under process	Nil
15-20	01	Transport	07.00	Shortage of POL during transportation in SNT tanker	Case referred to Vigilance Department for investigation	Nil
<b>Total</b>	<b>05</b>		<b>106.44</b>			<b>Nil</b>

Source: Departmental and audited figures

### 3.11 Follow Up Action on State Finances Audit Report

The preparation of Report on State Finances started in 2008-09 and the Reports for the years 2009-10 and 2010-11 had been discussed by the Public Accounts Committee (PAC). PAC recommended compliance with the recommendations as contained in the Report of the Comptroller and Auditor General of India on State Finances for 2009-10. In respect of the Report for the year 2010-11, the PAC stated that it would appreciate the setting up of a prudent financial management mechanism and that persistent planning may be required wherever there is need to do so. Reports on State Finances for the years 2011-12, 2012-13, 2013-14, 2014-15, 2015-16, 2016-17 and 2017-18 have not been discussed by the PAC.

### 3.12 Conclusion

During the year 2018-19, all the Controlling Officers reconciled the Government receipts and expenditure with the figures in the books of the Sr. DAG (A&E).

However, the practice of not furnishing UCs in a timely manner resulted in pendency of large number of UCs. At the end of March 2019, 1108 UCs involving an aggregate amount of ₹ 101.90 crore were pending for submission even after a lapse of one to sixteen years by various departments. Advances amounting to ₹ 120.77 crore remained unsettled as on March 2019 distorting the amount of expenditure being shown as spent. During year 2018-19, the State government booked 6.53 per cent of total revenue receipts and 12.36 per cent of total expenditure under Minor Head 800- Other Receipts and Minor Head 800-Other Expenditure. Non-furnishing of detailed information about financial assistance given to various institutions and non-submission of accounts by 19 Autonomous Bodies/Authorities as per timelines indicated that financial rules were not fully complied with. There were also delays in placement of SARs to Legislature. There were five cases of misappropriation involving Government money in respect of three Departments with the money value of ₹ 1.06 crore at the end of 2018-19 where final action was pending.

### 3.13 Recommendations

- *The Finance Department should chalk out action plan for ensuring submission of all pending UCs. Further release of grant should be linked with submission of outstanding UCs.*
- *Finance Department should make special efforts to settle old outstanding AC bills. At same time, the DDOs should be asked to ensure that the DC bills are submitted within prescribed time, in order to stem accretion of unadjusted AC bills. Advances should be monitored closely for effective control and old outstanding AC bills should be adjusted by making special efforts.*
- *In order to make accounts transparent, the Government should open appropriate Minor Heads instead of booking substantial amounts under Minor Head 800.*
- *The Government should direct the concerned bodies as well as their controlling authorities to ensure that the accounts are prepared and submitted for Audit on time. Appropriate action should be taken against defaulting bodies.*
- *The Government needs to put in place necessary mechanism to ensure timely submission of SARs before the Legislature.*
- *The Government should lodge First Information Report in all the cases of defalcation/mis-appropriation/ loss to the Government and it may be ensured that timely action is taken in all such cases as a deterrent in preventing such cases in future.*

Gantok:  
The 24 July 2020



(SUSHIL KUMAR)

Principal Accountant General (Audit), Sikkim

Countersigned

New Delhi:  
The 28 July 2020



(RAJIV MEHRISHI)

Comptroller and Auditor General of India

