

CHAPTER III FINANCIAL REPORTING

A sound internal financial reporting system with relevant and reliable information significantly contributes to efficient and effective governance by a State Government. Compliance with financial rules, procedures and directives, timeliness and quality of reporting on the status of such compliances are some of the attributes of good governance. Reports on compliance and controls, if effective and operational, assist a 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.

3.1 Delay in furnishing utilisation certificates

Article 208 of the Kerala Financial Code stipulates that the State may make such grants-in-aid for public purposes or activities carried out by private institutions or local bodies as are in conformity with Article 282 of the Constitution of India. Financial rules⁵⁰ stipulate that the authority sanctioning grant-in-aid has to stipulate, in every order sanctioning the grant, a time limit not exceeding one year from the date of sanction for utilisation of the grant and a time-limit of nine months for the submission of audited accounts. The utilisation certificate should be furnished within three months from the date of receipt of audited accounts. The Utilisation Certificate (UC) for grants-in-aid exceeding ₹2,00,000 has to be forwarded to the Accountant General (Accounts and Entitlement), Kerala. It was observed that seven utilisation certificates for ₹6.17 crore were not received (June 2018) by the AG (A&E), in respect of grants for which UCs were due during the period from 2015-16 to 2017-18. The age-wise position of delays in submission of Utilisation Certificates is summarised in **Table 3.1**.

Table 3.1: Age-wise arrears in submission of Utilisation Certificates

(₹ in crore)

Grant-in-aid released	UC due	Utilisation certificates outstanding as on June 2018		
		Delay	Number	Amount
Up to 2013-14	Up to 2015-16	More than two years	4	5.45
2014-15	2016-17	More than One year but below two years	1	0.15
2015-16	2017-18	Up to one year	2	0.57
Total			7	6.17

Source: Details furnished by Accountant General (A&E)

The pendency of UCs was fraught with the risk of misappropriation of funds and fraud. Timely submission of UCs should not only be insisted upon but also ensured.

Government replied (January 2019) that directions would be given to Administrative Departments concerned to ensure timely submission of UCs.

⁵⁰ Article 210 of the Kerala Financial Code (Vol. I)

3.2 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, the Government/Heads of Department are required to furnish detailed information about the financial assistance provided to various institutions, the purpose of assistance granted and the total expenditure of the institutions to Audit every year.

As of March 2018, the annual accounts of 17 autonomous bodies/authorities due up to 2016-17 were not furnished to the Accountant General (Economic and Revenue Sector Audit), Kerala as detailed in **Appendix 3.1**.

3.3 Delay in submission of accounts/Audit Reports of Autonomous Bodies

The audit of accounts of 26 Autonomous Bodies in the field of legal aid, human rights, development of khadi, etc., in the State was entrusted to the Comptroller and Auditor General of India under Sections 19(2), 19(3) and 20 (1) of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. The status of entrustment of audit, rendering of accounts to audit, issuance of Separate Audit Reports (SAR) and their placement in the Legislature are indicated in **Appendix 3.2**.

Audit observed that accounts of District Legal Services Authorities, Ernakulam and Kasaragod were due for five years (from 2012-13) and that of District Legal Service Authority, Wayanad was due for four years (from 2013-14). Apart from above, accounts of five⁵¹ and four⁵² autonomous bodies were due from 2014-15 and 2015-16 respectively.

3.4 Departmentally managed Commercial Undertakings

The departmental undertakings of certain Government departments performing activities of quasi-commercial nature are required to prepare *pro forma* accounts annually in the prescribed format, showing the working results of their financial operations so that the Government can assess the overall financial strength and efficiency of these departments in conducting their business. Non-finalisation of accounts in time prevents the above scrutiny and also puts the investment of the Government outside the scrutiny of Audit.

Heads of Department in the Government are also required to ensure that the undertakings prepare such accounts and submit to the Accountants General (General and Social Sector Audit/Economic and Revenue Sector Audit), Kerala within the specified timeframe.

The department-wise position of arrears in preparation of *pro forma* accounts

⁵¹ Command Area Development Authority, Thrissur; District Legal Services Authority, Kollam; District Legal Services Authority, Pathanamthitta; Permanent Lok Adalath, Ernakulam and Kerala Water Authority.

⁵² Kerala Khadi and Village Industries Board, Thiruvananthapuram; District Legal Services Authority, Kozhikode; District Legal Services Authority, Kannur and Permanent Lok Adalath, Kozhikode.

and investments made by the Government in respect of three such undertakings, are given in **Appendix 3.3**. Out of the three, two were running in loss (State Water Transport Department and Text Book Office). Accounts of Text Book Office were in arrears from 1987-88. In the absence of up-to-date accounts, financial status of Text Book Office could not be ascertained.

3.5 Misappropriations, losses, defalcations, etc.

Article 297 of the Kerala Financial Code provides that cases of defalcation or loss of public money, stamps, stores or other property should be reported to the Accountant General (General and Social Sector Audit)/Accountant General (Economic and Revenue Sector Audit), Kerala as well as to the Heads of Departments.

The final action on 118⁵³ cases of misappropriation, defalcation, etc., involving Government money amounting to ₹20.37 crore was pending with State Government. The position up to June 2018 is detailed in **Appendix 3.4** and **Appendix 3.5**. The pending cases in each category as emerged from these appendices are summarised in **Table 3.2**.

Table 3.2: Profile of misappropriations, losses, defalcations, etc.

A. Age-profile of the pending cases			B. Nature of the pending cases		
Range in years	Number of cases	Amount involved (₹ in lakh)	Nature/characteristics of the cases	Number of cases	Amount involved (₹ in lakh)
Less than 5 years	31	1,351.77	Theft	21	9.05
5 – 10	16	83.86			
10 – 15	21	426.56	Misappropriation/ loss of material	97	2,028.17
15 – 20	27	139.45			
20 – 25	10	17.69			
25 and above	13	17.89			
Total	118	2,037.22	Total pending cases	118	2,037.22

Source: Cases reported by departments of the State Government

The reasons for delay in finalisation of outstanding cases were analysed by Audit and are summarised in **Table 3.3**.

⁵³ This includes cases detected by Audit during local audit as well as cases reported by Government departments as per codal provisions.

Table 3.3: Reasons for outstanding cases of misappropriations, losses, defalcations, etc.

Sl. No.	Reasons for the delay/outstanding pending cases	Number of cases	Amount (₹ in lakh)
1.	Awaiting departmental and criminal investigation	21	1,315.99
2.	Departmental action initiated but not finalised	10	59.08
3.	Awaiting orders for recovery or write off	73	570.56
4.	Pending in the courts of law	14	91.59
Total		118	2,037.22

Source: Information received from Departments of the State Government

3.6 Long pending recovery in respect of cases of defalcation/misappropriation, theft, losses, etc.

Article 297 of Kerala Financial Code, Vol.I stipulates that all cases of defalcation or loss of public money, stamps or other property involving Government servants has to be reported to Accountant General and to Head of the Department by Head of the office. A statistical position of pending defalcation/loss cases is included every year in the Audit Report on State Finances. Such cases include cases detected by Audit during the local audit as well as other cases reported by the Heads of the offices/Government as per code provisions. Audit conducted a detailed study of pending defalcation/misappropriation, theft cases covering four Departments⁵⁴ to ascertain the reasons for delay in realising the loss sustained to Government.

Audit scrutinised 40 misappropriation/defalcation cases involving ₹535.76 lakh and 12 theft/loss cases involving ₹5.98 lakh in the four departments. Age-wise breakup of the pending cases is detailed in **Table 3.4**.

Table 3.4: Amount and number of pending cases as on June 2018

(₹ in lakh)

Sl. No.	Name of the Department	Pending up to 10 years		Pending from 10 to 20 years		Pending from 20 years and above		Total	
		Amount	Number of cases	Amount	Number of cases	Amount	Number of cases	Amount	Number of cases
1.	Agriculture	49.79	4	34.13	4	5.53	1	89.45	9
2.	Finance – Treasuries	66.11	3	137.96	6	6.81	4	210.88	13
3.	General Education	44.33	9	14.94	10	4.68	4	63.95	23
4.	Health and Family Welfare – Health Services	19.79	3	155.22	2	2.45	2	177.46	7
Total		180.02	19	342.25	22	19.47	11	541.74	52

Source: Information received from Departments of the State Government

It is evident from Table 3.4 that 33 out of 52 cases (63 per cent) are pending for more than 10 years. Present status of the 52 cases are categorised in the **Table 3.5**.

⁵⁴ 'Agriculture', 'Finance –Treasury', 'General Education' and 'Health and Family Welfare – Health Services' Departments

Table 3.5: Present status of pending cases

Sl. No.	Present status of the pending cases	(₹ in lakh)	
		Number of cases	Amount of loss
1.	Awaiting departmental and criminal investigation	6	73.74
2.	Departmental action initiated but not finalised	1	1.69
3.	Awaiting orders for recovery	8	170.76
4.	Awaiting orders for write off	13	8.22
5.	Pending in the courts of law	7	73.70
6.	Revenue recovery pending	17	213.63
	Total	52	541.74

Source: Information received from Departments of the State Government

Audit findings

The findings of audit are detailed in the following paragraphs.

3.6.1 Delay in fixing liability after retirement

According to Note 3 under Rule 3 of Kerala Service Rules - Part III (KSR), the liabilities of an employee should be quantified either before or after retirement and intimated to him before retirement if possible or if that is not possible within a period of three years on becoming pensioner. Audit noticed that in two cases in Agriculture Department and in one case in Health and Family Welfare Department, the departments failed to fix liability even after three years of retirement of three officials due to which court ordered to release of DCRG without recovering the loss of ₹12.88 lakh sustained by Government. The details are given in **Appendix 3.6**.

Government replied (January 2019) that action is under way to recover the loss sustained by Government by initiating revenue recovery proceedings in two cases under Agriculture Department. However the reply is silent about the lapses in delayed fixing of liability.

3.6.2 Release of DCRG despite ongoing departmental/vigilance enquiry

As per Rule 3 A (a) of KSR where any departmental or judicial proceeding is instituted or continued against an employee who has retired from service, no DCRG shall be paid to him until the conclusion of such proceeding and issue of final orders thereon. Audit noticed that Agriculture and Health and Family Welfare Departments released DCRG in two cases involving ₹2.25 lakh to the pensioner/legal heirs when departmental or judicial proceeding was pending at the time of retirement/death of the official as detailed in **Appendix 3.7**.

Director of Agriculture replied (October 2018) that they failed to include the defalcated amount in the liability certificate. It was also stated that even though legal heirs were directed to remit the liability amount, the same has not been remitted so far. Government has also stated (January 2019) that as 11 years has elapsed since death of the official, the claim for the loss is barred by the Law of Limitation.

Absence of proper internal control mechanism to identify whether any departmental proceedings were going on against the official and to assess the liability at the time of retirement, resulted in release of DCRG which led to non-realisation of loss sustained by Government till date.

3.6.3 Delay in initiating departmental action

In two misappropriation cases amounting to ₹6.67 lakh, departmental action was initiated by the Agriculture Department against the officials after they had retired from service and had received their retirement benefits, even though the misappropriation had come to the notice of the department well in advance of their retirement as detailed in **Appendix 3.8**. The Department did not take any action to realise the loss in one case involving ₹0.16 lakh. Action is being taken to recover the loss through revenue recovery in other case amounting to ₹6.51 lakh.

Government replied (January 2019) that action is being taken to file civil suit against the officials for the recovery of loss sustained by the Government.

3.6.4 Failure to effect recovery

3.6.4.1 Cases cleared by court

Agriculture, General Education and Health and Family Welfare Departments did not take any action to recover the loss amounting to ₹159.57 lakh sustained by Government in four cases even after disposal of these cases by court. The details are given in **Appendix 3.9**. Government replied (January 2019) that the loss will be recovered from the DCRG of the official in one case under Agriculture Department. Replies are awaited (February 2019) from departments concerned.

3.6.4.2 Liability fixed based on investigation

In four misappropriation cases involving ₹33.95 lakh, Agriculture and General Education Departments failed to recover the loss even though liabilities were fixed against the officials as shown in **Appendix 3.10**. Details are shown below:

- In General Education Department, one case involving ₹5.10 lakh was pending due to non-receipt of directions from Administrative Department to effect recovery, though the liability was fixed in September 2010 against the official. In another case in General Education Department involving ₹5.25 lakh, even though Government directed (July 2012) to recover the loss from the official with 8 *per cent* interest, Department is yet to effect recovery.

On this being pointed out by Audit, General Education Department replied (December 2018) that direction has since been issued to DPI in November 2018 to effect recovery in the misappropriation case involving ₹5.10 lakh. In the other case involving ₹5.25 lakh, Director of Public Instruction (DPI) replied (August 2018) that as the official had not applied for pension, recovery could not be effected. The reply is not acceptable as Department failed to initiate further action to recover the loss.

- Audit also noticed that in the Agriculture Department, the Director of Agriculture fixed liability in two cases involving ₹4.94 lakh and ₹18.66 lakh in October 2012 and April 2015 respectively. Though the Director of Agriculture had directed (April 2013 and May 2015) the respective Principal Agricultural Officers to recover the loss through revenue recovery, the recovery has not been effected till date (November 2018).

Government replied (January 2019) that action is being taken to recover the loss sustained by the Government.

3.6.5 Irregular granting of pensionary benefits in respect of deceased persons

As per Rule 3 A (a) of KSR where any departmental or judicial proceeding is instituted or continued against an employee who has retired from service, no DCRG shall be paid to him until the conclusion of such proceeding and issue of final orders thereon. Audit observed that in two cases DCRG has been released to legal heirs of deceased persons, against whom vigilance enquiry/court case was pending at the time of death in violation of above rules as shown below. The details are shown in **Appendix 3.11**.

- In one case under Health and Family Welfare Department involving ₹4.67 lakh, Government instructed (January 2011) the Department to recover the loss from the official concerned. However, the Department failed to effect recovery before his death on 14.07.2012. Even though vigilance enquiry was going on against the deceased official, Government directed (August 2016) to release the DCRG to the legal heirs on the ground that four years has elapsed since the death of the official and ordered to recover the loss through revenue recovery. The Director of Health Services informed Government in June 2018 that action is underway to recover the loss through revenue recovery.
- In another case under Finance (Treasury) Department involving loss of ₹9.65 lakh, the investigation of the case was completed and charge sheet filed before the Chief Judicial Magistrate Court, Thiruvananthapuram in May 2008. The official died on 28.2.2014. While the case was pending in court, Government directed (March 2016) to release the DCRG to legal heirs without recovering the loss sustained by Government. The loss sustained to Government has not been realised till date.

The decision of the Government to release the DCRG to the legal heirs of deceased persons was irregular. Reply from Government is awaited (February 2019).

3.6.6 Inordinate delay in completing enquiry

Audit noticed inordinate delays in vigilance/departmental enquiries, fixing of liability by the department and disposal of the cases by the Court which resulted in long pendency in settling the cases of misappropriation/loss of Government money as detailed below.

- In four misappropriation cases pertaining to the Agriculture Department, it took four to seven years to complete vigilance/departmental enquiry. In

these four cases, department took another two to 13 years in fixing liability against the officials concerned after completion of enquiry. Two cases were disposed by the Court in another three to six years.

- In the Treasury Department, it took four to 13 years to complete vigilance/departmental enquiry in seven cases. Four out of these seven cases were disposed by the Court in another six to 18 years.
- In three cases under the General Education Department, it took three to seven years to complete vigilance/departmental enquiry. These cases were cleared by the Court in another 8 to 11 years.
- In three cases under the Health and Family Welfare Department, it took four to six years to complete vigilance/departmental enquiry. Court disposed these cases in another two to 16 years.

The details are given in **Appendix 3.12**.

3.6.7 Inordinate delay in settling irrecoverable losses

As per Government orders (March 2013), the Administrative Departments can write off amounts up to ₹50,000 per each case with annual limit of ₹10 lakh without previous consultation with Finance Department and Heads of the Departments can write off up to ₹25,000 in each case with an annual limit of ₹1 lakh subject to strict compliance with Article 300 to 303 of KFC. It is seen that in five instances under General Education Department, write off proposals of irrecoverable losses amounting to ₹3.81 lakh were pending with Administrative Department/Head of the Department from 5 to 19 years as shown in **Appendix 3.13**.

3.6.8 Cases not reported to the Accountant General

As per Art 297 KFC Vol.I cases of misappropriation/defalcation losses are to be reported to the Accountant General as well as Head of department immediately after notice. However, Agriculture, General Education and Treasury Departments did not report five cases involving loss of ₹53.06 lakh to Accountant General as shown in **Appendix 3.14**. Directorate of Treasuries and Director of Public Instructions replied (January 2019) that the misappropriation cases would be reported to Accountant General on time in future. Reply is awaited (February 2019) from Agriculture Department.

3.7 Conclusion and Recommendations

The Audit of Accounts of Autonomous Bodies, which was entrusted to the Comptroller and Auditor General of India under Sections 19 (2), 19 (3) and 20 (1) of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971, were pending in respect of 19 bodies due to delay in submission of accounts.

There were delays in departmental action at every stage of a case such as initiating departmental action, fixing liability, issuing orders of recovery, etc. Proper internal control mechanism was absent in Departments to identify whether any departmental proceedings were going on against the official and to assess the liability at the time of retirement. It is evident that a time bound

system was not in place at departmental level for settlement of cases of misappropriation/ defalcation, theft and loss of public money.

Government may ensure that there is no delay in completing departmental action in order to realise the loss either from the salary or from the pensionary benefits of the officials concerned.

Government may take timely action to write off irrecoverable losses which were long pending.



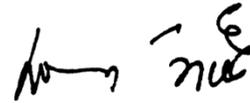
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Thiruvananthapuram,
The 11 October 2019

Countersigned



(RAJIV MEHRISHI)

Comptroller and Auditor General of India

New Delhi,
The 24 October 2019