

## Chapter IV: Quality of Accounts and Financial Reporting Practices

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

### Issues related to completeness of accounts

#### 4.1 Funds transferred directly to State implementing agencies

From 2015-16 onwards, it has been decided by the GoI to release all assistance related to the Centrally Sponsored Schemes (CSS)/ Additional Central Assistance (ACA) to the State Government and not directly to the implementing Agencies. Contrary to this decision, the GoI transferred substantial funds directly to State Implementing Agencies/ Non-Governmental Organisations for implementation of various schemes and Programmes. These transfers are exhibited in Appendix VI of Volume II of the Finance Accounts.

During the year 2022-23, GoI funds amounting to ₹1,502.05 crore were directly transferred to the Implementing Agencies. Details of major amount of funds transferred directly to Implementing Agencies are shown in **Table 4.1**.

**Table 4.1: Funds transferred by GoI directly to State implementing agencies during 2022-23**  
(₹ in crore)

Name of the Schemes/ Programme	Name of the Implementing Agencies	Fund released
Pradhan Mantri Kishan Samman Nidhi	Department of Agriculture, Nagaland	104.29
National AIDS and STD Control Programme (NACO)	Nagaland State AIDS Control Society	50.58
Jal Jeevan Mission (JJM)/ National Rural Drinking Water Mission	State Water & Sanitation Mission	484.28
Organic Value Chain Development for North East Region	Nagaland Organic Mission	13.91
Mahatma Gandhi National Rural Guarantee Programme	NREGA Commissionerate of Nagaland	648.55
<b>Total</b>		<b>1,301.61</b>

Source: Public Financial Management System (PFMS) portal of Controller General of Accounts for State Accounts (2022-23).

It can be seen from **Table 4.1** that out of ₹1,502.05 crore transferred directly by GoI during 2022-23, ₹1,301.61 crore (86.66 per cent) was given to the implementing Departments for five major Schemes. Audit observed that some of these schemes/ programmes were Direct Benefit Transfer schemes/ programmes for which an amount of ₹200.44 crore was directly transferred to the implementing agencies and the same was not routed through the State Budget.

As the funds are not routed through the Consolidated Fund of Nagaland, the Annual Accounts do not capture the flow, utilisation and parking of such funds. Thus, the

State's receipts and expenditure as well as other fiscal variables and parameters derived from the State Accounts do not present the complete picture to that extent.

### Issues related to transparency

#### 4.2 Delay in submission of Utilisation Certificates

The General Financial Rules provide that every order sanctioning a grant would specify its objective clearly and the time limit within which the grant is to be spent. The Departmental officers drawing the Grants-in-Aid would be primarily responsible for certifying to the Accountant General, where necessary, the fulfilment of the conditions attached to the grant and submission of certificate (Utilisation Certificate) in such form and at such interval as may be agreed between the Accountant General (Accounts and Entitlements) and the Head of the Department concerned.

Rule 238 (1) of General Financial Rules, 2017 stipulates that a grantee Organisation or Institution getting non-recurring grants is required to submit a certificate of actual utilisation of the grants received for the purpose for which it was sanctioned in Form GFR 12-A within twelve months.

Non-submission of the Utilisation Certificates (UCs) means that the authorities have not explained whether the funds were spent and if it has been spent, whether it has been spent for the intended purpose. This assumes greater importance if such UCs are pending against Grants-in-Aid meant for Capital Expenditure. Since non-submission of UCs is fraught with the risk of misappropriation, it is imperative that the State Government should monitor this aspect closely and hold the concerned persons accountable for submission of UCs in a timely manner.

During the year 2022-23, 105 grants involving ₹86.65 crore were provided to 19 departments for which UCs are due for submission during the year 2023-24. As on 31 March 2023, there were 145 UCs worth ₹252.10 crore, which were due for submission for periods pertaining up to 2022-23.

**Tables 4.2 and 4.3** present the age-wise arrears and department-wise break-up of outstanding UCs. Outstanding UCs in respect of 10 major departments is also given in **Chart 4.1**. Details of department-wise outstanding UCs up to 2022-23 is shown in **Appendix 4.1**.

**Table 4.2: Age-wise arrears in submission of UCs**

(₹ in crore)

Year	Opening Balance		Addition		Clearance		Due for submission	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Up to 2020-21	195	456.20	78	212.60	22	59.73	251	609.07
2021-22	251	609.07	61	81.80	102	292.73	210	398.14
2022-23	210	398.14	105*	86.65	65	146.03	145#	252.10

Source: Finance Accounts, 2022-23

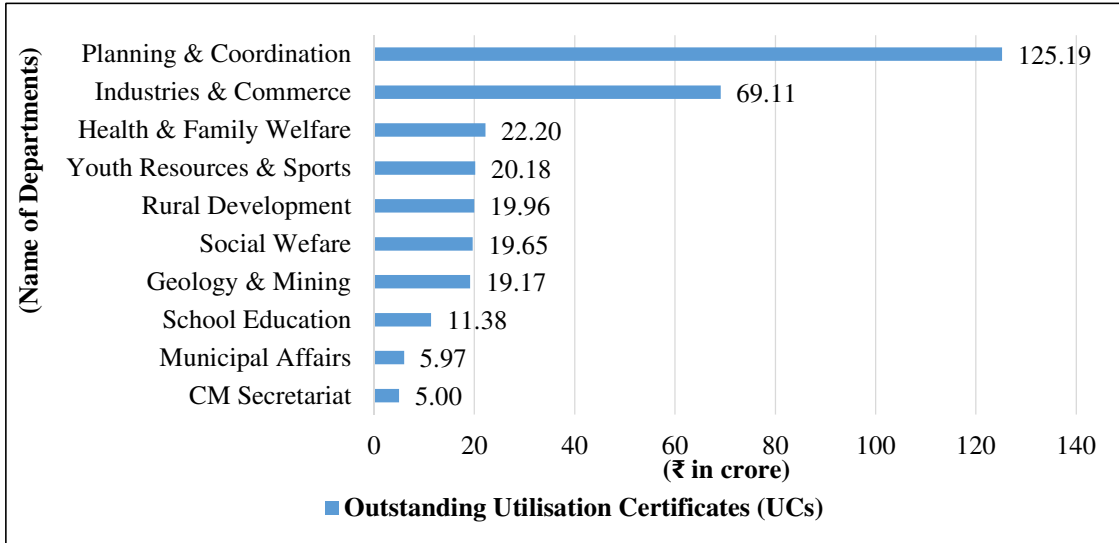
\*UCs for GIA disbursed during 2022-23 become due only during 2023-24.

# excluding the GIA given during 2022-23.

**Table 4.3: Year-wise break up of outstanding UCs**

Year	Number of UCs	Amount (₹ in crore)
Up to 2016-17	33	117.51
2017-18	10	6.51
2018-19	6	10.68
2019-20	20	18.45
2020-21	25	34.81
2021-22	51	64.14
<b>Total</b>	<b>145</b>	<b>252.10</b>

Source: Information furnished by O/o the PAG (A&E) Nagaland

**Chart 4.1: Outstanding UCs in respect of 10 major Departments for grants paid up to 2022-23**

Source: Information furnished by O/o the PAG (A&E), Nagaland

As can be seen from **Chart 4.1**, major defaulting Departments, which had not submitted the UCs, were Planning & Coordination Department, Industries & Commerce Department, Health & Family Welfare Department, Youth Resources & Sports Department, Rural Development Department *etc.*

In the absence of UCs, it could not be ascertained whether the recipients had utilised the grants and if utilised, it was for the intended purpose. Thus, pending UCs violate prescribed financial rules and directives, and reflects poorly on monitoring mechanism of the State Government. Moreover, high pendency of UCs is fraught with the risk of misappropriation of funds. The State would also lose out on central funds for want of UCs in due time. It is imperative that the State Government strengthens the relevant internal controls and monitors this closely and holds the person concerned accountable for submission of UCs in a timely manner.

During Exit Conference (06 December 2023), Secretary, Finance Department stated that steps have been taken to minimise the outstanding UCs. However, the details of the steps taken up were not highlighted. Further corrective follow ups may be taken up for submission of UCs in a timely manner.

### 4.3 Abstract Contingent Bills

The drawal of contingent charges on items of expenditure by a State Government, for which final classification and supporting vouchers is not available at the time of

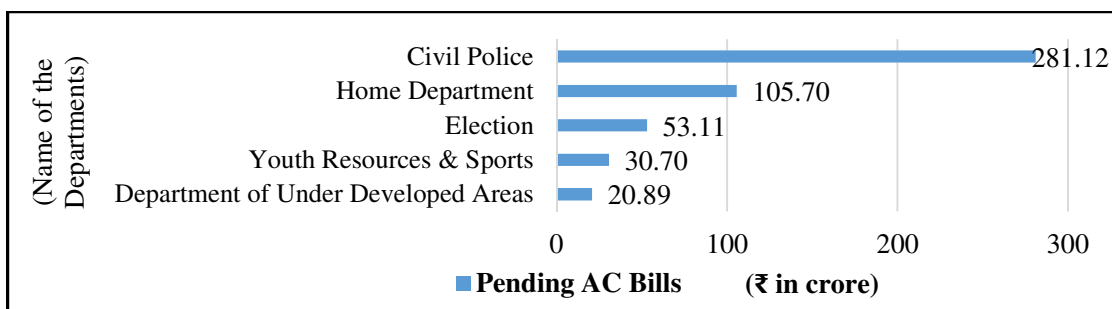
drawal are made on 'Abstract Contingent' (AC) Bills. Initially made as advance, its subsequent adjustments are ensured through submission of Detailed Countersigned Contingent (DCC) bills. DCC bill consists of abstract of expenditure along with sub-vouchers for amount drawn through AC bill.

In terms of the Rule 312 of Central Treasury Rules, DDOs are required to present Detailed Countersigned Contingent (DCC) bills containing vouchers in support of the final expenditure within a month from the date of completion of the purpose for which the advance was drawn. Further, Rule 309 envisages that a certificate is to be attached to every AC bill to the effect that DCC bills have been submitted to the controlling officer in respect of AC bills drawn more than a month before the date of that bill, without which no AC bill is to be encashed.

During 2022-23, 89 AC bills amounting to ₹159.70 crore were drawn but no DCC bills against the drawal of these bills has been submitted before the closing of the accounts for the financial year 2022-23 and, therefore, there is no assurance that the expenditure of ₹159.70 crore has actually been incurred during the financial year for the purpose for which it was authorised by the Legislature. In addition to this, 335 AC bills amounting to ₹532.83 crore drawn up to 2021-22 were also outstanding as on 31 March 2023. Thus, 323 AC bills involving ₹554.76 crore were outstanding as of March 2022. Advances drawn and not accounted for increases the possibility of wastage/ misappropriation/ malfeasance, etc.

Department-wise pending AC bills for the years up to 2022-23 is detailed in **Appendix 4.2**. Status of pending AC bills (amount above ₹10 crore) in respect of five major Departments is given in **Chart 4.2**.

**Chart 4.2: Pending AC Bills in respect of major Departments**



Source: Information furnished by O/o the PAG (A&E), Nagaland

Year-wise details of pendency of AC bills for the years up to 2022-23 are shown in **Table 4.4**.

**Table 4.4: Year-wise progress in submission of DCC bills against the outstanding AC bills**

(₹ in crore)

Year	Opening Balance		Addition		Clearance		Closing Balance	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Up to 2020-21	379	548.69	23	43.48	29	29.87	373	562.30
2021-22	373	562.30	28	22.83	66	52.53	335	532.83
2022-23	335	532.83	89	159.70	101	137.77	323	554.76

Source: Finance Accounts, 2022-23 and information furnished by O/o the PAG (A&E), Nagaland

The above details clearly indicate that the Drawing and Disbursing Officers and Treasury Officers concerned failed to ensure compliance with the extant Central Treasury Rules and that AC Bills were drawn without adjustment of previously drawn AC Bills. Thus, there was an environment of financial indiscipline, which calls for action against the officers responsible for the lapse in this regard.

Expenditure against AC bills at the end of the year indicates poor public expenditure management and may point to the drawal being done primarily to exhaust the budget provision. Non submission of DCC bills leading to non-adjustment of advances for long periods is fraught with the risk of misappropriation and therefore, requires close monitoring by the respective DDOs for ensuring submission of DCC bills. Further, to the extent of non-receipt of DCC bills, the expenditure shown in the Finance Accounts cannot be asserted as correct or final. Therefore, the State Government needs to strengthen the relevant internal controls and monitor the submission of DCC bills in a timely manner.

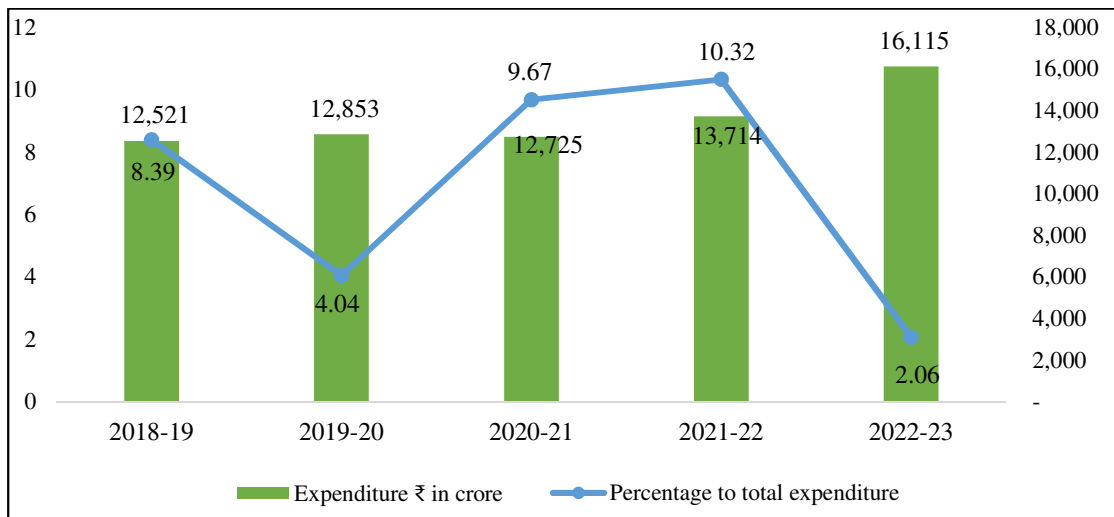
During the Exit Conference (06 December 2023), the Secretary, Finance Department stated that the main reason for delay in non-submission of DCC bills was due to delay in submission of Statement of Expenditure (SOEs) from districts/ divisions for consolidation in the Directorate office. Strict and stringent direction may be given to the Departments to ensure submission of DCC bills in a timely manner.

#### **4.4 Indiscriminate use of Minor Head 800**

Minor Head 800- Other Expenditure/ Other Receipts is intended to be operated only when the appropriate minor head has not been provided in the accounts. Routine operation of Minor Head-800 is to be discouraged, since it renders the accounts opaque.

During the year, expenditure of ₹332.25 crore under 25 Revenue and Capital Major Heads, constituting 2.06 *per cent* of Total Expenditure of ₹16,114.93 crore was booked under Minor head 800-Other Expenditure. Similarly, receipts of ₹491.43 crore under 43 Revenue Major Heads, constituting about 3.48 *per cent* of Revenue Receipts of ₹14,099.26 crore was booked under Minor Heads 800-Other Receipts under concerned Major Heads.

The quantum of expenditure booked under Minor Head 800 showed a mixed trend during the five-year period 2018-23. The extent of operation of Minor Head 800 for Other Expenditure, as a percentage of Total Expenditure during 2018-23 is given in **Chart 4.3**.

**Chart 4.3: Operation of Minor Head 800 - Other Expenditure during 2018-23**

Source: Finance Accounts of respective years

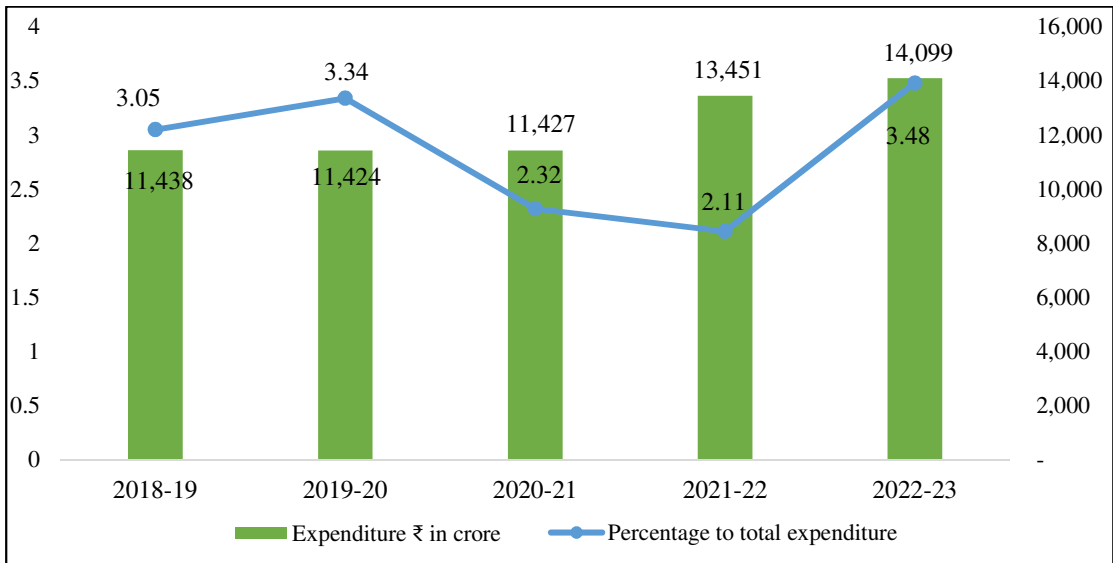
**Chart 4.3** shows that the share of operation of Minor Head 800-Other Expenditure in Total Expenditure ranged from 2.06 to 10.32 per cent during the five-year period. Instances of substantial proportion (50 per cent or more) of the expenditure within a given Major Head, classified under the Minor Head 800 'Other Expenditure', are given in **Table 4.5**.

**Table 4.5: Significant expenditure booked under Minor Head 800–Other Expenditure during financial year 2022-23**

(₹ in lakh)				
Major Head	Description	Expenditure under Minor Head 800	Total Expenditure	Per cent
2013	Council of Minister	937.27	1,370.32	68.40
2075	Miscellaneous General Service	456.07	802.31	56.85
3454	Census surveys & Statistics	362.78	5,459.09	6.65
4220	Capital Outlay on Information and Publicity	184.28	184.28	100.00
4435	Capital Outlay on Other Agricultural Programmes	1,000.00	1,000.00	100.00
5053	Capital Outlay on Civil Aviation	200.00	200.00	100.00
<b>Total</b>		<b>3,140.4</b>	<b>9,016.00</b>	<b>34.83</b>

Source: Finance Accounts, 2022-23

The extent of operation of Minor Head 800 for Other Receipts, as a percentage of Total Expenditure during 2018-23 is given in **Chart 4.4**.

**Chart 4.4: Operation of Minor Head 800 - Other Receipts during 2018-23**

Source: Finance Accounts of the respective years

Similarly, the quantum of receipts booked under Minor Head 800 was higher compared to expenditure, and ranged between 3.05 per cent in 2018-19 and 3.48 per cent in 2022-23. Instances of substantial proportion (50 per cent or more) of the expenditure within a given Major Head, classified under the Minor Head 800-‘Other Receipts’, are given in **Table 4.6**.

**Table 4.6: Significant receipts booked under Minor Head 800 – Other Receipts during 2022-23**

(₹ in lakh)			
Major Head	Receipt under Minor Head- 800	Total Receipt under Major Head concerned	Per cent
0041- Taxes on Vehicle	11,496.31	18,764.23	61.27
0042- Taxes on Goods and Passengers	1,161.73	2,158.03	53.83
0043- Taxes and Duties on Electricity	761.98	796.91	95.62
0047- Other Fiscal Services	1.52	1.52	100
0059- Public Works	19.44	19.44	100
0070- Other Administrative Services	410.64	448.37	91.59
0075- Miscellaneous General Services	1,717.17	2,870.26	59.83
0210- Medical and Public Health	206.41	218.29	95.50
0217- Urban Development	4.01	4.01	100
0220- Information and Publicity	7.50	7.50	100
0230- Labour and Employment	16.73	19.55	85.58
0235- Social Security and Welfare	11.90	11.90	100
0250- Other Social Services	28.41	28.41	100
0401- Crop Husbandry	8.13	9.16	88.76
0403- Animal Husbandry	54.46	58.61	92.92
0404- Dairy Development	0.39	0.39	100
0405- Fisheries	0.51	0.51	100
0406- Forestry and Wild Life	2,041.92	2,660.34	76.75
0425- Cooperation	24.65	24.66	99.96
0435- Other Agricultural Programmes	1.54	2.54	60.63
0515- Other Rural Development Programmes	46.01	46.01	100
0575- Other Special Areas Programmes	1.61	1.61	100
0702- Other Special Areas Programmes	6.40	6.40	100

Major Head	Receipt under Minor Head- 800	Total Receipt under Major Head concerned	Per cent
0801- Power	28,634.74	28,634.74	100
1054- Roads and Bridges	51.65	63.26	81.65
1055- Road Transport	789.69	791.57	99.76
1425- Other Scientific Research	8.15	8.15	100
1475- Other General Economic Services	25.75	29.88	86.18
<b>Total</b>	<b>47,539.35</b>	<b>57,686.25</b>	<b>82.41</b>

Source: Finance Accounts, 2022-23

It was observed that during 2022-23, there were 42 Major Heads under Receipts where Minor Head 800 was operated. Out of these 42 MHs, there were 30 MHs where other specific Minor Heads already existed.

Similarly, it was noticed that there were 25 Major Heads under Expenditure where Minor Head 800 was operated. Out of these 25 MHs, there were 16 MHs where other specific Minor Heads already existed.

Audit examined selected cases of booking under Minor Head 800, and noted that in some instances, a valid Minor Head, other than 800, was available in the List of Major and Minor Head (LMMH), for booking these transactions. Expenditure of ₹2.81 crore (8.95 per cent of total expenditure under 800) was booked in State Finance Accounts (2022-23), as given in **Table 4.7**.

**Table 4.7: Incorrect depiction of Minor Heads in the State Accounts (2022-23)**

Specified Heads in the LMMH	Actual Heads in the State Accounts	
	Finance Accounts (Classification up to Minor Head)	Expenditure (₹ in crore)
2054-00-098 Local Fund Audit	Grant No 12 2054-00-800-01 Audit	0.80
2230-01-101 Industrial Relation	Grant No 41 2230-01-800-01 Labour Court	0.51
5054-05-337 Roads Works	Grant No 79 5054-05-800-01 Construction	1.00
4801-01-799 Suspense each Hydel Electric Scheme	Grant No. 82 4801-01-800-01 Mini Hydel Projects	0.50
<b>Total</b>		<b>2.81</b>

Thus, it is imperative that the State Government reviews all classifications of schemes being made under 800-Other Expenditure in the light of their depiction in the LMMH and after consultation with the Accountant General (A&E), classify them appropriately as per existing LMMH, or seek addition of new Minor Head, to bring transparency in Accounts.

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

During the Exit Conference (06 December 2023), the Secretary, Finance Department stated that it has constituted a Committee and approval of the recommendation of the Committee is awaited. Necessary further steps may be taken up to minimise use of MH 800.



#### 4.5 Non-preparation of Accounts and non-submission of audited statement in the State Legislature

As per Section 27 of the Building and Other Construction Workers' (Regulation of Employment and Conditions of Service) Act, 1996, the Board has to maintain proper accounts and other relevant records and prepare an Annual Statement of Accounts. Further, the Board has to furnish the audited copy of accounts together with the auditor's report to the State Government, who shall cause it to be laid before the State Legislature. The Board, however, has not prepared annual accounts for 2022-23.

In the absence of annual accounts, a true and fair view of the financial position and performance and veracity of the expenditure incurred under various heads during 2022-23 could not be ascertained.

#### 4.6 Outstanding balance under major Suspense and DDR heads

The 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 position of gross figures under major suspense and remittance heads for the last three years is given in **Table 4.8**.

**Table 4.8: Balances under Suspense and Remittance Heads**

Minor Head	2020-21		2021-22		2022-23	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
Major Head 8658 - Suspense						
101 - PAO suspense	179.91	163.54	191.51	189.98	207.77	201.86
<b>Net</b>	<b>Dr. 16.37</b>		<b>Dr. 1.53</b>		<b>Dr. 5.91</b>	
102 - Suspense Account-Civil	18.94	1.69	18.95	1.70	18.95	1.70
<b>Net</b>	<b>Dr. 17.25</b>		<b>Dr. 17.25</b>		<b>Dr. 17.25</b>	
107 - Cash Settlement Suspense Account	34.87	0.00	34.87	0.00	34.87	0.00
<b>Net</b>	<b>Dr. 34.87</b>		<b>Dr. 34.87</b>		<b>Dr. 34.87</b>	
109 - Reserve Bank Suspense -Headquarters	12.14	14.16	12.14	14.16	12.14	14.16
<b>Net</b>	<b>Cr. 2.02</b>		<b>Cr. 2.02</b>		<b>Cr. 2.03</b>	
110 - Reserve Bank Suspense - CAO	50.66	10.04	50.66	10.04	50.66	10.04
<b>Net</b>	<b>Dr. 40.62</b>		<b>Dr. 40.62</b>		<b>Dr. 40.62</b>	
129 - Material Purchase Settlement Suspense Account	235.85	249.70	235.85	249.70	235.85	249.70
<b>Net</b>	<b>Cr. 13.85</b>		<b>Cr. 13.85</b>		<b>Cr. 13.85</b>	
Major Head 8782-Cash Remittances						
102 - P.W. Remittances	18,169.50	18,086.08	20,325.84	20,040.94	22,541.04	22,477.09
<b>Net</b>	<b>Dr. 83.42</b>		<b>Dr. 284.90</b>		<b>Dr. 63.95</b>	
103 - Forest Remittances	2,227.12	1,851.50	2,411.15	2,066.45	2,791.87	2,272.37
<b>Net</b>	<b>Dr. 375.62</b>		<b>Dr. 344.70</b>		<b>Dr. 519.50</b>	
105 - R.B.I Remittances	6.26	0.00	6.26	0.00	6.26	0.00
<b>Net</b>	<b>Dr. 6.26</b>		<b>Dr. 6.26</b>		<b>Dr. 6.26</b>	
112 - Nagaland and Manipur Remittances	0.70	0.00	0.70	0.00	0.70	0.00
<b>Net</b>	<b>Cr. 0.70</b>		<b>Cr. 0.70</b>		<b>Cr. 0.70</b>	

Source: Finance Accounts of respective years

As can be seen from **Table 4.8**, there was significant increase in closing balance under 101 - PAO suspense. These balances impacted the cash balance of the State. On clearance of these balances, cash balance of the State would increase.

#### 4.7 Reconciliation of Departmental figures

To enable Controlling Officers (COs) of Departments to exercise effective control over spending to keep it within the budget grants and to ensure accuracy of their accounts, the State Financial Rules stipulate those receipts and expenditure during the financial year recorded in their books be reconciled by them every month with that recorded in the books of the Accountant General (A&E).

Reconciliation and verification of figures is an important tool of financial management. Failure to exercise/ adhere to the codal provisions and executive instructions in this regard not only results in misclassification and incorrect booking of receipts and expenditure in the accounts, but also defeats the very objective of budgetary process.

The details of receipts and expenditure for the State during the last three years are shown in **Table 4.9**.

**Table 4.9: Status of Reconciliation of Receipts and Expenditure figures**

(₹ in crore)

Year	No. of Cos	Receipts	Expenditure	Remarks
2020-21	82	27,641.80	27,708.97	Fully Reconciled
2021-22		30,481.25	31,038.48	
2022-23		35,340.48	34,471.05	95.50 per cent of total Receipts and 95 per cent of total Expenditure

Source: Finance Accounts for respective years

All the 82 COs had reconciled their figures (both Receipts and Expenditure) in full with the books of Principal Accountant General (A&E) during the years 2020-21 and 2021-22. However, during 2022-23, the total receipts and expenditure figures were not fully reconciled.

#### 4.8 Reconciliation of Cash Balances

There should be no difference between the Cash Balance of the State as per the books of Accounts of the Principal Accountant General (A&E), and the Cash Balance as reported by the Reserve Bank of India.

The difference in cash balances for the previous five years from 2018-19 to 2022-23 is shown in **Table 4.10**.

**Table 4.10: Difference in cash balances from 2018-19 to 2022-23**

(₹ in crore)

Year	Cash Balance		Adjustment by RBI	Difference in cash balance
	RBI figures	AG figures		
2018-19	93.36 (Dr)	163.49 (Cr)	18.99 (Dr)	51.14 (Cr)
2019-20	115.13 (Dr)	223.90 (Cr)	1.49 (Dr)	107.28 (Cr)
2020-21	47.80 (Dr)	157.59 (Cr)	19.09 (Cr)	90.70 (Cr)
2021-22	544.41 (Dr)	(-)399.64 (Cr)	44.31 (Cr)	100.46 (Dr)
2022-23	18.76 (Dr)	320.80 (Cr)	112.02 (Cr)	190.00 (Cr)

Source: Information furnished by the Office of PAG (A&E), Nagaland

It can be seen from **Table 4.10** that there was a net difference of ₹302.02 crore (Credit) between the Cash Balance of ₹320.80 crore as determined by the Principal Accountant General (A&E) and the figures of ₹18.76 crore reported by the Reserve Bank of India as on 31 March 2023. This was mainly due to incorrect reporting by Agency Banks to the RBI and misclassification by Banks/ Treasuries. As on 31 March 2023, debit items amounting to ₹10.20 crore and Credit items of ₹122.22 crore have been reconciled, resulting in net reconciliation of ₹112.02 crore. The difference is under reconciliation.

### Issues related to disclosure

#### 4.9 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. Further, 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 details of three standards and the extent of compliance with these by Government of Nagaland in its financial statements for the year 2022-23 are given in **Table 4.11**.

**Table 4.11: Compliance to Accounting Standards**

Accounting Standards	Essence of IGAS	Compliance by State Government	Deficiency
<b>IGAS-1:</b> <i>Guarantees Given by the Government – Disclosure requirements</i>	This standard requires the government to disclose the maximum amount of guarantees given during the year in its financial statements along with additions, deletions, invoked, discharged and outstanding at the end of the year.	Partially complied. The Government has disclosed the maximum amount of guarantees given during the year along with additions, deletions, invoked, discharged and outstanding at the end of the year.	Information concerning class or sector of Guarantees on other material details was not furnished.
<b>IGAS-2:</b> <i>Accounting and Classification of Grants-in-Aid</i>	Grants-in-Aid are to be classified as Revenue Expenditure in the accounts of the grantor and as revenue receipts in the accounts of the grantee, irrespective of the end use.	Complied	-

Accounting Standards	Essence of IGAS	Compliance by State Government	Deficiency
<b>IGAS-3:</b> <i>Loans and Advances made by Government</i>	This Standard relates to recognition, measurement, valuation and reporting in respect of loans and advances made by the Government in its Financial Statements to ensure complete, accurate and uniform accounting practices.	Partially complied. The State Government complied with the format prescribed by the Standard.	The details of recoveries in arrears, interest received, written off loans <i>etc.</i> , in respect of loans and advances have not been provided to Pr. Accountant General (A&E).

#### 4.10 Submission of Accounts of Autonomous Bodies

Fourteen Autonomous Bodies<sup>12</sup> (AB) have been set up by the State Government, of which, only five ABs are required to submit their accounts and prepare Separate Audit Report (SAR) annually to be placed in the State Legislature as per their respective Acts. The audit of these ABs is taken up under Section 19 (3) of the Comptroller and Auditor General of India' DPC Act, 1971. However, the annual accounts of these ABs are not furnished to Principal Accountant General (Audit) on time. The status of submission of accounts is indicated in **Table 4.12**.

**Table 4.12: Delay in Submission of Accounts**

Sl. No.	Name of Autonomous Body	Accounts pending since	No. of accounts pending up to FY 2022-23
1.	The Nagaland Khadi and Village Industries Board (NKVIB)	2019-20	04
2.	Nagaland State Electricity Regulatory Commission (NSERC)	2017-18	05
3.	Nagaland State Legal Services Authority, Kohima (NSLSA)	2020-21	03
4.	Nagaland State Pollution Control Board (NPCB)	1991-92	32
5.	Nagaland Building & Other Construction Workers' Welfare Board (NBOCWVB)	2011-12	12

Source: Information furnished by the O/o the PAG (Audit), Commercial Wing, Nagaland

Although the Annual Accounts of these Bodies were due for submission to the Accountant General (Audit) every year, none of the State ABs submitted their Accounts during 2022-23. The Accounts of two ABs *i.e.*, NSPCB and NBOCWVB have not been submitted since their inception (1991 and 2011 respectively). The delay in submission/non-submission of Annual Accounts dilutes accountability as such inaction was also indicative of the failures of the management at the level of such Bodies/ Authorities and proper monitoring at Government's level, which is a matter of concern.

<sup>12</sup> (1) The Nagaland Khadi and Village Industries Board (2) Nagaland State Electricity Regulatory Commission (3) Nagaland State Legal Services Authority, Kohima (4) Nagaland Pollution Control Board (5) Nagaland Building & Other Construction Workers' Board (6) Development Authority of Nagaland (7) Nagaland Board of School Education (8) Nagaland State Agriculture Marketing Board (9) Nagaland Bamboo Development Agency (10) Naga Hospital Authority (11) Nagaland State Social Welfare Advisory Board (12) Nagaland Livestock Development Board (13) State Institute of Rural Development (14) Nagaland Bee-keeping & Honey Mission. The first five ABs are required to prepare SARs.

#### 4.11 Grants / loans given to bodies and authorities

In order to identify institutions/ organisations which attract audit under Sections 14 and 15 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act 1971 (CAG's DPC Act), the Government/ Head of the Departments (HoDs) are required to furnish to Audit every year:

- Detailed information about the financial assistance given to various institutions;
- The purpose for which the assistance is granted; and
- Total expenditure of the institutions.

Further, Regulation on Audit and Accounts, 2007 (Regulation 84) provides that Governments and HODs, who sanction grants and/or loans to bodies or authorities, shall furnish to Audit by the end of July every year, a statement of such bodies and authorities to which grants and/ or loans aggregating ₹10 lakh or more were paid during the preceding year indicating (a) the amount of assistance, (b) the purpose for which the assistance was sanctioned and (c) the total expenditure of the body or authority.

As per Finance Accounts, grants/ assistances were given to Urban bodies, Public Sector Undertakings, Autonomous Bodies, Non-Government Organisations every year. The details of such grants/ assistance (₹10 lakh or more in each case) given during 2021-22 and 2022-23 are shown in **Table 4.13**.

**Table 4.13: List of Recipient of grants/ assistance from the State Government during 2021-23**

Recipient	2021-22		2022-23	
	No of Recipients	Amount	No of Recipients	Amount
Urban Local Bodies	Not specified	1.62	Not specified	9.45
Rural Local Bodies	Not specified	109.57	Not specified	46.00
Public Sector Undertakings	07	28.95	07	26.01
Autonomous Bodies	06	41.47	07	59.11
Non-Government Organisations	04	3.65	04	3.65
Others*	40	31.20	46	52.37
<b>Total</b>		<b>216.46</b>		<b>196.59</b>

Source: Finance Accounts of respective years \*The Recipients who were not categorised under the above-mentioned nomenclatures, kept under others

As can be seen from **Table 4.13**, an amount of ₹ 216.46 crore and ₹ 196.59 crore were given as grants/ assistance during the years 2021-22 and 2022-23 respectively by the State Government to various bodies and authorities. However, the name of the bodies and authorities to whom grants and/ or loans aggregating ₹10 lakh or more were paid during the years, indicating (a) the amount of assistance, (b) the purpose for which the assistance was sanctioned and (c) the total expenditure incurred by the body or authority, who receive the grants/ assistances during the years 2021-23 was not disclosed by the State Government.

#### 4.12 Timeliness and Quality of Accounts

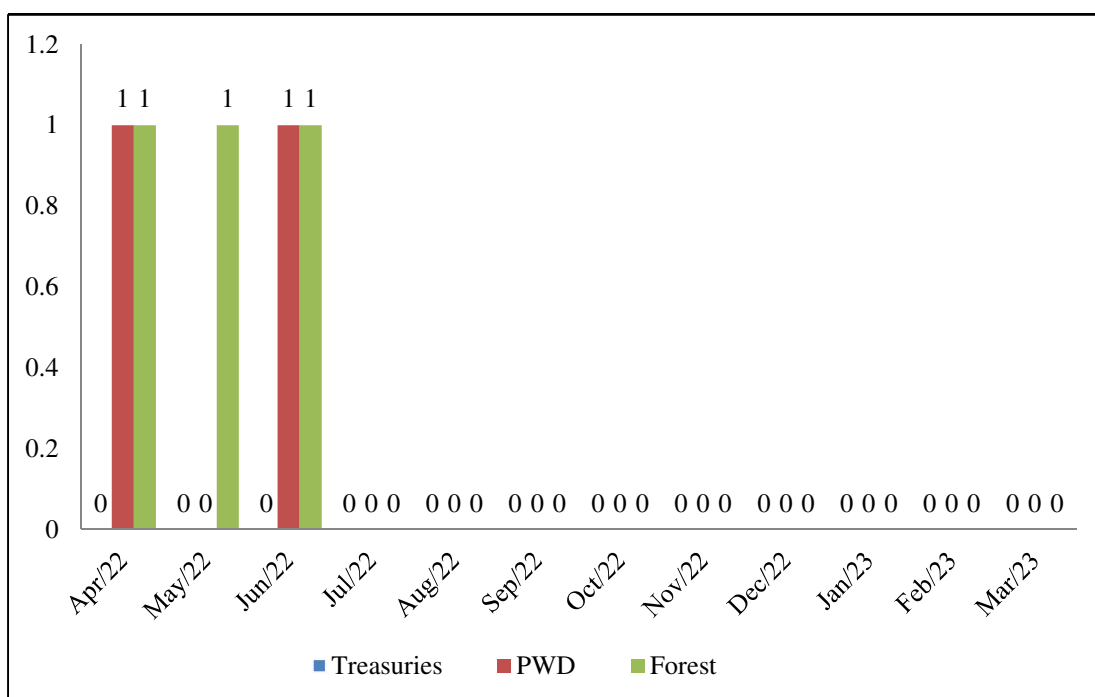
The accounts of the State Government are compiled by the Principal Accountant General (A&E) from the initial accounts rendered by district treasuries,

sub-treasuries, Resident Commissioners, cyber treasury, public works divisions and forest divisions, apart from the RBI advices. There are often delays in rendition of monthly accounts. Due to the failure of the account rendering units to furnish accounts on time, some accounts are excluded from the monthly Civil Accounts by the Principal Accountant General (A&E).

In Nagaland, the Principal Accountant General (A&E) is required to compile the accounts of the State Government, from the initial accounts rendered by the 11 District Treasuries, nine Sub-Treasuries, 88 Public Works Divisions (74 Building and Roads, 14 Water Supply and Sanitation/ Public Health Engineering), 26 Forest Divisions and 25 Pay and Accounts Offices, apart from RBI advices.

During the financial year 2022-23, there were delays in rendition of monthly accounts that resulted in accounts excluded from the monthly Civil Accounts. Details of accounts excluded from the monthly Civil Accounts of works divisions are shown in **Chart 4.5**.

**Chart 4.5: Number of accounts excluded from monthly Civil Accounts during 2022-23**



Source: Information furnished by the Office of the PAG (A&E), Nagaland

As can be seen from **Chart 4.5**, during the year 2022-23, Public Works and Forests Divisions were the major units that delayed the rendition of monthly accounts. Consequently, receipts and expenditure relating to these divisions/ units could not be incorporated in Monthly Civil Accounts. Due to the failure of the accounts rendering units to furnish accounts on time, these accounts were excluded from the Monthly Civil Accounts by the Principal Accountant General (A&E) throughout the year 2022-23, except for April 2022, May 2022 and June 2022. Therefore, the monthly accounts indicating the receipts and disbursements of the State during the month, rendered by the O/o the PAG (A&E) to the State Government were incomplete for the month of April 2022, May 2022 and June 2022. However, no accounts have been excluded at the end of the year.

Exclusion of accounts not only distorts the budgetary position of the Government, but also impacts its monitoring of fund flow to the last mile of implementation, its planned pacing of expenditure on developmental programmes, providing intended benefits to the targeted beneficiaries, functioning of Departments, *etc.* during the year. In short, the State Government needs to monitor closely and ensure the rendition of accounts by all the account rendering authorities to the Principal Accountant General (A&E) on a timely basis, to manage its own budget more effectively.

### 4.13 Misappropriations, losses, thefts, *etc.*

State Financial Rules lay down detailed instructions regarding responsibility for losses sustained through fraud or negligence of individuals, loss or destruction of Government property and report thereof to the Police/ Principal Accountant General.

There were 29 cases of misappropriation, losses, *etc.*, involving Government money of ₹351.31 crore up to the period ending 31 March 2023 on which final action was pending. Out of these 29 cases, four cases involving ₹25.76 crore were reportedly pending in the court of law.

Department-wise break up of pending cases and age wise analysis is given in *Appendix 4.3*. The Department-wise break up of pending cases and the reasons for delay in final disposal are summarised in **Table 4.14**.

**Table 4.14: Pending cases of misappropriation, losses, theft, *etc.***

(₹ in crore)

Name of the Department	Cases of Misappropriation/ Defalcation/ Losses/ Theft of Government materials/ Pending in the court of law (under investigation/trial)		Reasons for delay in final disposal	
			Awaiting departmental and criminal investigation	
	No. of cases	Amount	No. of cases	Amount
School Education	2	82.80	1	70.00
Industries & Commerce	1	1.54	1	1..54
Rural Development	2	0.88	2	0.88
Public Works Department (R&B and Mechanical)	4	58.23	4	58.23
Health and Family Welfare	2	13.14	1	3.01
Soil & Water Conservation	1	1.81	1	1.81
Planning and Co-ordination	1	20.23	1	20.23
Land Records and Survey	1	1.24	1	1.24
Municipal Affairs	1	1.11	0	0.00
Taxes	3	31.86	3	31.86
Water Resources	1	28.60	1	28.60
Forest	1	0.54	1	0.54
Various Departments	7	35.29	6	33.57
Disaster Management	2	74.04	2	74.04
<b>Total</b>	<b>29</b>	<b>351.31</b>	<b>25</b>	<b>325.55</b>

Source: Nagaland Lokayukta, Directorate of Investigation, Nagaland)

Further, as per the information furnished by Nagaland Lokayukta, Directorate of Investigation, Nagaland, there are nine cases of loss to Government due to theft, misappropriations, loss of Government materials, *etc.* involving ₹118.09 crore, out of which an amount of ₹6.58 crore has been recovered.

#### 4.14 Follow up action on State Finances Audit Report

In Nagaland, the Departments concerned are required to furnish a *suo moto* Explanatory Note (EN) on the paragraphs featuring in the Audit Reports within one month of placing the Reports in the Legislature. The Government should without waiting for any notice or call from the Public Accounts Committee submit a *suo moto* Explanatory Note (EN) on the paragraphs featuring in the Audit Reports indicating the action taken or proposed to be taken within a period of three months from the date of laying of the Audit Reports.

Government Departments shall invariably submit action taken notes (ATNs) on the recommendation of the PAC within a period of six months from the date of receipt of the PAC's report from the Secretary/ Commissioner Secretary, Assembly. This timeframe was further reduced by the PAC to two months.

The Audit Reports on State Finances for the years from 2009-10 to 2020-21 were placed before the State Legislature and that for the year 2021-22 was placed on 06 July 2023 are shown in **Table 4.15**.

**Table 4.15: Follow up status of State Finances Audit Reports for 2009-10 to 2021-22**

Year of State Finances Audit Report	Date of placement in State Legislature	Remarks
2009-10	28.03.2011	The ATNs, on the recommendations of the Public Accounts Committee on the Report of State Finances, for the year 2013-14 have been received and ATNs for the years from 2014-15 to 2021-22 were yet to be received (December 2023).
2010-11	22.03.2012	
2011-12	18.03.2013	
2012-13	25.07.2014	
2013-14	17.03.2015	
2014-15	19.03.2016	
2015-16	28.03.2017	
2016-17	20.09.2018	
2017-18	15.02.2020	
2018-19	19.02.2021	
2019-20	22.03.2022	
2020-21	22.09.2022	
2021-22	06-07-2023	

Source: Information furnished by the Nagaland State Legislative Assembly Secretariat

#### 4.15 Implementation of Recommendations of State Finance Commission on fiscal devolution

The first State Finance Commission (SFC) was constituted (July 2008) by the State Government during the award period of the XIII FC commencing from 01 April 2010 to 31 March 2015. The second SFC was constituted (June 2013) by the State Government, however its report was not approved by the State Government and as such, its recommendations could not be implemented during the award period of the XIV FC (2015-2020). The third SFC was constituted (March 2023) and its report, covering the period of three years starting from 01 April 2023 is to be submitted by 29 February 2024. As the third SFC report and its recommendations on fiscal devolution is still awaited, no vertical devolution of share of taxes took place during 2022-23.



## 4.16 Conclusion

Quality of accounts and financial reporting covers items, transactions and events which relate to gaps in compliance, regularity weaknesses and issues relating to delay in receipt of those accounting records or adjustment records which evidence the actual expenditure. It also highlights issues pertaining to the accounts and financial reporting such as parking of funds outside the Government accounts, non- or short – discharging of liabilities and misclassification of transactions and data gaps.

All Departments are required to reconcile their expenditure and receipts with the expenditure booked in the accounts in the Accountant General Office. The State Government reconciled 95 *per cent* of the total expenditure and 95.5 *per cent* of the receipts during the year.

As against the requirements of the Indian Government Accounting Standards (IGAS), the State Government made partial compliance with IGAS-1: Guarantees given by the Government – Disclosure requirements and IGAS-3: Loans and Advances made by the Government.

During the year 2022-23, 105 grants involving ₹86.65 crore were provided to 19 Departments for which Utilisation Certificates (UCs) are due for submission during the year 2023-24. As on March 2023, there are 145 UCs worth ₹252.11 crore, which are due for submission for periods pertaining up to 2022-23. Pending UCs violate prescribed financial rules and directives, and reflects poor monitoring mechanism of the State Government. Moreover, high pendency of UCs is fraught with risk of misappropriation of funds. The State would also lose out on central funds for non-submission of UCs.

There were 323 Abstract Contingent (AC) Bills involving ₹554.76 crore pending for adjustment by submission of Detailed Countersigned Contingent (DCC) Bills, as of March 2023. Out of these, 89 AC bills amounting to ₹159.70 crore pertained to the year 2022-23. The non-adjustment of AC Bills is fraught with the risk of misappropriation and therefore, requires close monitoring by the respective DDOs for ensuring submission of Detailed Countersigned Contingent (DCC) bills. Further, there is no assurance that the expenditure of the State Government reflected in the Finance Accounts is correct or final due to non-receipt of DCC bills to that extent.

*Compliance with prevailing rules and codal provisions are meant to ensure control and accountability in accounting and financial reporting. Non-compliance and deviations impact the quality of accounting and financial reporting adversely. Non-timely submission of UCs against conditional grants; non-submission of DC bills against AC bills; non-compliance with IGAS-1 and IGAS-3 and non-supply of details of expenditure from SNAs (refer Paragraph 2.3.2.4 (ii)) have impacted the quality of accounts adversely.*

#### **4.17 Recommendations**

- State Government may ensure timely submission of all utilisation certificates due by the recipients of grants and of DCC Bills within the prescribed timeline as required under the Rules.
- The Finance Department should, in consultation with the Principal Accountant General (A&E), conduct a comprehensive review of all items presently appearing under minor head 800 and ensure that all such receipts and expenditure are in future booked under the appropriate detailed/ object heads of account.
- Finance Department should consider evolving a system to expedite the process of compilation and submission of annual accounts by Autonomous Bodies and departmentally run undertakings in order to assess their financial position. Persistently defaulting bodies may be given further financial assistance by the State Government only on submission of final accounts.