

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 rules⁵¹ 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 Certificates (UC) for grants-in-aid exceeding ₹2,00,000 have to be forwarded to the Accountant General (Accounts and Entitlement), Kerala. It was observed that four utilisation certificates for ₹5.45 crore were not received (June 2019) by the AG (A&E), in respect of grants for which UCs were due during the period from 2012-13 to 2014-15 and no UC was pending for submission since 2015-16. 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 2019		
		Delay	Number	Amount
Up to 2012-13	Up to 2014-15	More than four years	4	5.45
Total			4	5.45

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

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

⁵¹Article 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 2019, the annual accounts of twelve autonomous bodies/authorities due up to 2017-18 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 25 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, Kollam, Ernakulam, Wayanad, Kasargod were due for four years (from 2014-15). Apart from the above, accounts of three⁵² and four⁵³ autonomous bodies were due from 2015-16 and 2016-17 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 them to the Accountants General (General and Social Sector Audit/Economic and Revenue Sector Audit), Kerala within the specified timeframe.

⁵²District Legal Services Authorities, Kozhikode, Kannur, Kerala Water Authority.

⁵³District Legal Services Authorities, Pathanamthitta, Palakkad, Malappuram, Kerala Khadi and Village Industries Board, Thiruvananthapuram

The department-wise position of arrears in preparation of *pro forma* accounts 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, the current financial status of the Text Book Office could not be ascertained.

3.5 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 state of budget preparation.

During 2018-19, under 12 major heads in the Revenue and Capital sections, expenditure aggregating to ₹1015.46 crore (88.27 *per cent* of the total expenditure amounting to ₹1,150.42 crore in these heads) was classified under the minor head ‘800-Other Expenditure’. The entire expenditure under ‘Road Transport’, ‘Capital Outlay on Urban Development’, ‘Capital Outlay on Hill Areas’ and ‘Capital Outlay on New and Renewable Energy’ was classified under the omnibus Minor head ‘800-Other Expenditure’, instead of depicting the same under relevant minor heads below the functional major heads as indicated in **Appendix 3.4**

Similarly, under 17 major heads, revenue receipts aggregating ₹458.23 crore (92.47 *per cent* of the total receipt amounting to ₹495.56 crore under these heads), were classified under minor head ‘800- Other Receipts’. The entire receipts under nine Major heads were classified under the omnibus Minor head ‘800-Other Receipts’ as in **Appendix 3.5**.

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

3.6 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 140⁵⁴ cases of misappropriation, defalcation, etc., involving

⁵⁴ This includes cases detected by Audit during local audit as well as cases reported by Government departments as per codal provisions.

Government money amounting to ₹22.41 crore was pending with the State Government. The position up to June 2019 is detailed in **Appendix 3.6** and **Appendix 3.7**. 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	34	1397.18	Theft	22	126.61
5 – 10	25	230.27	Misappropriation/ loss of material	118	2114.46
10 – 15	20	274.06			
15 – 20	29	256.14			
20 – 25	15	59.23			
25 and above	17	24.19			
Total	140	2241.07	Total pending cases	140	2241.07

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**.

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

Sl. No.	Reasons for the delay/outstanding pending cases	Number of cases	Range of delay in years	Amount (₹ in lakh)
1.	Awaiting departmental and criminal investigation	9	0-8	169.62
2.	Departmental action initiated but not finalised	26	0-21	1159.56
3.	Awaiting orders for recovery or write off	90	0-51	809.64
4.	Pending in the courts of law	15	4-44	102.25
Total		140		2241.07

Source: Information received from Departments of the State Government

Timely action needs to be taken to settle the misappropriation cases in order to bring defaulters to book and to have a deterrent effect on others.

3.7 Conclusion and Recommendations

The Accounts of four Autonomous Bodies, the audit of 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 due for four years. Final action on 140 cases of misappropriation, defalcation amounting to ₹22.41 crore was pending with the State Government.

The Government may ensure timely submission of the accounts of the autonomous bodies, the audit of which was entrusted to the Comptroller and Auditor General of India under Sections 19(2), 19(3) and 20(1) of the DPC Act.

The Government may take timely action to settle cases of misappropriation/defalcation, theft and loss of public money.



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The **19 October 2020**