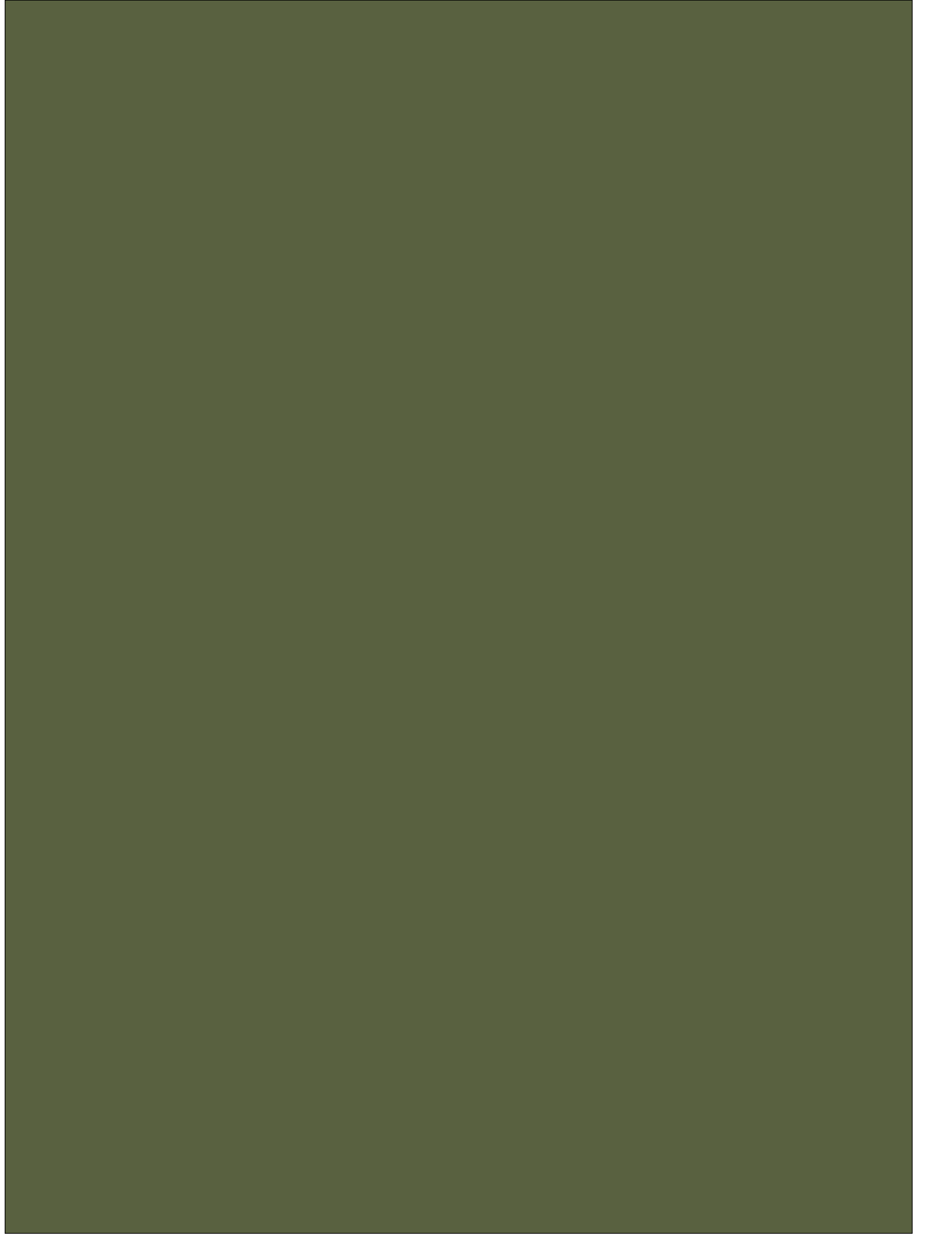


CHAPTER IV
QUALITY OF ACCOUNTS &
FINANCIAL REPORTING
PRACTICES



CHAPTER IV

QUALITY OF ACCOUNTS & FINANCIAL REPORTING PRACTICES

A sound internal financial reporting system and compliance with relevant rules and procedures contribute significantly to good governance. Compliance with financial rules, procedures and directives as well as the timeliness and quality of reporting on the status of such compliance is, thus, one of the attributes of good governance. Reports on compliance and controls, if effective and operational would assist the Government in meeting its basic stewardship responsibilities including strategic planning and decision-making.

This chapter comments on the quality of accounts rendered by various authorities of the State Government and issues of non-compliance with prescribed financial rules and regulations by various departmental officials of the State Government.

A. OBSERVATIONS RELATING TO COMPLETENESS OF ACCOUNTS

4.1 Loans of State Government not being credited to the Consolidated Fund

The borrowings of the State Government are governed by Article 293 (1) of the Constitution of India. The State stood as guarantor for loans availed by Government Companies/ Corporations/ Boards. These Companies/ Corporations/ Boards borrowed funds from the market/ financial institutions for implementation of various State Plan programme projected outside the State budget. The borrowings of these concerns ultimately turn out to be the liabilities of the State Government termed 'Off-Budget Borrowings' (OBB). The trend of OBB during 2018-19 to 2022-23 is detailed in **Table 4.1**.

Table 4.1: Entity-wise position of off-budget borrowings

(₹ in crore)

Name of the Agency	2018-19	2019-20	2020-21	2021-22	2022-23
Tamil Nadu Rural Housing and Infrastructure Development Corporation	514.54	463.09	411.63	373.03	308.71
Water and Sanitation Pooled Fund – Tamil Nadu Urban Infrastructure Financial Services Limited	254.13	237.45	220.77	239.17	380.14
Tamil Nadu Water Supply and Drainage Board	5.79	3.24	1.59	0.45	0.00
Tamil Nadu Water Resources Conservation and River Restoration	0.00	0.00	34.43	629.31	1,609.69
Total	774.46	703.78	668.42	1,241.96	2,298.54

(Source: Budget Document and Finance Accounts of the respective years)

The State's OBB decreased marginally from 2019-20 to 2020-21 and increased substantially during 2021-22 and 2022-23. During 2022-23, Government had borrowed an amount of ₹1,184.69 crore and repaid an amount of ₹128.11 crore towards OBB. **(Para 2.6.1.1 of Chapter-II).**

The recourse to Off-Budget Borrowings and the liabilities of the Government to fully service such borrowings have significant impact on the fiscal health of the State especially in such a case where the Government of Tamil Nadu has been witnessing Revenue and Fiscal Deficits consistently over last five years. Further, creating such liabilities without disclosing them in the Budget raises questions both on transparency and completeness of accounts.

4.2 Non-discharge of liability in respect of interest towards interest bearing deposits

The Government has a liability to provide and pay interest on the amounts in Interest-bearing Deposits under the Major Head (MH) 2049-60-101 (Interest on deposits) for discharging the liabilities under MH 8338 (Deposit of Local Funds) and MH 8342 (Other deposits).

During the year 2022-23, the interest payments made in the MH 2049-60-101 (Interest on deposits) for discharging the liabilities under MH 8338 and MH 8342 as per the State Finance Accounts was ₹139.53 crore which worked out to 0.21 *per cent* of the deposits available under MH 8338 and MH 8342 (₹66,629.81 crore). Further, provisions made to the tune of ₹29.09 crore under the Heads of Account '2049-60-101' was entirely withdrawn by re-appropriation during the year, thereby deferring the discharge of interest liabilities towards these deposits (details in **Appendix 3.7**). Non-payment of interest liability has resulted in understatement of Revenue Deficit and Fiscal Deficit to that extent.

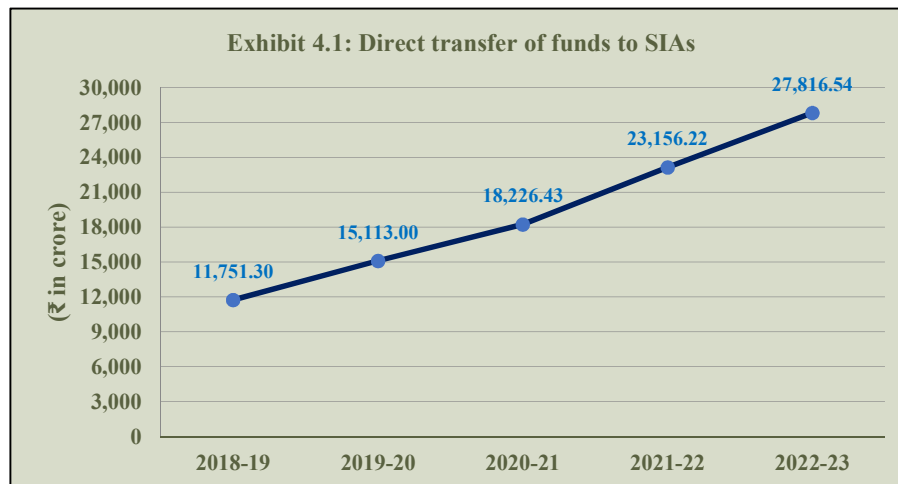
4.3 Funds transferred directly to State Implementing Agencies (SIAs)

Government of India (GoI) transfers substantial funds directly to State Implementing Agencies¹ (SIAs) for implementation of various schemes and Programmes. The details of Funds transferred by GoI directly to SIAs as per the Public Financial Management System (PFMS) portal of the Controller General of Accounts (CGA) is listed in Appendix VI of Volume-II of the State Finance Accounts. Since these funds are not routed through the State Budget/State Treasury System, State Finance Accounts do not capture the flow of these funds or the related expenditure.

¹ State Implementing Agency includes any organisation/institution including non-Governmental Organisation which is authorised by the State Government to receive the funds from the Government of India for implementing specific programmes in the State.

During the year 2022-23, GoI transferred ₹27,816.54 crore directly to the SIAs for implementing various Central schemes / programmes.

As seen from GoIs data, the direct transfer of funds to various implementing agencies has shown an increasing trend during the period 2018-23 as given in **Exhibit 4.1** with a substantial increase of ₹4,660.32 crore in the current year.



(Source: State Finance Accounts of the respective years)

The details of SIAs that received funds of more than ₹100 crore during the year 2022-23 are detailed in **Table 4.2**.

Table 4.2: List of SIAs which received funds of more than ₹100 crore directly from GoI

Sl. No	Schemes of Government of India	State Implementing Agency	Amount released by GoI during 2022-23 (₹ in crore)
(1)	(2)	(3)	(4)
(a) Central Sector Schemes			
1	Food Subsidy for Decentralised Procurement of Food grains under NFSA	Tamil Nadu Civil Supplies Corporation Limited	8,685.95
2	Pradhan Mantri Kisan Samman Nidhi (PM-KISAN)	Department of Agriculture	1,607.44
3	Member of Parliament Local Area Development Scheme (MPLAD)	District Collectors of various districts, Tamil Nadu	124.50
(b) Centrally Sponsored Schemes			
1	Mahatma Gandhi National Rural Guarantee Program	State Employment Guarantee Fund, Tamil Nadu	7,501.29
2	Jal Jeevan Mission (JJM) / National Rural Drinking Water Mission	Tamil Nadu State Water and Sanitation Mission	872.96
3	Ayushman Bharat – Pradhan Mantri Jan Arogya Yojana (PMJAY)	Tamil Nadu Health Systems Project	579.39

(Source: State Finance Accounts' 2022-23)

As these funds were not routed through the State Budget/State Treasury System, the Annual Finance Accounts did not capture these funds flow and to that extent,

the State's receipt and expenditure as well as other fiscal variables/parameters derived from them did not present the complete true and fair picture.

B. ISSUES RELATED TO TRANSPARENCY

4.4. Tax on electricity kept outside consolidated fund of the State

Non/short realisation of Electricity Tax by the State Government from TANGEDCO and the amount being retained by TANGEDCO for a period of four years is fraught with the risk of suspected temporary misappropriation. Non-realisation of the dues in Government account is also one of the contributing factors to revenue deficit of the State Government.

Under Section 3 of Tamil Nadu Tax on Consumption or Sale of Electricity Act, 2003, TANGEDCO (Licensee under the Act) is to collect the electricity tax along with energy charges and remit the tax into Government account. During 2019-23, Tamil Nadu Generation and Distribution Corporation (TANGEDCO) collected ₹5,493.40 crore as Electricity tax from consumers, but remitted only ₹1,228.79 crore. The amount of electricity tax collected but not remitted into the consolidated fund as of 31 March 2023 stood at ₹4,264.61 crore (**Table 4.3**). GoTN has not made it mandatory to remit the tax amount at periodical intervals and adjustments were not being carried out regularly. The amount deposited into the Government Account by TANGEDCO, was the adjustments against the loan receipts. Had the outstanding amount of ₹1,737.48 crore been credited in the Government account during the year 2022-23, the revenue deficit would have been lessened to that extent. Further, had the electricity tax amount of ₹ 4,264.61 crore been brought in to Government accounts, Government could have reduced its borrowing to that extent with consequential reduction in the interest payments.

Table 4.3: Details of collection of electricity tax and remittance into Government Account

(₹ in crore)

Year	Amount collected	Amount deposited into Government account	Amount yet to be credited
2019-20	1,266.10	1,228.79	37.31
2020-21	1,102.09	--	1,102.09
2021-22	1,387.73	--	1,387.73
2022-23	1,737.48	--	1,737.48
Total	5,493.40	1,228.79	4,264.61

(Source: Details furnished by O/o PAG (Audit-II))

From **Table 4.3**, it is evident that 78 per cent of the tax collected during the period 2019-23 were not credited to the Government Accounts and were kept with TANGEDCO. The possibility of the amount being expended by TANGEDCO for its own operational expenditure cannot be ruled out. Such non-remittance to the Government account and retaining the collected tax for such a long period is fraught with the risk of suspected temporary misappropriation.

In the Exit Conference, Government committed to take up the issue with TANGEDCO. Though the issue was highlighted in the earlier Reports also, no action has been initiated by the Government.

4.5 Delay in furnishing of Utilisation Certificates

As per Article 210 (A) of Tamil Nadu Financial Code, utilisation certificates should be submitted to the Accountant General for Grants-in-aid received. The Tamil Nadu Financial Code, however, had not specified any timeline for submission of the Utilisation Certificates, in absence of which maximum timeline of 15 months have been used for analysis. Thus, Utilisation Certificates (UCs) in respect of Grants-in-Aid received by the grantee are required to be furnished by the grantee to the authority that sanctioned it, by the end of June for the grant received upto March of the previous financial year. It was however noticed that 48 UCs for ₹1,435.43 crore were outstanding as per the Finance Accounts 2022-23. The Department wise break-up of outstanding UCs is given in **Appendix 4.1** and the year-wise break up of delays in submission of UCs is summarised in **Table 4.4**.

Table 4.4: Year wise break up of outstanding UCs

Year	No of UCs	Amount pending (₹ in Crore)
2017-18	2	16.76
2018-19	2	7.95
2019-20	1	3.04
2020-21	3	18.04
2021-22	18	572.31
2022-23	22	817.33
Total	48	1,435.43

(Source: Notes to Finance Accounts)

A test check of three long pending UCs in respect of two departments viz. Town and Country Planning Department and Industries and Commerce Department for the grants issued prior to the year 2018-19 revealed the following,

- Audit scrutiny revealed that Director of Town and Country Planning Department (DTCP), Chennai had released (February 2017) an amount of ₹21 crore (during 2016-17) to Chennai Metropolitan Water Supply and Sewerage Board (CMWSSB) for the work of “Plugging of sewage outfalls to prevent untreated sewage letting into water ways in Chennai” and CMWSSB had only utilised an amount of ₹8.80 crore for which an UC was submitted (May 2023) by DTCP to PAG (A&E). The delay in completion of the above work and non-submission of UC for an amount of ₹12.20 crore was due to termination of earlier contract which was attributable to the contractor

- Two UCs for an amount of ₹4.56 crore and ₹1.71 crore were pending from Industries and Commerce Department.
- (a) In respect of pending UC for ₹4.56 crore, Audit scrutiny revealed that the Industries and Commerce Department had released (March 2017) an amount of ₹4.56 crore (during 2016-17) to Tamil Nadu Small Industries Development Corporation (TANSIDCO) for establishing a Southern District Textile Processing cluster in Virudhunagar District. The delay in completion of the above work and non-submission of UC for an amount of ₹4.56 crore was due to change in location for setting up of an effluent treatment plant in Textile Processing cluster as local villagers had raised objections and consequential delay in execution of work.
- (b) In respect of pending UC for ₹1.71 crore, Audit scrutiny disclosed that Directorate of Industries and Commerce (DIC), Chennai had released (April 2017) a grant of ₹3.41 crore (during 2017-18) to TANSIDCO for setting up of an engineering cluster in Melavalavu and Kanchirayanpatti village in Melur Taluk, Madurai District and TANSIDCO had only utilised an amount of ₹1.70 crore for which an UC was submitted by the Industries and Commerce Department to PAG (A&E) as of June 2023. The delay in completion of the above work and non-submission of UC for an amount of ₹1.71 crore was due to non-completion of work on account of delays in mobilising labour and raw materials on account COVID 19 pandemic situation.

Non submission of UCs indicates the failure of the departmental officers to comply with the rules to ensure accountability. This assumes greater importance if such UCs are pending against Grants-in-Aid meant for capital expenditure. 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.

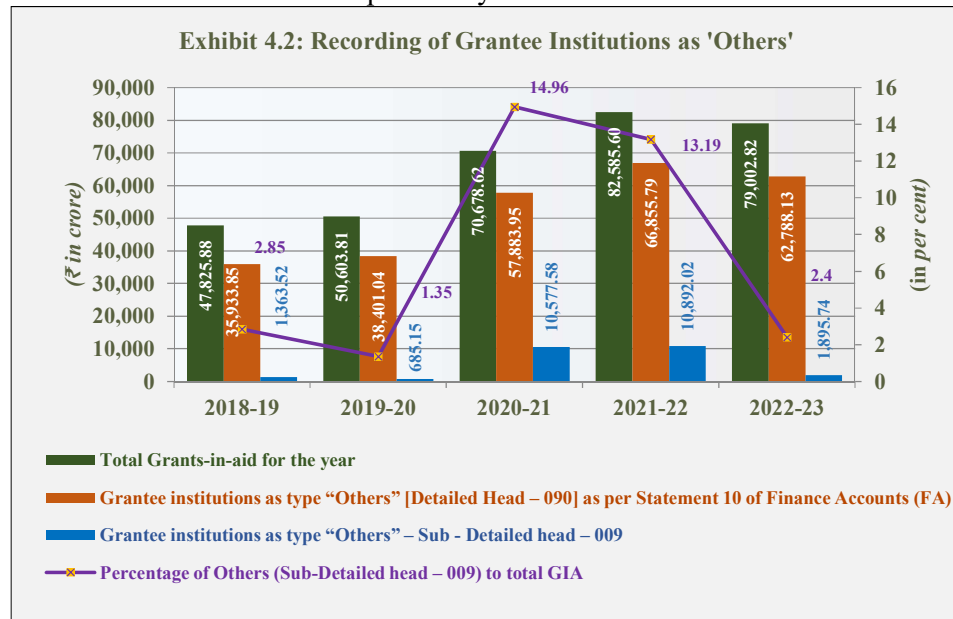
On being pointed out by Audit, Government replied (November 2023) that the concerned officials were instructed to furnish the Utilisation Certificate directly to the Accountant General (A&E).

4.6 Recording of Grantee Institution as “Others”

The State Government sanctions Grants-in-Aid (GIA) to various Bodies and Authorities. It is essential that the Government provides the details and nature of the Grantee Institution to which it is providing funds in the interest of transparency of accounts.

As per State Finance Accounts 2022-23 of GoTN, GIA constituted 24.18 *per cent* of the total expenditure of the State. Out of the total GIA of ₹79,002.82 crore for the year, an amount of ₹62,788.13 crore (79.48 *per cent*) was disbursed

to grantee institutions of type “Others”, where “Others” means various Government Departments excluding the GIA given to ‘Local Bodies’. Out of the total GIA of ₹62,788.13 crore for the year 2022-23, ₹1,895.74 crore (2.40 per cent) was shown as disbursed to Grantee Institutions of type “Others” (detailed head code – 090, sub-detailed head code - 009). This adversely affects the transparency of accounts and monitoring of UCs against these GIA. The trend of percentage of GIA from the year 2018-19 to 2022-23 under type “Others” to total GIA for the past five years are shown in **Exhibit 4.2**.



(Source: State Finance Accounts for the respective years)

4.7 Non-Adjustment of Temporary Advances

The Government of Tamil Nadu does not follow the system of drawal of Abstract Contingent (AC) bills followed by submission of Detailed Contingent (DC) bills, as is the practice in other States. Instead, the Drawing and Disbursing Officers (DDOs) have been empowered to draw Temporary Advances (TAs) under Article 99 of Tamil Nadu Financial Code and the advances should be adjusted by presenting detailed bills and vouchers as soon as possible. Such Temporary Advances drawn by the departmental officers shall be adjusted within three months from the date of drawal of the advances.

It was noticed that there were 693 number of temporary advances amounting to ₹296.97 crore drawn by various DDOs under Article 99 of Tamil Nadu Financial Code, Vol. I, which remained unadjusted as on 31 March 2023. The unadjusted amount include TAs amounting to ₹14.73 crore (Sl.No. 1 and 2 in **Table 4.5** below) with a period of pendency for more than five years

Out of the total outstanding TAs amounting to ₹296.97 crore, the Commissionerate of Differently Abled and the Judicial Department had a

pendency of TAs amounting to ₹66.48 crore (22.39 per cent) and ₹53.12 crore (17.89 per cent) respectively.

The issue of non-adjustment of temporary advance has been raised in the State Finance Audit Report regularly. The number of temporary advances pending for adjustment significantly decreased from 1,649 in 2021-22 to 693 in 2022-23. And the unadjusted amount decreased from ₹317.81 crore in 2021-22 to ₹296.97 crore in 2022-23.

Age-wise analysis of the advances pending adjustment is given in **Table 4.5**.

Table 4.5: Age-wise analysis of advances pending

Sl. No.	Pendency	Number of Advances	Amount (₹ in crore)
1	More than 10 years	5	0.99
2	More than 5 years and less than 10 years	7	13.74
3	More than 1 year but less than 5 years	100	96.00
4	Less than one year	581	186.24
Total		693	296.97

(Source: Details furnished by AG(A&E))

The pendency, involving substantial amounts, indicated laxity on the part of departmental officers in enforcing the codal provisions regarding adjustment of the 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., of public money and unhealthy practices. This also calls for fixing responsibility on the respective defaulting DDOs.

On being pointed out by Audit, Government replied (November 2023) that necessary instruction had been issued to Commissioner of Treasuries and Accounts (CTA) to settle the pending Temporary Advances.

4.8 Personal Deposit Accounts

As per Article 269 of Tamil Nadu Financial Code, GoTN is authorised to open Personal Deposit (PD) Accounts where money is deposited to be utilised for specific purposes. These PD Accounts are managed by designated Administrators on the basis of sanctions received from the State Government. The Accountant General (A&E) issues permissions for transfer of funds from the Consolidated Fund to the concerned PD Account under Part III – Public Account. These PD Accounts were required to be closed at the end of the year. The money transferred to PD Account under the Head 8443-00-106-AA are treated as final expenditure under the concerned service Major Heads from which the money was transferred to the PD Accounts.

During 2022-23, an amount of ₹777.77 crore (47 accounts) was transferred to PD accounts out of the Consolidated Fund of the State. All these 47 PD Accounts were closed as at the end of the financial year.

It was however seen that the Head 8443-00-106-AA had an opening balance of ₹1,154 crore and the same amount was shown as closing balance as at the end of the financial year. Audit found that this figure represented misclassification pertaining to 2019-20 wherein unspent amount relating to PD Accounts of five Administrators were transferred back to the concerned service Major Heads at the end of the financial year but the debit was incorrectly given to 8443-00-106-AC. This misclassification was not rectified till March 2023.

4.9 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/DTO 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 54,246 cheques for ₹60.77 crore remained unencashed (June 2023). 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 4.6**.

Table 4.6: Details of unencashed cheques

(₹ in crore)

Delay in number of years	Number of cases	Value of cheques
0-5 years	264	1.33
5-10 years	399	1.09
10-20 years	32,249	35.47
More than 20 years	21,334	22.88
Total	54,246	60.77

(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 February 2018, Commissioner of Treasuries and Accounts issued guidelines to be followed regarding return of funds paid through ECS. As per the guidelines, the unclaimed amount lying for more than three months should be remitted back into Government account by giving intimation to concerned DDOs. Audit scrutiny of records of PAOs revealed that there were 44 ECS payments in PAO / Madurai amounting to ₹10.93 lakh pending (August

2023) to be paid for more than three months due to reasons not on record. Neither the returned ECS payment money was disbursed by PAO Madurai to the Direct Benefit Transfer (DBT) beneficiaries by reconciling their bank details nor remitted back into Government account as per relevant orders. Analysis of a sample case of ECS return amount of ₹3.30 lakh disclosed that, despite a provision in IFHRMS to credit all the ECS return amounts into the respective heads originally debited, the system did not allow such credit of returned ECS amounts which were originally debited to MH 8443. Thus, the system issues also contributed to non-return of unencashed ECS payments to Government account.

4.10 Indiscriminate use of Minor head '800'

Minor Head – “800 - Other Expenditure / Other Receipts” are intended to be operated only when appropriate 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 2022-23, an expenditure amounting to ₹36,590.62 crore (11.45 per cent of the total expenditure of ₹3,19,494.39 crore) under the Revenue and Capital sections was classified under the minor head '800 - Other Expenditure'.

Audit scrutiny revealed that under 13 Major Heads the expenditure booked under the minor head 800 exceeded 50 per cent of the total expenditure of the respective Major heads as detailed in **Appendix 4.2**. In seven of the 13 Major Heads, the entire expenditure incurred was booked under Minor Head '800'.

On a test check of the expenditures booked under the Minor Head 800, it was noticed that the following expenditure were wrongly grouped with other expenditure (Minor Head-800) even though separate minor heads are available are given in **Table 4.7**.

Table 4.7: Expenditure booked under 'Minor Head 800 – Other Expenditure'

Sl. No.	Nature of expenditure (Detailed Head)	Head of Account wrongly booked		As per LMMH Head of Account to be booked with description
		Head of Account	Amount (₹ in lakh)	
1	110 – Subsidies	2405-00-800-BG-110	1,54.73	2405-Fisheries-00-121-Welfare schemes for Fisherman (2405-00-121)
2	090 – Grants-in-Aid	2405-00-800-BE-090	13.16	
3	090 – Grants-in-Aid	2405-00-800-BI-090	13.74	
4	090 – Grants-in-Aid	2405-00-800-BJ-090	5.26	
5	110 – Subsidies	2405-00-800-KD-110	6,221.23	
6	120 – Scholarships and Stipends	2405-00-800-KG-120	50.00	3456-Civil Supplies-00-102- Civil Supplies Scheme (3456-00-102)
7	190 – Machinery and Equipments	3456-00-800-AF-190	1.22	
8	330 – Payments for Professional and Special Services	3456-00-800-AF-330	74.92	
9	710 – Printing Charges	3456-00-800-AF-710	37.05	

(Source: VLC data & LMMH issued by CGA)

It was also noticed that out of the receipts of ₹2,43,749.34 crore during the year 2022-23, receipts amounting to ₹9,140.10 crore was booked under the Minor Head '800- Other Receipts' which works out to 3.75 per cent of the total receipts

during the year. Instances where 50 *per cent* or more and significant amount of receipts booked under minor head ‘800’ are detailed in **Appendix 4.3**.

On a test check of the receipts booked under the Minor Head 800, it was noticed that:

- a) Several receipts (exceeding ₹1 crore) were wrongly grouped with other receipts (Minor Head 800) even though separate minor heads were available as given in **Table 4.8**:

Table 4.8: Receipts booked under ‘Minor Head 800 – Other Receipts’

Sl. No.	Nature of receipt (Detailed Head)	Head of Accounts wrongly booked		As per LMMH Head of Account to be booked with description
		Head of Account	Amount (₹ in lakh)	
1	310 - Receipt of Rent / Hire Charges / Lease	0405-00-800-AC-310	15,973.20	0405 Fisheries - 00 - 011 Rents “The minor head 011 will include receipts from auction of fishing rights” (0405-00-011)
2	250 - Interest	0049-04-800-AT-250	5,223.43	0049 Interest Receipts – Interest- 04 Receipts of State- 118 Interest on Loans to Government Servants “The minor Head 118 will accommodate the interest receivable on Loans to Government Servants, separate sub heads may be opened under this Minor Head for each type of Interest Bearing Advances”. (0049-04-118)
3	140 - Taxes	0029-00-800-AA-140	4,007.93	0029 Land Revenue – 106 Receipts on account of Survey and Settlement Operations (0029-00-106)
4	310 - Receipt of Rent / Hire Charges / Lease	0853-00-800-AA-310	8,054.14	0853- Non-ferrous Mining and Metallurgical Industries-00-107- Minor Mineral Concession Fees, Rents and Royalties (as Sand is being classified under Minor Minerals).
5	320 - Royalty	0853-00-800-AE-320	1,898.40	
6	270 - Non-Taxation Fees	0853-00-800-AF-270	2,754.86	
7	270 - Non-Taxation Fees	0210-04-800-AM-270	3,825.62	
8	290 – Fines & Penalties	0210-04-800-AN-290	587.13	0210 Medical and Public Health-04 Public Health – 104 Fees and Fines etc- “104 minor head will include licence fees, fines etc. under Drug Control Acts and Prevention of Food Adulteration Acts etc. realised by Public Health authorities.”
9	270 - Non-Taxation Fees	0070-60-800-AB-270	822.37	0070 Other Administrative Services – 60 Other Services – 108 Marriage Fees
10	270 - Non-Taxation Fees	0070-60-800-DM-270	328.77	

(Source: VLC data & LMMH issued by CGA)

- b) As per extant Rules, recoveries of overpayments pertaining to previous year(s) shall be recorded under the minor head '911- Deduct Recoveries of Overpayments' below the concerned Major Head. Audit scrutiny also revealed that such recoveries pertaining to previous years(s) were booked under revenue receipt heads as detailed in **Table 4.9**:

Table 4.9: Receipts booked under ‘Minor Head 800 – Other Receipts’

Sl. No.	HOA with description	Detailed Head & Description	Object Head & Description	Receipt (₹ in lakh)
1.	0070-60-800-MH Unspent Balance remitted by Various Departments	900 - Miscellaneous Revenue Receipts	001- Miscellaneous Receipts	29,772.16
2.	0049-04-800-DR Interest Receipts under Integrated Child Protection Scheme (ICPS)	250 - Interest	062 - Unspent Balance	98.58
3.	0049-04-800-CZ Interest Receipts - Directorate of Sericulture	250 - Interest	062 - Unspent Balance	50.95
4.	0049-04-800-DE Miscellaneous receipts from Commissionerate of Economics and Statistics	250 - Interest	062 - Unspent Balance	5.15
5.	0851-00-800-AB Handlooms and Textiles	250 - Interest	062 - Unspent Balance	3.08
Total				29,929.93

(Source: VLC data & LMMH issued by CGA)

Out of the above ₹299.30 crore, ₹1.58 crore related to unspent amount and interest earned thereon in respect of scheme funds kept in bank accounts. Despite knowing the specific nature of these receipts, these receipts were classified as revenue receipts.

Further, in January 2022, GoTN directed to remit all unspent balances held in bank accounts into the minor head 800 under the major head 0070 – Other Administrative Services. This decision was made to mop up funds lying unutilised in various bank accounts of different department without clear details of schemes to which they pertained. During 2021-22, ₹287.44 crore was incorrectly remitted under this head as revenue receipt, which was pointed out in the SFAR on GoTN for the year 2021-22. Despite pointing out the incorrect accounting of this amount, a total of ₹297.72 crore relating to unspent scheme funds pertaining to previous years were remitted during 2022-23 under the head ‘0070-60-800’.

The booking of unspent balances of previous years to the tune of ₹299.30 crore in nontax revenue head of account for the year 2022-23 had overstated the revenue receipts.

Though the issue of classification of the receipts/ expenditure under Minor Head 800 – Other Receipts/ Expenditure had been continuously reported in the previous State Finance Audit Reports (SFAR), there has been little improvement. The fact that such substantial proportions of the receipts/ expenditure under the concerned Major Head are booked under Minor Head 800

is a cause for concern, since it adversely impacts transparency in financial reporting.

On being pointed out by Audit, Government admitted (November 2023) the audit observations and assured to scrupulously follow the recommendations of Audit in future.

C. ISSUES RELATED TO MEASUREMENT

4.11 Outstanding balances under Suspense and Debt, Deposit and Remittance (DDR) heads

Annexure to Statement 21 of the State Finance Accounts reflect the net balances under Suspense and Remittance Heads. The outstanding balances under these heads are worked out by aggregating the outstanding debit and credit balances separately under various heads. Clearance of suspense and remittance items depends on the details furnished by the State Treasuries/ Works and Forest Divisions, etc.

The Head “8658-101-PAO-Suspense” is intended for settlement of transactions between the Accountant General (A&E) and the various separate Pay and Accounts Officers (PAO) of Government of India. These involve transactions that mainly relate to the payments made by the State Government to Central Government Civil Pensioners. On clearance/settlement of this, the cash balance of the State Government will increase.

The transactions initially recorded under this head in the books of the AG are cleared on receipt of the Cheques/Demand Drafts from the Pay and Account Officers and on the issue of Cheque/Demand Draft in respect of amounts received in the State Treasuries on behalf of the Pay and Account Officers. Outstanding debit balance under this head shows that payments have been made by the AG on behalf of a PAO, which were yet to be reimbursed. As the amount expended to the extent of ₹265.80 crore (Dr) had not been reimbursed to the State funds, the cash balance outstanding as on 31 March 2023 showed a decreased balance.

4.12 Non-reconciliation of Departmental figures

Controlling Officers of the Departments have to exercise effective control over spending to keep it within the budget grants and to ensure accuracy of their accounts. 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). As per Rule 128 of the Tamil Nadu Budget Manual, the CCO is required to send a reconciliation certificate 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).

During the year 2022-23, the CCOs had reconciled 94.79 per cent of the expenditure and 93.86 per cent of receipts. The remaining 5.21 per cent of expenditure and 6.14 per cent of receipts were not reconciled by 94 out of 214 CCOs and 54 out of 122 CCOs respectively. It was however noticed that, out of 122/214 CCOs for receipts/expenditure in the State, only 68/120 CCOs had fully reconciled the figures respectively. A further trend analysis for the past three years revealed that the percentage of non-reconciliation has been on the increasing trend as detailed in **Table 4.10**.

Table 4.10: Status of Non-Reconciliation of Receipts and Expenditure figures by CCOs

Year	Total number of Controlling Officers	CCOs fully reconciled	CCOs not fully reconciled	Percentage of Non-reconciliation
Receipts				
2018-19	119	72	47	39.50
2019-20	121	52	69	57.02
2020-21	121	107	14	11.57
2021-22	126	91	35	27.78
2022-23	122	68	54	44.26
Expenditure				
2018-19	211	152	59	27.96
2019-20	209	105	104	49.76
2020-21	209	175	34	16.27
2021-22	211	151	60	28.44
2022-23	214	120	94	43.93

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

Further, due to the process of restructuring of loans during 2018-19, a number of adverse balances were created. As the awareness on restructuring of loan 2018-19 has not yet reached the loanee entities completely upto 2022-23, the repayment of principal and payment of interest had been recorded under the old loan heads which, in turn, projected excess receipts under old heads and non-receipts under new heads. Hence, the details on arrears on repayment of principal and interest is yet to be reconciled.

Failure to exercise/adhere to the codal provisions and executive instructions in non-reconciliation not only results in misclassification and incorrect booking of receipts and expenditure in the accounts, which would also defeats the very objective of budgetary process.

On being pointed out by Audit, Government replied (November 2023) that the concerned officials had been instructed to complete the pending reconciliations.

4.13 Reconciliation of Cash balances

In terms of provisions of Section 20, 21 and 21A of the Reserve Bank of India (RBI) Act, 1934, the RBI acts as a banker to both the Central and State

Governments. The transactions on behalf of State Government are carried out at offices of RBI and its agency banks authorised to conduct Government business on its behalf.

While the principal deposit accounts of the State Governments are maintained at the Central Accounts Section (CAS) of RBI at Nagpur, the regional offices of RBI account for the State Government transactions reported by agency banks through link offices and report to CAS, Nagpur.

As per the Memorandum of Instructions (MoI) of the RBI on the Accounting and Reconciliation of the State Government transactions, the agency branches have to send the Receipt /Payments scrolls on a daily basis in the prescribed form to the concerned sub-treasury / treasury without delays. Also, the consolidated monthly statement of the agency banks prepared by the link banks are to be sent to the RBI which in turn should forward the monthly consolidated statement to the Accountant General (A&E).

In view of the above system in place, there should generally not be any difference between cash balance position as per the books of the Accountant General and CAS figures. Even if differences occur in the month wise balance, there should not be any difference between cash balance position at the closing of Annual Accounts by April 25 of every year.

However, there was a sizeable net difference (₹103.07 crore) in the closing balance for the year 2022-23 between the cash balance as per books of accounts of the Accountant General and the cash balance as reported by the RBI. The details of differences in the Cash balance is given in **Table 4.11**.

Table 4.11: Differences in cash balances

Period	Debit difference		Credit difference	
	Number of items	₹ in crore	Number of items	₹ in crore
Upto 2017-18	817	4,364.92	1,060	4,463.81
2018-19	97	448.87	163	865.03
2019-20	69	290.31	149	887.98
2020-21	94	1,186.54	162	548.88
2021-22	101	1,502.16	91	1,188.69
2022-23	183	9,069.28	188	9,010.76
Total	1,361	16,862.08	1,813	16,965.15

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

Analysis of such occurrences for the previous years revealed that the differences in cash balances were on a decreasing trend from 2019-20 to 2022-23 as shown in **Table 4.12**.

Table 4.12: Trend of differences in cash balances

(₹ in crore)

Year	Cash balances as per books of AG (A&E)	Cash balances as reported by RBI	Difference
2016-17	305.55 (Cr.)	89.53 (Cr.)	395.08 (Cr.)
2017-18	81.18 (Cr.)	8.12 (Cr.)	89.30 (Cr.)
2018-19	459.88 (Cr.)	37.49 (Cr.)	497.37(Cr.)
2019-20	923.33 (Dr.)	2,067.49 (Cr.)	1,144.16 (Cr.)
2020-21	467.24 (Cr.)	5.70 (Cr.)	472.94 (Cr.)
2021-22	266.95 (Dr.)	426.56 (Cr.)	159.61 (Cr.)
2022-23	59.17 (Cr.)	43.90 (Cr.)	103.07 (Cr.)

(Source: Statement 2 of Finance Accounts of the respective years)

The difference is mainly due to non-reporting of receipts by the Banks to the Treasuries.

4.14 Impact on Post Audit Analysis of certain transactions on fiscal indicators during 2022-23

Scrutiny of transactions during 2022-23 revealed that revenue deficit and fiscal deficit were affected by certain accounting adjustments and through post audit analysis which are detailed in **Table 4.13. (Refer Para 1.9.1 of Chapter-I)**

Table 4.13: Under/Over statement of Revenue and Fiscal Deficit

Particulars	Impact on Revenue Deficit (₹ in crore)		Impact on Fiscal Deficit (₹ in crore)	
	Over-statement (-)	Under-statement (+)	Over-statement (-)	Under-statement (+)
Incorrect adjustment of recoveries of capital expenditure under Revenue Section	--	(+) 5.74	--	--
Interest on interest bearing Reserve Funds and Deposits not credited (State Compensatory Afforestation Fund)	--	(+) 3.80	--	(+) 3.80
Non-transfer of central grant under Central Road and Infrastructure Fund (CRIF)	--	(+) 298.20	--	(+) 298.20
Total	--	(+) 307.74	--	(+) 302.00

(Source: Finance Accounts and Post audit analysis)

4.15 Compliance with Accounting Standards

As per Article 150 of the Constitution of India, the President of India may, on the advice of the Comptroller and Auditor General of India, prescribe the form

of accounts of the Union and of the States. The Comptroller and Auditor General of India set up a Government Accounting Standards Advisory Board (GASAB) in 2002, for formulating standards for government accounting and financial reporting, to enhance accountability mechanisms. On the advice of the Comptroller and Auditor General of India, the President of India has so far notified three Indian Government Accounting Standards (IGAS). The extent of non-compliance with the standards by the Government of Tamil Nadu in its financial statements for the year 2022-23 is given in **Table 4.14**.

Table 4.14: Compliance with Accounting Standards

Sl. No	Accounting Standards	Essence of IGAS	Compliance by State Government	Impact of deficiency
1	IGAS-1: Guarantees given by the Government – Disclosure requirements	This standard requires the Government to disclose the amount of guarantees (class and sector-wise) given during the year in its financial statements.	Complied	--
2	IGAS-2: Accounting and Classification of Grants-in-Aid	Grants-in-Aid are to be classified as, revenue expenditure in the accounts, even if it involves creation of assets. Grant-in-aid given in kind is required to be disclosed.	Complied	--
3	IGAS-3: Loans and Advances made by Government	Disclosures on loans and advances made by the Government.	Partly complied. The Government of Tamil Nadu has restructured old loans given by the Government during 2018-19. Though the Statement 7 & 18 of the Finance Accounts on Loans and Advances given by the State Government have been prepared as per prescribed format of IGAS-3, the reconciliation of figures booked under the loan heads was not completed during 2022-23, subsequent to the restructuring of loans and advances given by the Government during the year 2018-19. Hence, details relating to the repayment of arrears of loan entities could not be included. Reconciliation with the State is under process	Due to non-reconciliation, Adverse balances exists. The matter has been taken up with the State in the Entry Conference and reconciliation is being done by some departments.

(Source: Details furnished by O/o AG(A&E))

D. ISSUES RELATED TO DISCLOSURE

4.16 Non-submission/ Delay in submission of accounts

Section 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 219 Institutions/Bodies due upto 2022-23 were not received (August 2023) by Audit from the heads of department. The details are given in **Appendix 4.4** and their age-wise pendency is presented in **Table 4.15**.

Table 4.15: Age-wise analysis of arrears of Accounts of bodies/authorities

Sl. No.	Delay in number of years	Number of Institutions
1	Upto one year	86
2	More than one year and upto three years	88
3	More than three years and upto five years	20
4	Five years and above	25
	Total	219

(Source: Data compiled from information furnished by 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.

4.17 Pendency in placement of Separate Audit Report of the Tamil Nadu Legal State Authority in the State Legislature:

As per sub sections 2, 4 and 5 of Section 18 of The Legal Services Authority Act 1987, the accounts of the Legal State Authorities shall be audited by the Comptroller and Auditor General of India (CAG) at such intervals as may be specified by him and the accounts of the State Legal Authorities, as certified by the CAG or any other person appointed by him in this behalf together with the audit report thereon shall be forwarded annually by the Authorities to the State Government. The State Government shall cause the accounts and the audit report, as soon as may be after they are received, to be laid before the State Legislature. However, it was noticed in Audit that the Separate Audit Reports of the Tamil Nadu State Legal Services Authority and 32 District Legal Service Authorities in the State for the periods mentioned in **Appendix 4.5**, have not been placed in the State Legislature.

4.18 Misappropriation, Losses and Thefts

Article 294 of the Tamil Nadu Financial Code.(Vol-I) stipulates that “Heads of Office” should report all cases of defalcations or loss of public money, 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 2023, 393 cases of misappropriation, shortages and theft involving a total amount of ₹30.81 crore, were pending disposal. The department-wise break-up of these are detailed in **Appendix 4.6**. The age-profile of the pending cases and the reasons for pendency are summarised in **Tables 4.16 and 4.17**.

Table 4.16: Age Profile of pending cases

Range in years	Number of cases	Amount involved* (₹ in crore)
0 – 5	43	2.95
6 - 10	15	9.44
11 - 15	32	4.87
16 – 20	31	3.42
21 and above	272	10.13
Total	393	30.81

* Based on information made available during 2022-23, the number and amount involved during past years have been reworked

(Source: Information furnished by Heads of Department & AG(A&E))

Table 4.17: Reasons for pendency of the cases

Reasons for the pendency	Number of cases	Amount (₹ in crore)
Awaiting departmental and criminal investigation	161	13.54
Departmental action initiated but not finalised	112	4.97
Criminal proceedings finalised but recovery of the amount still pending	12	0.76
Awaiting orders for recovery or write off	76	3.74
Pending in Courts of law	32	7.80
Total	393	30.81

(Source: Information received from Heads of Department & AG(A&E))

Out of 393 cases, 39 cases amounting to ₹15.77 crore pertaining to Commissioner of Treasuries and Accounts (CTA) were noticed by the office of PAG (A&E) during the inspection of CTA. Amongst 39 cases, 24 cases amounting to ₹4.74 crore were pending for more than 20 years and all of them relate to misappropriation of Government money on Military Pension, DCRG, fake bills, ECS return amount etc. Despite the codal provisions warranting that all cases of defalcations or loss of public money, stores or other movable or immovable properties should be communicated by the HoD to the Accountant General, the office of the Commissioner of Treasury and Accounts had not reported the above cases to the Accountant General, indicating the failure of the department. Moreover, concrete action taken by the office of the CTA in effecting recoveries from the officers involved in misappropriations were not reported to Audit.

4.19 Follow up on State Finances Audit Report

The Public Accounts Committee had 15 sittings on SFAR from 2013-14 to 2022-23. As of September 2023, out of 207 paragraphs/reviews selected for discussion for the period 2008-09 to 2021-22 on the State Finance Audit Report of Tamil Nadu, 22 paragraphs/reviews have been discussed and 185 paragraphs/reviews are pending discussion.

4.20 Conclusion

Non submission of Utilisation Certificates (₹1,435.43 crore) indicate the failure of the departmental officers to comply with the Rules to ensure accountability and ensuring achievement of the intended objective of the Grants-in-Aid. This assumes greater importance as Utilisation Certificates were pending against Grants-in-Aid meant for capital expenditure as well.

(Paragraphs 4.5)

The non-adjustment of Temporary Advances involving substantial amounts (₹296.97 crore drawn and pending over a period of years) indicated laxity on the part of departmental officers in enforcing the codal provisions regarding adjustment of the advances.

(Paragraphs 4.7)

Several receipts and expenditures were wrongly booked under Minor Head 800 even though separate Minor Heads were available for booking under the respective Major Heads.

Unspent balances of previous years as well as interest earned on these balances were booked under the non-tax receipt heads (Minor Head 800) instead of booking under Minor Head “911- Recovery of Overpayments”.

(Paragraphs 4.10)

As of March 2023, 219 Accounts pertaining to Bodies/Authorities were pending for finalization and the extent of arrears ranged between one year and more than five years.

(Paragraphs 4.16)

The cases of misappropriations, losses and thefts were not brought to the notice of the Principal Accountant General as and when occurred and the remedial action therein were pending for several years.

(Paragraphs 4.18)

4.21 Recommendations

- *Government should ensure that controlling officers adjust temporary advances and submit Utilisation Certificates in time and fix responsibility on those who fail to do so.*
- *Government should instruct DDOs/PAOs to book receipts and expenditure under the appropriate Minor Heads already available and to book Minor Head 800 only when no other appropriate heads were available. Unspent balances of previous years should be booked under Minor Head “911 – Recovery of Overpayments”.*
- *Government should fix responsibility on the concerned Chief Executive Officers for pendency of accounts.*
- *Government should instruct all Heads of Departments to adhere to codal provisions on reporting all cases of defalcations or loss of public money, stores or other movable or immovable properties to Accountant General.*