
CHAPTER IV

*QUALITY OF ACCOUNTS AND
FINANCIAL REPORTING
PRACTICES*

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 outside dedicated funds

Transport Department, Government of Nagaland notified (17 August 2022) the establishment of the Nagaland Road Safety Fund in pursuance to Section 11 of the Nagaland Road Safety Authority Act, 2013 (First Amendment Act, 2018). As per Section 10 of the Act, there shall be a levy and collection of a one-time cess on every motor vehicle used or kept for use in the State at the rate of 0.50 *per cent* of the basic cost of the vehicle. The proceeds of the cess levied and collected under this Act by the Government together with fines, interest and fees recovered thereunder shall first be credited to the Consolidated Fund of the State through the Head of Account “0041-Taxes on Vehicles” and after deducting the expenses of collection and recovery, as determined by the Government, the remaining amount shall under appropriation duly made by law in this behalf, be entered into and transferred to the Nagaland Road Safety Fund. Further, the Government shall contribute to the Fund every year an amount equal to 50 *per cent* of the compounding fee collection in the previous year.

During 2023-24, an amount of ₹23.80 crore was collected as Road Safety cess. However, the amount of ₹23.95 crore (including compounding fee of 50 *per cent* of ₹0.30 crore compounding fee collected during 2022-23) was not transferred to the Nagaland Road Safety Fund during the year. This resulted in overstatement of the Revenue Surplus and understatement of fiscal deficit during the year.

During the Exit Conference (16 December 2024), Finance Department stated that transfer of money to the Fund has already started. However, the actual amount transferred was not intimated (February 2025).

4.2 Funds transferred directly to State implementing agencies

GoI decided that from 2015-16 onwards, all assistance related to the Centrally Sponsored Schemes (CSS)/Additional Central Assistance (ACA) will be released 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 2023-24, GoI funds amounting to ₹1,114.25 crore were directly transferred to the Implementing Agencies and the same was not routed through the State Budget.

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 2023-24

(₹ in crore)		
Name of the Schemes/ Programme	Name of the Implementing Agencies	Fund released
Mahatma Gandhi National Rural Guarantee Programme	NREGA Commissionerate of Nagaland	426.74
Jal Jeevan Mission (JJM)/ National Rural Drinking Water Mission	State Water & Sanitation Mission, JJM	314.90
Pradhan Mantri Kisan Samman Nidhi (PM-Kisan)	Department of Agriculture, Nagaland	94.89
National AIDS and STD Control Programme (NACO)	Nagaland State AIDS Control Society	60.88
Support to National Institutes of Technology (NITs) & IIST	NIT, Nagaland	74.16
Establishment Expenditure (EF&CC)	Forest Department	18.95
Khelo India	Directorate of Youth Resource & Sports	10.70
Centenaries and Anniversaries, Celebrations & Schemes	Directorate of Art & Culture, Kohima, Nagaland	10.18
Total		1,011.40

Source: Public Financial Management System (PFMS) portal of Controller General of Accounts for State Accounts (2023-24)

It can be seen from **Table 4.1** that out of ₹1,114.25 crore transferred directly by GoI during 2023-24, ₹1,011.40 crore (90.77 per cent) was given to the implementing Departments for eight major Schemes/Programmes. The direct transfer during the year was decreased by ₹387.79 crore (25.82 per cent) than the previous year (₹1,502.05 crore). During 2023-24, the fund directly transferred by GoI was 6.90 per cent of the Revenue Receipts (₹16,155.13 crore) and 14.95 per cent of GIA (₹7,452.37 crore). The State Government accounts for the year 2023-24 depicts only ₹2,917.48 crore under central share of Centrally Sponsored Schemes. Besides contracting the budget and expenditure of State Government to the extent of ₹1,114.25 crore, the assets created and expenditure for the Public were out of the State Government Accounts.

As the funds were not routed through the Consolidated Fund of Nagaland, the Annual Accounts did not capture the flow, utilisation and parking of such funds. Thus, the State's receipts and expenditures as well as other fiscal variables and parameters derived from the State Accounts do not present the complete and fair picture.

Issues related to transparency

4.3 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.

As on 31 March 2024, there were 250 UCs worth ₹356.23 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 2023-24 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 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	250	338.76
2023-24	250	338.76	105	129.56	105	112.09	250#	356.23

Source: Finance Accounts, 2023-24

*UCs for GIA disbursed during 2023-24 become due only during 2024-25.

excluding the GIA given during 2023-24

Table 4.3: Year-wise break up of outstanding UCs

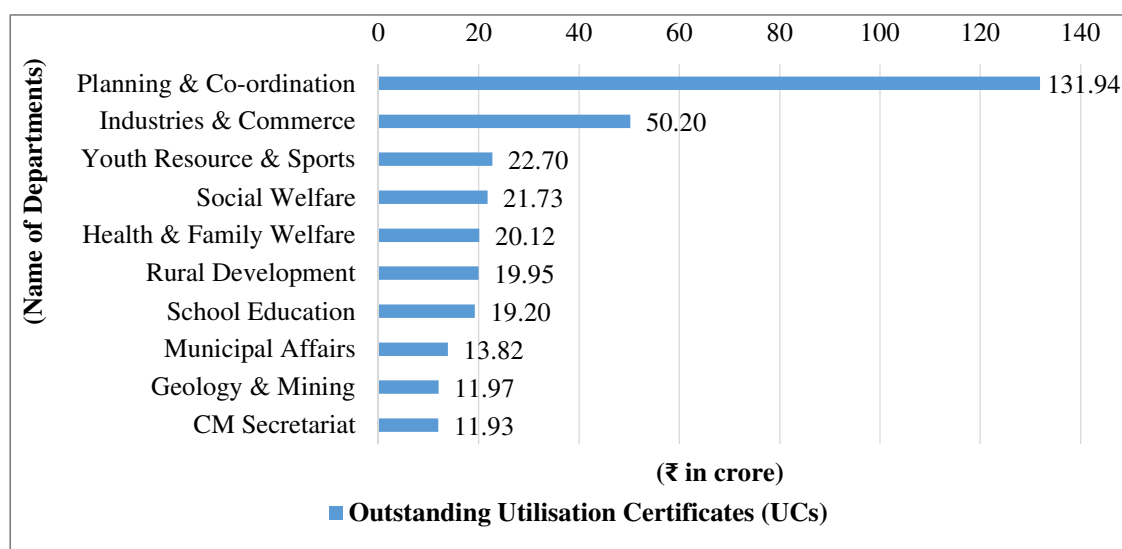
(₹ in crore)

Year	Number of UCs	Amount
Up to 2017-18	43	124.02
2018-19	6	10.67
2019-20	18	18.32
2020-21	17	23.06

Year	Number of UCs	Amount
2021-22	11	11.13
2022-23	63	54.91
2023-24	92	114.12
Total	250	356.23

Source: Information furnished by PAG (A&E)

Chart 4.1: Outstanding UCs in respect of 10 major Departments for grants paid up to 2023-24



Source: Information furnished by Office of 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 (37.04 per cent), Industries & Commerce Department (14.09 per cent), Youth Resources & Sports Department (6.37 per cent), Social Welfare Department (6.09 per cent), Health & Family Welfare Department (5.65 per cent) and Rural Development Department (5.60 per cent).

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 and/or there would be delay in release of next instalment by GoI. It is imperative that the State Government needs to strengthen the relevant internal controls and monitors this closely and holds the person concerned accountable for submission of UCs in a timely manner.

During the Exit Conference (16 December 2024), Finance Department assured to initiate steps to minimise the outstanding UCs.

4.4 Abstract Contingent Bills

When money is required in advance or when they are not able to calculate the exact amount required, Drawing and Disbursing Officers (DDOs) are permitted to draw money without supporting documents, through Abstract Contingent (AC) Bills, by

debiting service heads and expenditure is reflected as an expense under the service head.

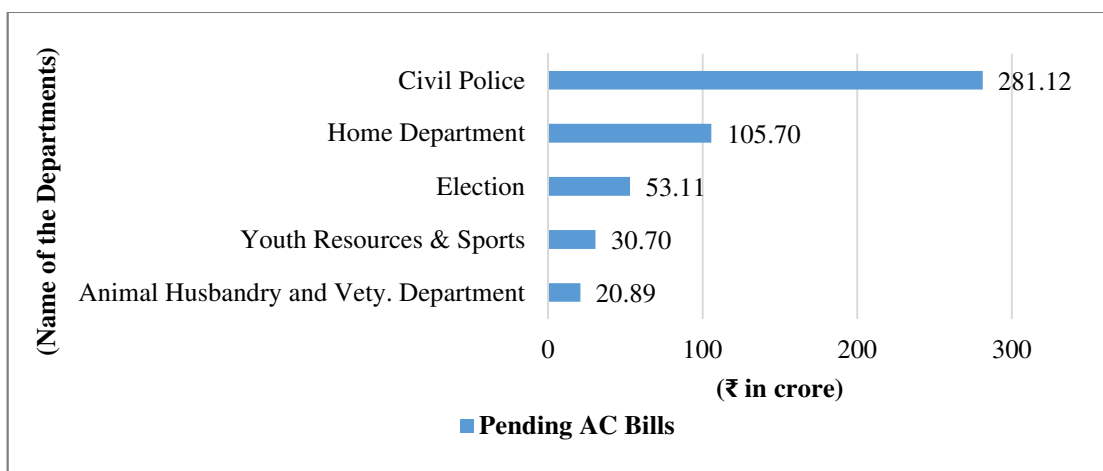
The drawal of contingent charges on items of expenditure by a State Government, for which final classification and supporting vouchers is not available at the time of drawal are made on 'Abstract Contingent' (AC) Bills. Initially made as advance, its subsequent adjustments are ensured through submission of Detailed Countersigned Contingent (DCC) bills within a stipulated period of drawal of AC bill. DCC bill consists of abstract of expenditure along with sub-vouchers for amount drawn through AC bill. Delayed submission or prolonged non submission of DC Bills may affect the completeness and correctness of accounts.

Rule 290 of the Central Treasury Rules envisages that no money should be drawn from Government Treasury unless it is required for immediate disbursement. In emergent circumstances, the DDOs are authorised to draw sums of money through AC Bills. In terms of Rule 312 of the Central Treasury Rules, the bills duly signed by the controlling officer shall be sent to the Accountant General direct within a month from the date of receipt of such bills in his office.

A total of 405 AC Bills amounting to ₹699.87 crore drawn upto 29 February 2024 (including 323 AC bills worth ₹554.76 crore outstanding as on 31 March 2023). Of which, DCC Bills for 72 AC Bills worth ₹86.58 crore were received. DCC Bills in respect of a total of 333 AC Bills worth ₹613.29 crore due for adjustment as on 31 March 2024 were not received.

Department-wise pending AC bills for the years up to 2023-24 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 PAG (A&E)

Year-wise details of pendency of AC bills for the years up to 2023-24 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 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
2023-24	323	554.76	82	145.20	72	86.57	333*	613.39

Source: Finance Accounts, 2023-24 and information furnished by PAG (A&E)

*This does not include SNA bills.

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 DC bills.

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.

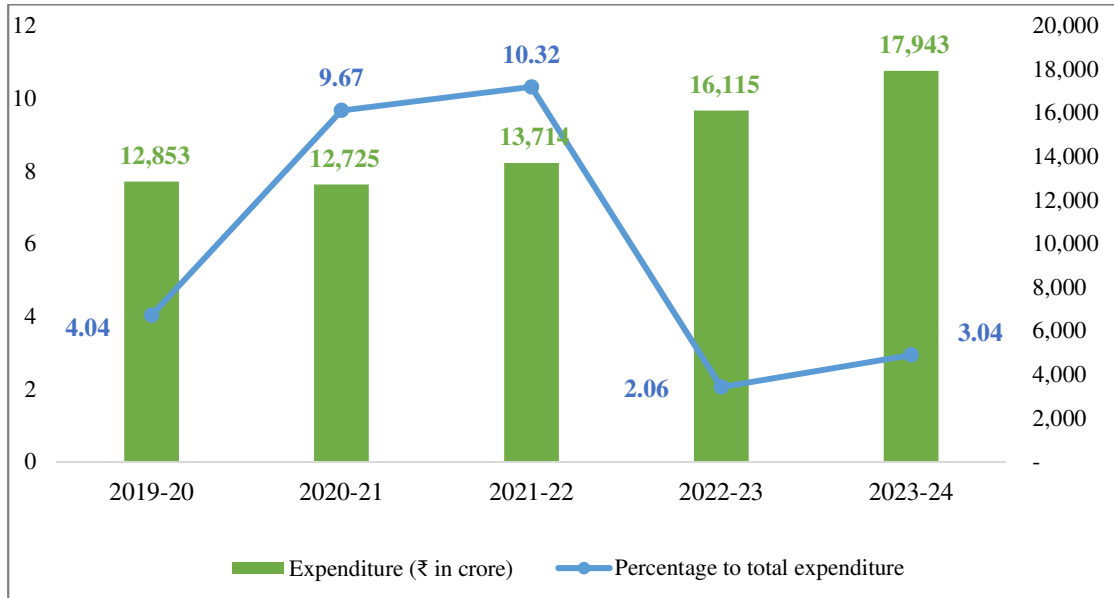
During the Exit Conference (16 December 2024), Finance Department assured to initiate steps to minimise the outstanding AC bills.

4.5 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 ₹545.35 crore under 21 Revenue and Capital Major Heads, constituting 3.04 *per cent* of Total Expenditure of ₹17,942.23 crore was booked under Minor head 800-Other Expenditure. Similarly, receipts of ₹531.58 crore under 45 Revenue Major Heads, constituting about 3.29 *per cent* of Revenue Receipts of ₹16,155.13 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-years period 2019-2024. The extent of operation of Minor Head 800 for Other Expenditure, as a percentage of Total Expenditure during 2019-2024 is given in **Chart 4.3**.

Chart 4.3: Operation of Minor Head 800 - Other Expenditure during 2019-24

Source: Finance Accounts of respective years

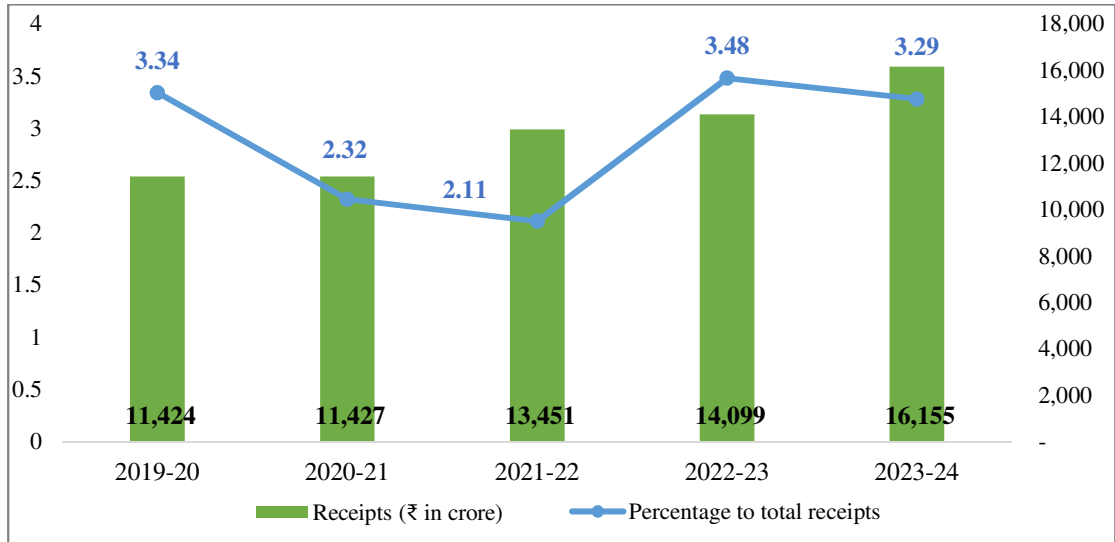
Chart 4.3 shows that the share of operation of Minor Head 800-Other Expenditure in Total Expenditure ranged from 2.06 to 10.32 *per cent* during the five-years period. Instances of substantial proportion (50 *per cent* or more) of the expenditure within a given Major Head, classified under the Minor 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 2023-24

(₹ in lakh)				
Major Head	Description	Expenditure under Minor Head 800	Total	Per cent
2013	Council of Ministers	1,246.62	1,638.27	76.09
2075	Miscellaneous General Service	407.07	1180.29	68.38
4210	Capital Outlay on Medical and Public Health	3,258.00	6,204.14	52.51
4220	Capital Outlay on Information and Publicity	310.00	310.00	100.00
4408	Capital Outlay on Food Storage and Warehousing	300.00	300.00	100.00
4435	Capital Outlay on other Agricultural Programmes	5,600.00	5,600.00	100.00
4801	Capital Outlay on Power Projects	6,881.71	9,188.01	74.90
4853	Capital Outlay on Non-ferrous Mining and Metallurgical Industries	100.00	100.00	100.00
5053	Capital Outlay on Civil Aviation	888.10	888.10	100.00
Total		18,991.50	25,408.81	74.74

Source: Finance Accounts, 2023-24

The extent of operation of Minor Head 800 for Other Receipts, as a percentage of Total Expenditure during 2019-24 is given in **Chart 4.4**.

Chart 4.4: Operation of Minor Head 800 - Other Receipts during 2019-24

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 2.11 *per cent* in 2021-22 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 2023-24
(₹ in lakh)

Major Head	Receipt under Minor Head-800	Total Receipt under Major Head concerned	Per cent
0041- Taxes on Vehicles	15,215.45	19,848.00	76.66
0042- Taxes on Goods and Passengers	1,967.17	2,261.51	86.98
0049- Interest Receipts	1,051.64	1,567.64	67.08
0056- Jails	0.08	0.08	100.00
0058- Stationery & Printing	2.14	3.14	68.15
0059- Public Works	26.56	41.04	64.72
0217- Urban Development	10.84	10.84	100.00
0220- Information & Publicity	5.72	5.72	100.00
0230- Labour & Employment	18.72	21.73	86.15
0235- Social Security & Welfare	7.71	7.71	100.00
0250- Other Social Services	2.10	2.10	100.00
0401- Crop Husbandry	7.96	13.56	58.70
0403- Animal Husbandry	43.71	45.35	96.38
0405- Fisheries	1.53	1.53	100.00
0406- Forest & Wildlife	2,203.74	3,081.27	71.52
0425- Co-Operation	13.07	13.07	100.00
0515- Other Rural Development Programmes	26.72	27.65	96.64
0702- Minor Irrigation	4.91	4.91	100.00
0801- Power	28,278.04	28,278.04	100.00
0851- Village & Small Industries	10.21	14.66	69.65
0853- Non-Ferrous Mining & Metallurgical Industries	258.77	459.09	56.37

Major Head	Receipt under Minor Head-800	Total Receipt under Major Head concerned	Per cent
1054- Roads & Bridges	81.74	123.28	66.30
1055- Road Transport	890.51	890.51	100.00
1425- Other Scientific Research	2.58	2.58	100.00
1475- Other General Economic Services	45.96	49.12	93.57
Total	50,177.58	56,774.00	88.38

Source: Finance Accounts, 2023-24

It was observed that during 2023-24, there were 42 Major Heads under Receipts where Minor Head 800 was operated. Out of these 42 MHs, there were 33 MHs where other specific Minor Heads already existed.

Similarly, it was noticed that there were 19 Major Heads under Expenditure where Minor Head 800 was operated. Out of these 19 MHs, there were 17 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 ₹51.31 crore (9.40 per cent of total expenditure under 800) was booked in State Finance Accounts (2023-24), as given in **Table 4.7**.

Table 4.7: Incorrect depiction of Minor Heads in the State Accounts (2023-24)

Specified Heads in the LMMH	Actual Heads in the State Accounts	
	Finance Accounts (Classification up to Minor Head)	Expenditure (₹ in crore)
2230-01-101 Industrial Relation	Grant No 41 2230-01-800-01 Labour Court	0.51
4801-01-799 Suspense each Hydel Electric Scheme	Grant No. 55 4801-05-800-01 Transmission Scheme	50.80
Total		51.31

Source: Finance Accounts, 2023-24 and List of Major and Minor Heads issued by Controller General of Accounts

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.

Issues related to measurement

4.6 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 2023-24.

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 2023-24 could not be ascertained.

4.7 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. 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

(₹ in crore)						
Head of Account	2021-22		2022-23		2023-24	
Major Head 8658 - Suspense	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
101 - PAO suspense	191.51	189.98	207.77	201.86	208.10	232.64
Net	Dr. 1.53		Dr. 5.91		Cr. 24.54	
102 - Suspense Account-Civil	18.95	1.70	18.95	1.70	18.95	1.70
Net	Dr. 17.25		Dr. 17.25		Dr. 17.25	
107 - Cash Settlement Suspense Account	34.87	0.00	34.87	0.00	34.87	0.00
Net	Dr. 34.87		Dr. 34.87		Dr. 34.87	
109 - Reserve Bank Suspense -Headquarters	12.14	14.16	12.14	14.16	12.14	14.17
Net	Cr. 2.02		Cr. 2.03		Cr. 2.03	
110 - Reserve Bank Suspense - CAO	50.66	10.04	50.66	10.04	50.66	10.04
Net	Dr. 40.62		Dr. 40.62		Dr. 40.62	
129 – Material Purchase Settlement Suspense Account	235.85	249.70	235.85	249.70	235.85	249.70
Net	Cr. 13.85		Cr. 13.85		Cr. 13.85	
Major Head 8782-Cash Remittances						
102 - P.W. Remittances	20,325.84	20,040.94	22,541.04	22,477.09	25,159.50	25,393.35
Net	Dr. 284.90		Dr. 63.95		Dr. 233.85	
103 - Forest Remittances	2,411.15	2,066.45	2,791.87	2,272.37	4,425.42	2,629.49
Net	Dr. 344.70		Dr. 519.50		Dr. 795.93	
105 – R.B.I Remittances	6.26	0.00	6.26	0.00	6.26	0.00
Net	Dr. 6.26		Dr. 6.26		Dr. 6.26	
112 – Nagaland and Manipur Remittances	0.70	0.00	0.70	0.00	0.70	0.00
Net	Cr. 0.70		Cr. 0.70		Dr. 0.70	

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, 102 - P.W. Remittances and 103 - Forest Remittances. If these amounts are not cleared subsequently, the balance under the suspense heads would accumulate and would not reflect Government's receipts and expenditure accurately.

4.8 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 Principal 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
2021-22	82	30,481.25	31,038.48	Fully Reconciled
2022-23		35,340.48	34,471.05	95.50 per cent of total Receipts and 95 per cent of total Expenditure
2023-24		39,608.18	38,693.73	95 per cent of total Receipts and 93 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 year 2021-22. However, during 2022-23 and 2023-24, the total receipts and expenditure figures were not fully reconciled.

4.9 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 2019-20 to 2023-24 is shown in **Table 4.10**.

Table 4.10: Difference in cash balances from 2019-20 to 2023-24

(₹ in crore)

Year	Cash Balance		Adjustment by RBI	Difference in cash balance
	RBI figures	AG figures		
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)	115.52 (Cr)	186.52 (Cr)
2023-24	9.69 (Dr)	407.45 (Cr)	107.23 (Cr)	290.53 (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 ₹397.76 crore (Credit) between the Cash Balance of ₹407.42 crore as determined by the Principal Accountant General (A&E) and the figures of ₹9.69 crore reported by the Reserve Bank of India as on 31 March 2024. This was mainly due to incorrect reporting by Agency Banks to the RBI and misclassification by Banks/ Treasuries. As on 30 June 2024, debit items amounting to ₹1.49 crore and Credit items of ₹105.74 crore have

been reconciled, resulting in net reconciliation of ₹38.08 crore. The balance of the difference is under reconciliation.

Issues related to disclosure

4.10 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 following three IGAS became mandatory from the effective date after their notification by the Ministry of Finance, Government of India.

- i. Guarantees Given by the Government – IGAS 1
- ii. Accounting and Classification of Grants-in-Aid - IGAS 2
- iii. Loans and Advances made by Government - IGAS 3

The details of three standards and the extent of compliance with these by the Government of Nagaland in its financial statements for the year 2023-24 are given in **Table 4.11**.

Table 4.11: Compliance to Accounting Standards

Accounting Standards	Essence of IGAS	Compliance by State Government	Deficiency
IGAS-1: <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 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 to Principal Accountant General (A&E).
IGAS-2: <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.	Partially complied	Information on Grants-in-Aid given in kind not furnished by the State Government.

Accounting Standards	Essence of IGAS	Compliance by State Government	Deficiency
IGAS-3: <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. (Statement 7 and 18 of Finance Accounts)	The details of recoveries in arrears, interest received, written off loans <i>etc.</i> , in respect of loans and advances have not been provided by the State Government.

4.11 Submission of Accounts of Autonomous Bodies

As per Section 19(3) of the CAG's (DPC) Act, 1971, the Governor/ Administrator may, in the public interest, request the CAG to audit the accounts of a corporation established by law made by the legislature of the State or of the Union Territory, as the case may be, and where such request has been made, the CAG shall audit the accounts of such corporation and shall have, for the purposes of such audit, right of access to the books and accounts of such corporation.

Apart from Section 19, where the audit of the accounts of any body or authority has not been entrusted to the CAG by or under any law, he shall, if requested so to do by the President, or the Governor of a State or the Administrator of a Union Territory having a Legislative Assembly, as the case may be, undertake the audit of the accounts of such body or authority on such terms and conditions as may be agreed upon between him and the Government concerned and shall have, for the purpose of such audit, right of access to the books and accounts of that body or authority (Section 20). Thus, these bodies and authorities are required to prepare annual accounts and submit to the Principal Accountant General (Audit) for audit. Apart from Audit certificate, on the completion of financial audit, the audit office issues Separate Audit Report (SAR) that is part of the audit certificate on the accounts. These SARs are to be placed before the State legislature.

Fourteen Autonomous Bodies¹⁷ (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

¹⁷ (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' Welfare 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.

furnished to the 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 2023-24
1.	The Nagaland Khadi and Village Industries Board (NKVIB)	2023-24	01
2.	Nagaland State Electricity Regulatory Commission (NSERC)	-	0
3.	Nagaland State Legal Services Authority, Kohima (NSLSA)	2022-23	02
4.	Nagaland State Pollution Control Board (NPCB)	2022-23	02
5.	Nagaland Building & Other Construction Workers' Welfare Board (NBOCWBB)	2011-12	13

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, only NSERC submitted their Accounts upto 2023-24. The Accounts of NBOCWBB have not been submitted since its inception (2011). Delay in finalisation of accounts carries the risk of financial irregularities going undetected and, therefore, the accounts need to be finalised and submitted to Audit at the earliest.

Further, 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.

The State Government may consider evolving a system to expedite the process of compilation and submission of annual accounts by autonomous bodies.

4.12 Grants / loans given to bodies and authorities

Under Section 14 of the CAG's (DPC) Act, 1971, whenever anybody or authority is substantially financed by grants or loans from Consolidated Fund of the State, the CAG shall, subject to the provisions of any law for the time being in force applicable to the body or authority, as the case may be, audit all such receipts and expenditure of that body or authority and report the receipts and expenditure audited by him. Under Section 15 of the CAG's (DPC) Act, 1971, where any grant or loan is given for any specific purpose, the CAG shall scrutinise the procedures by which sanctioning authority satisfies itself as to the fulfilment of certain conditions.

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, the 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 the Finance Accounts, grants/assurances 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 2022-23 and 2023-24 are shown in **Table 4.13**.

Table 4.13: List of Recipient of grants/ assistance from the State Government during 2022-24

Recipient	2022-23		2023-24	
	No of Recipients	Amount	No of Recipients	Amount
Urban Local Bodies	Not specified	9.45	Not specified	15.31
Rural Local Bodies	Not specified	46.00	Not specified	0.00
Public Sector Undertakings	07	26.01	05	32.82
Autonomous Bodies	07	59.11	26	83.92
Non-Government Organisations	04	3.65	05	3.90
Others*	46	52.37	29	493.81
Total		196.59		629.76

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 ₹196.59 crore and ₹629.76 crore were given as grants/ assistance during the years 2022-23 and 2023-24 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/ assurances during the years 2022-24 was not disclosed by the State Government.

4.13 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 12 District Treasuries, nine Sub-Treasuries, 91 Public Works Divisions (77 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 2023-24, there were no delays in rendition of monthly accounts and no accounts have been excluded in the monthly Civil Accounts. Thus, no accounts have been excluded at the end of the year.

Other Issues

4.14 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 34 cases of misappropriation and losses involving Government money of ₹350.14 crore up to the period ending 31 March 2024 on which final action was pending. Out of these 34 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)		Delay in final disposal		
	No. of cases	Amount	No. of cases	Amount	Reason
School Education	3	83.31	2	70.51	Awaiting departmental and criminal investigation
Health and Family Welfare	2	13.14	1	3.01	
Planning and Transformation	1	20.23	1	20.23	
Nagaland Public Works Department	4	58.23	4	58.23	
Animal Husbandry & Veterinary Services	1	0.25	1	0.25	
Agriculture	1	0.72	1	0.72	
Administration	1	0.23	1	0.23	
Land Resources	3	3.56	3	3.56	
Taxes	2	26.62	2	26.62	
Rural Development	2	0.88	2	0.88	
Disaster Management	2	74.04	2	74.04	
Municipal Affairs	1	1.11	0	0.00	
Industries & Commerce	1	1.54	1	1.54	
Water Resources	1	28.6	1	28.6	
Land Records and Survey	1	1.24	1	1.24	
Forest	1	0.54	1	0.54	
Soil & Water Conservation	1	1.81	1	1.81	
Various Departments	6	34.09	5	32.37	
Total	34	350.14	30	324.38	

Source: Nagaland Lokayukta, Directorate of Investigation, Nagaland

Out of 34 cases, there are 10 cases of loss to Government due to theft, misappropriations and loss of Government materials involving ₹117.63 crore, out of which an amount of ₹5.81 crore has been recovered.

4.15 Follow up action on State Finances Audit Report

In Nagaland, the Departments concerned are required to furnish a *suo motu* 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 motu* 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 2021-22 were placed before the State Legislature and that for the year 2022-23 was yet to be placed are shown in **Table 4.15**.

Table 4.15: Follow up status of State Finances Audit Reports for 2009-10 to 2022-23

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 2015-16 have been received and ATNs for the years from 2016-17 to 2021-22 were yet to be received (December 2024).
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	
2022-23	08-03-2024	

Source: Information furnished by the Nagaland State Legislative Assembly Secretariat

4.16 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 has been submitted and approved by the State Government on 27 February 2024.

The Commission recommended one *per cent* share of State's Goods & Services Tax for vertical devolution for the award period 2023-24 to 2025-26 to the Urban Local Bodies. However, due to late receipt of the Report, budgetary provision of recommended amount of ₹10.75 crore for 2023-24 could not be provided by the State

Government. As a result, no vertical devolution of share of taxes to the various Municipalities and Town Councils took place during the year.

4.17 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 93 *per cent* of the total expenditure and 95 *per cent* of the receipts during 2023-24.

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, IGAS-2: Accounting and Classification of Grants-in-Aid and IGAS-3: Loans and Advances made by the Government.

As on March 2024, there are 250 UCs worth ₹356.23 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 in due time and/or there would be delay in release of next instalment by GoI.

A total of 405 AC Bills amounting to ₹699.87 crore drawn upto 29 February 2024 (including 323 AC bills worth ₹554.76 crore outstanding as on 31 March 2023). Of which, DCC Bills for 72 AC Bills worth ₹86.58 crore were received. DCC Bills in respect of a total of 333 AC Bills worth ₹613.29 crore due for adjustment as on 31 March 2024 were not received. 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.

During the year, expenditure of ₹545.35 crore under 21 Revenue and Capital Major Heads, constituting 3.04 *per cent* of Total Expenditure of ₹17,942.23 crore was booked under Minor head 800-Other Expenditure. Similarly, receipts of ₹531.58 crore under 45 Revenue Major Heads, constituting about 3.29 *per cent* of Revenue Receipts of ₹16,155.13 crore was booked under Minor Heads 800-Other Receipts under concerned Major Heads.

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, IGAS-2 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.

4.18 Recommendations

- State Government may ensure timely submission of all utilisation certificates due by the recipients of grants and take action against the defaulting Departments
- State Government may ensure timely submission of DCC Bills against the outstanding AC Bills within the prescribed timeline as required under the Rules.
- The Finance Department, Government of Nagaland 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.
- The State Government may consider evolving a system to expedite the process of compilation and submission of annual accounts by Autonomous Bodies in order to assess their financial position.
- The State Government may expedite the departmental and criminal investigation to finalise and dispose off the misappropriation/ losses/ theft cases.



Kohima

Date: 07 April 2025

(FREDERICK SYIEMLIEH)

Principal Accountant General (Audit)

Countersigned



New Delhi

Date: 08 April 2025

(K. SANJAY MURTHY)

Comptroller and Auditor General of India

