CHAPTER III
FINANCIAL REPORTING PRACTICES

Chapter – III: Financial Reporting Practices

This chapter provides a broad-based perspective of quality of the State Government Accounts rendered by various authorities of the State Government and status of compliance with prescribed financial rules, procedures and directives.

Compliance with financial rules, procedures and directives as well as the completeness, timeliness and quality of reporting on the status of such compliance enhances relevance and reliability of the information presented in the financial reports

Issues related to completeness of accounts

3.1 Off budget borrowings through State owned PSUs/Authorities

Article 293(3) of the Constitution of India mandates consent of the GoI for a State Government's borrowing if it has any outstanding loans or guarantees from the GoI. Further, the XV Finance Commission recommended that the normal net borrowing ceiling (NBC) to the State Governments for 2023-24 to 2025-26 may be fixed at three *per cent* of GSDP.

Bypassing the above stipulated net borrowing ceiling by routing loans outside the budget through various State Government Public Sector Undertaking (SPSUs)/Corporations/ other Bodies despite the State being responsible for repayment of such loans, pose significant risk to fiscal health and to transparency in the Government finances. Borrowing ceilings for a financial year of the State Governments are being now reduced by GoI to the extent of Off-Budget Borrowings (OBBs).

The Fiscal Responsibility and Budget Management (FRBM) Act, 2003, outlined that the State Government shall take suitable measures to ensure greater transparency in its fiscal operations in public interest by disclosing the actual liabilities arising out of OBBs by PSUs, Special Purpose Vehicles and other equivalent instruments where liability for repayment is on the State Government.

Further, the TNFR Act, 2003, provided that a Medium-Term Fiscal Plan (MTFP) laid before the Legislature along with the Budget documents shall contain a five-year rolling target with respect to Revenue Deficit, Fiscal Deficit and total outstanding debt[1] of the State Government.

For the year 2024-25, the State targeted the debt stock to be within 28.90 *per cent* of GSDP and fiscal deficit at 3.26 *per cent* (as per the revised estimates reflected under MTFP) which includes additional borrowing of 0.5 *per cent* of GSDP over and above three *per cent* on fulfilment of Power Sector Reforms as recommended by the XV Finance Commission. During the year, the fiscal deficit stood at 3.25 *per cent* and ratio of debt to GSDP was 27.49 *per cent*. Thus, the debt stock as a percentage of GSDP as well as the fiscal deficit were within the targets fixed.

The State Government provided the details of OBBs as on 31 March 2024 in its

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[1] As defined in the State FRBM Act, total outstanding debt of the State includes Internal Debt, Loans and Advances from GoI, Small Savings, Provident Funds, etc., Reserve Funds and Deposits.

publication "Appendices to the Budget Memorandum" released along with the Budget document 2025-26. In Appendix IV of Budget document, the details were reflected as "Guarantees given by the Government with zero risk", due to the fact that, there is no possibility of invocation of Guarantee as the amount required for repayments are provided in the State Budget. Further, based on the information furnished by the State Government to Audit, as on 31 March 2025, the outstanding of OBBs was ₹3,886.55 crore, which included fresh borrowings of ₹593.24 crore made by the Tamil Nadu Water Resource Conservation and River Restoration (TNWRCRR) during 2024-25 as detailed in **Table 3.1** below. It was also noticed that the State Government reported net figure of ₹27.74 crore (fresh borrowings minus repayments) made during the year to GoI.

Table 3.1: Details of outstanding Off-Budget Borrowings

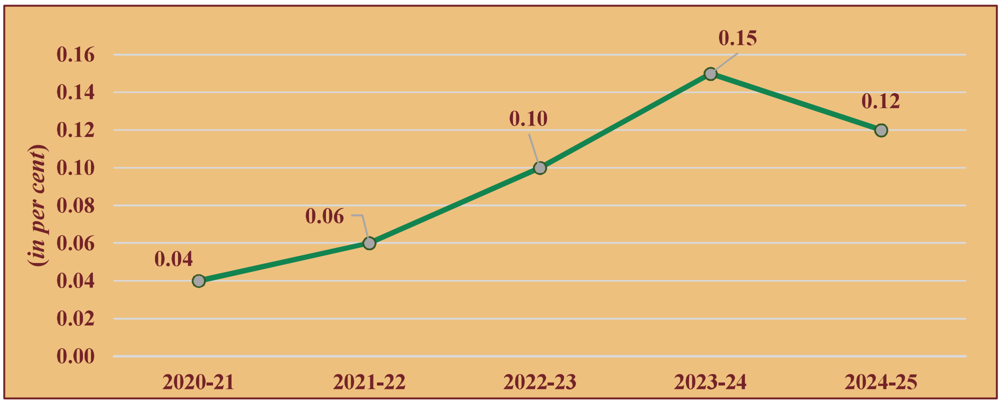
(₹ in crore)

Sl. No	Name of the Agency	Off-Budget borrowings as on 31 March 2024	Off-Budget Borrowings during the year	Borrowings repaid by Government during the year	Off-Budget borrowings as of 31 March 2025
1	Tamil Nadu Rural Housing and Infrastructure Development Corporation	257.28	---	51.46	205.82
2	Water and Sanitation Pooled Fund – Tamil Nadu Urban Infrastructure Financial Services Limited	460.62	--	34.57	426.05
3	Tamil Nadu Water Resources Conservation and River Restoration (TNWRCRR)	3,140.92	593.24	479.48	3,254.68
Total		**3,858.82**	**593.24**	**565.51**	**3,886.55**

(Source: Budget documents and details furnished by the Finance Department)

The total outstanding OBBs as a percentage of GSDP is depicted in **Chart 3.1** below:

Chart 3.1: Outstanding Off-Budget Borrowings as a percentage of GSDP as on 31 March 2025



(Source: Budget documents and details furnished by the Finance Department)

From **Chart 3.1**, it is evident that although outstanding OBBs as a percentage of GSDP showed a gradual increase up to 2023-24, a marginal decline was observed during 2024-25. This reduction was attributable to a significant decrease in fresh OBBs undertaken by the State Government during the year (₹593.24 crore) compared to the previous year (₹1,672.01 crore), coupled with a growth in GSDP of 15.98 *per cent*.

Apart from the OBBs as depicted in **Table 3.1** above, audit scrutiny revealed that the

Government had been servicing the loans (₹164.62 crore) taken by the Chennai Metropolitan Water Supply and Sewerage Board (CMWSSB) since the year 2013 from the Tamil Nadu Urban Finance and Infrastructure Development Corporation (TUFIDCO) and the Tamil Nadu Urban Infrastructure Financial Services Limited (TNUIFSL) for providing water supply and underground facilities on behalf of local bodies. However, the Government had not disclosed the above borrowings as OBBs in their statements. In exit conference, the Government accepted the audit observation and stated that CMWSSB borrowings pertain to earlier years and that repayments are currently in progress.

The details of OBBs not disclosed by the State Government along with the total amount outstanding as on 31st March 2025 is detailed in **Table 3.2** below.

Table 3.2: Details of off budget borrowings as on 31 March 2025 in addition to those detailed in Table 3.1

(₹ in crore)

Entities borrowed on behalf of Government	Year of off budget borrowings	Lending Financial Institution	Loan Sanctioned	Loan disbursed	Purpose of loan	Outstanding loan as on 31 March 2025
Chennai Metropolitan Water Supply and Sewerage Board (CMWSSB)	2013-14	1.Tamil Nadu Urban Infrastructure Financial Services Limited (TNUIFSL)	34.88	34.88	For providing water supply and underground facilities to local bodies under the jurisdiction of CMWSSB.	TNUIFSL - 0.38
		2. Tamil Nadu Urban Finance and Infrastructure Development Corporation (TUFIDCO)	129.74	129.74		TUFIDCO - 9.15

(Source: Information provided by the respective entities)

The above borrowings were serviced from the budget of the State Government and during the year, CMWSSB repaid ₹3.57 crore (principal ₹2.64 crore and interest ₹0.93 crore) through financial assistance of the Government.

The details of assistance for payment of interest and repayment of principal during the year including the above are detailed in **Table 3.3** below.

Table 3.3: Details of assistance for payment of interest and repayment of principal during 2024-25

(₹ in crore)

Sl. No.	Name of the Entities	Assistance for payment towards interest	Assistance for repayment towards principal
1	Tamil Nadu Rural Housing and Infrastructure Development Corporation	20.36	51.46
2	Tamil Nadu Water Resources Conservation and Rivers Restoration Corporation Limited	284.57	479.48
3	Water Sanitation Pooled Fund	40.71	34.57
4.	Chennai Metropolitan Water Supply and Sewerage Board	0.93	2.64
Total		**346.57**	**568.15**

(Source: Information provided by the respective entities)

Since these OBBs do not form part of the outstanding liabilities shown in the Finance Accounts, there was a lack of transparency in the actual outstanding borrowings of the Government at the end of the year. This practice not only contravenes codal provisions but also erodes fiscal transparency, legislative oversight and the State's cash management capacity management.

3.2 Undischarged liabilities of the Government

Undischarged liabilities, such as Undischarged Interest liability, non-transfer of collected cess to designated bodies or short remittances to the National Pension System (NPS) can have significant long-term fiscal and governance implications. These unpaid obligations accumulate over time, creating hidden liabilities that distort the true financial position of the State. Similarly, short transfers to NPS not only violate statutory commitments but also compromise the financial security of employees. Over the years, such practices can erode trust, trigger legal liabilities and increase future expenditure obligations, thereby, constraining fiscal space and weakening fiscal sustainability. Cases of undischarged liabilities are discussed in the succeeding paragraphs.

3.2.1 Undischarged Interest liability

The Government has a liability to provide and pay interest on the amounts in the Interest-bearing Deposits/Reserve Funds.

Audit observed that ₹ 45.94 crore required to be paid as interest on the balance of ₹3,261.59 crore lying under interest bearing Deposits/Reserve Funds as on 1 April 2024 was not paid as shown in **Table 3.4** below.

Table 3.4: Details of interest liability not discharged in respect of Reserve Funds/Interest- bearing Deposits

(₹ in crore)

Sl. No.	Name/Head of the interest-bearing deposit	Opening Balance as on 1 April 2024	Basis for calculation of interest	Amount of interest not paid
1.	State Compensatory Afforestation Fund	134.22	Rate of Interest is 3.35 *per cent* as per the circular issued by the Ministry of Environment, Forest & Climate Change, dated 9.1.25 for 2024-25.	5.08
2.	Other Interest-bearing deposits	3,127.37	No specific interest rate prescribed by the Government. Hence, the rate applicable for 14 days treasury bills calculated at 6.50 *per cent* (Repo rate) is taken into account	40.86
Total		**3,261.59**		**45.94**

(Source: Finance Accounts 2024-25)

The non-payment of interest liability has resulted in understatement of Revenue Deficit and also Fiscal Deficit to that extent during the year.

3.2.2 Short contribution to the Defined Contributory Pension Scheme

GoTN employees recruited on or after 1 April 2003 are covered under the Defined Contributory Pension Scheme (DCPS). In terms of the Scheme, the employee contributes 10 *per cent* of his/her basic pay and dearness allowance which is matched by the State Government. Both the employer's and employee's contribution are initially transferred to the Public Account under Major Head '8342-117- Defined Contributory Pension Scheme' and there after needs to be transferred to the third-party Fund Manager, Pension Fund Regulatory and Development Authority (PFRDA) or any other agency authorised by PFRDA. On creation of the National Pension System

(NPS) architecture, the Pension Fund Regulatory and Development Authority (PFRDA) requested (2008 and 2009) GoTN to join the NPS. GoTN however, declined (2010) to join the NPS architecture, initially citing the non-enactment of PFRDA Act by the Parliament as justification for continuing with the existing system of retaining pension fund money in the Public Accounts of the State.

The State Government has continued to operate DCPS without joining NPS and has not designated a fund manager even after 22 years. The State Government, however, has invested the amount under the "New Group Superannuation Scheme with Cash Accumulation Plan" with the Life Insurance Corporation of India (LIC). As on 31 March 2025, a total amount of ₹89,084.64 crore was invested. The interest of ₹6,198.69 crore received from LIC during the year 2024-25 was reinvested in the same fund.

DCPS accounts of individual Government employees are maintained by the Government Data Centre (GDC). Every year GDC calculates the interest due at the notified rates and credits the interest to the DCPS Account of individual Government employee. Interest paid by the Government on DCPS fund balance was ₹5,642.51 crore during the year.

During the year 2024-25, the State employee's and the Government's contributions towards DCPS were ₹4,238.75 crore and ₹4,139.91 crore respectively, the short fall in contribution by the Government being ₹98.84 crore. In respect of AIS officers, against the employees' contribution of 10 *per cent* amounting to ₹5.50 crore, the Government was required to contribute 14 *per cent*, amounting to ₹7.70 crore. However, the Government contributed only ₹5.83 crore, resulting in a shortfall of ₹1.87 crore.

The Government's overall contribution to the DCPS was thus less by ₹100.71 crore (₹98.84 crore plus ₹1.87 crore), which resulted in understatement of Revenue Expenditure to that extent.

3.2.3 National Mineral Exploration Trust Fund

The National Mineral Exploration Trust (NMET) was established in August 2015 under Section 9C of the Mines and Minerals (Development and Regulation) Act, (MMDR) 1957. As per Section 9C (4) of this Act, the holder of the mining lease or a mineral concession is required to contribute two *per cent* of the royalty paid to the trust. As per the NMET Rules, the State Government is responsible for collecting these contributions, depositing them in the Public Account under Major Head '8449-Other Deposits - 123-National Mineral Exploration Trust Deposits', and transferring the funds monthly to the Consolidated Fund of India.

During 2024-25, audit observed that against the required two *per cent* royalty amounting to ₹9.80 crore on the amount of royalty deposited (₹489.87 crore), an amount of ₹8.98 crore was transferred to NMET during the year. The non-transfer of the balance amount of ₹0.82 crore has resulted in overstatement of Cash Balance to that extent.

3.2.4 State Mineral Development Fund/State Mineral Exploration Trust

The Government of India, advised (November 2024) all State Governments to establish a State Mineral Exploration Trust (SMET)/State Mineral Development Fund

(SMDF) on the lines of the National Mineral Exploration Trust (NMET), as mandated under clause (g) of sub-section (A) of Section 15 of the Mines and Minerals (Development and Regulation) Act, 1957.

During the presentation of budget 2025-26, an announcement was made to establish SMET. Following the announcement, the Department of Geology and Mining, accorded administrative (June 2025) sanction for establishment of SMET with a corpus fund of ₹ one crore for conducting explorations in the State.

Audit, however, observed that the establishment of SMET is still under preparation. (October 2025).

3.2.5 Pendency of refund cases

Promptness in disposal of refund cases is an important indicator of performance of the Department concerned. The details of refund cases during the year 2024-25, as reported by the departments concerned are depicted in **Table 3.5** below.

Table 3.5: Details of refund cases

(₹ in crore)

Sl. No.	Particulars	GST[2]		Sales Tax/VAT		State Excise		Taxes on Vehicles		Total	
		No. of cases	Amount	No. of cases	Amount	No. of cases	Amount	No. of cases	Amount	No. of cases	Amount
1.	Claims outstanding at the beginning of the year	3,260	3,454.77	12,969	116.30	-	-	19	0.17	16,248	3,571.24
2.	Claims received during the year	22,865	8,373.67	258	70.44	1	0.09	176	2.67	23,300	8,446.87
3.	Refunds made during the year	18,334	6,431.01	262	80.97	-	-	177	2.52	18,773	6,514.50
4.	Refunds rejected during the year	3,619	1,593.24	4	0.09	-	-	-	-	3,623	1,593.33
5.	Balance outstanding at the end of year	4,172	3,804.19	12,961	105.68	1	0.09	18	0.32	17,152	3,910.28

(Source: Departmental information)

It could be seen from **Table 3.5** above that major pendency of refund cases related to GST amounting to ₹3,804.19 crore. The Government should take efforts to clear the pending refund cases at the earliest.

3.3 Funds lying unspent in the Bank Accounts of DDOs

The Government of Tamil Nadu stipulated[3] that, no money shall be drawn from the treasury unless it is required for immediate disbursement. It is not permissible to draw money from the treasury in anticipation of demands or to prevent the lapse of the budget allotted. However, as per the information received from the State Government, as of 31 March 2025, an amount of ₹565.39 crore was lying unspent in the Bank accounts of DDOs.

Test check of records revealed that an amount of ₹3.58 crore lying with the Divisional Engineer, National Highways, Chennai and ₹18.60 crore lying with the Executive Engineer (PWD), Chennai were remitted into Government Account after the end of

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[2] Relates to Prohibition and excise department

[3] GO Ms.No.453 dated 7th June 1983

the Financial year 2024-25, i.e., in April 2025 and June 2025 respectively. It was further seen that ₹1.61 crore lying idle with the Divisional Engineer – Highways, Construction and Maintenance, Madurai and ₹0.53 crore lying with the Deputy Director, Geology and Mining Madurai were yet to be remitted into the Government account.

Retention of such unspent balances lying idle, not only carry an opportunity cost but also undermine fiscal responsibility and debt sustainability.

Issue related to transparency

3.4 Delay in submission of Utilisation Certificates

Article 210(A) of the Tamil Nadu Financial Code Volume I-1991 specifies that Utilization Certificate (UC) for the grants released by the Government of Tamil Nadu to the State Autonomous bodies should be submitted to the Accountant General (A&E) and due dates should be fixed based on the nature of expenditure for which the grant is made. The sanctioning authority should make it incumbent upon the grantee institution to submit the statements within the stipulated period by including a clause to this effect in the sanction order itself.

As per the instructions given in Chapter 16 of the Manual of Standing Orders (Accounts and Entitlements), UCs in respect of conditional Grants-in-Aid for creation of Capital Assets and/or as required by the sanction received by the grantee should be furnished by the grantee to the authority that sanctioned it within 12 months from the date of receipt of the grant or before applying for a further grant on the same purpose, whichever is earlier. To the extent of non-submission of UCs, there is a risk that the amount shown in the State Finance Accounts may not have reached the beneficiaries.

As of March 2025, 310 outstanding UCs amounting to ₹6,632.30 crore became due for submission. Out of these, 198 UCs amounting to ₹4,443.66 crore were cleared during the year. It was noticed that out of the remaining 112 UCs (₹2,188.65 crore) relating to 13 grants, 37 UCs (₹336.28 crore) pertains to Centrally Sponsored Schemes. The position of pending UCs and outstanding UCs in respect of the top four departments for grants as on 31st March 2025 are given in **Table 3.6** and **Chart 3.2** respectively.

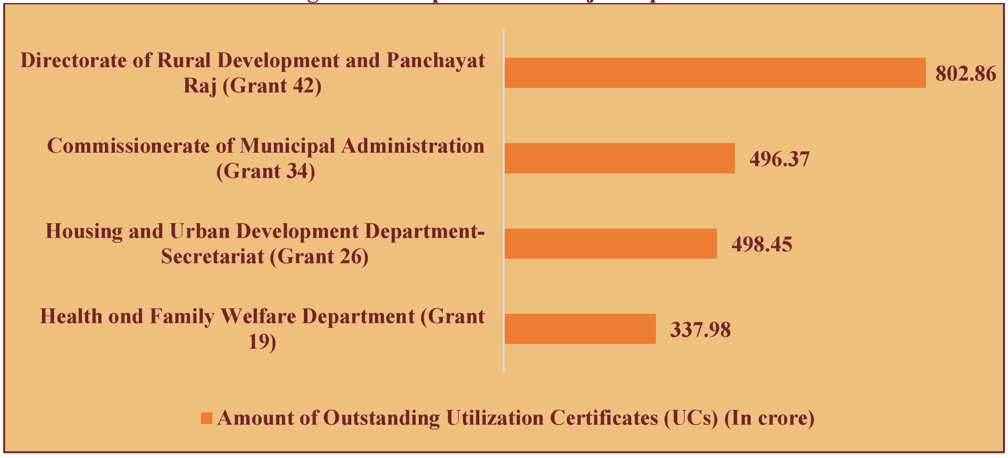
Table 3.6: Age-wise pendency of Utilization Certificates

(₹ in crore)

UC due year	Number of pending UCs	Amount
Upto 2016-17	2	6.23
2017-18	2	3.40
2018-19	0	0.00
2019-20	1	0.11
2020-21	5	51.59
2021-22	11	41.99
2022-23	26	1,199.93
2023-24	65	885.40
Total	**112**	**2,188.65**

(Source: Finance Accounts 2024-25 and Office of the Accountant General (A&E))

Chart 3.2: Outstanding UCs in respect of four major Departments as on 31 March 2025



(Source: Office of the Accountant General (A&E))

Review of outstanding UCs under "Grant 42 – Directorate of Rural Development and Panchayat Raj" revealed that, out of ₹802.86 crore, ₹800 crore was towards grants-in-aid for creation of capital assets for the scheme "Child Friendly School Infrastructure Development" (2202-01-103-AE-090-002) relating to 2022-23. Audit observed that the UC was submitted in October 2025 after a delay of more than one year from the due date of submission.

Non-submission/delay in submission of UCs indicates the failure of the departmental officers to comply with the rules to ensure accountability. It is imperative that the State Government monitor this aspect of pendency as non-submission of UCs is fraught with the risk of misappropriation of funds. Further, the Government should evolve a mechanism and ensure timely submission/hold the persons concerned accountable for delay in submission.

3.5 Un adjusted Temporary Advances

When money is required in advance or it is difficult to calculate the exact amount required, the Drawing and Disbursing Officers (DDOs) are permitted to draw money without supporting documents, through Temporary Advance (TA) bills, by debiting the service heads. Such expenditure is then reflected as an expense under the respective service heads.

Unlike other States, 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. Instead, the DDOs have been empowered to draw Temporary Advances (TAs) under Article 99 of Tamil Nadu Financial Code. Such advances are required to be adjusted by presenting detailed bills and vouchers within three months from the date of drawal of advances.

During the year, 2,184 TA bills amounting to ₹284.62 crore were drawn. The details of TA bills, pending adjustment, as on 31 March 2025 is given in **Table 3.7** below.

Table 3.7: Age-wise pending adjustment of TA bills

(₹ in crore)

Due Year	No. of TA bills	Amount
More than 10 years	2	0.67
More than 5 years & less than 10 years	4	12.58
More than 1 year & less than 5 years	42	59.65
less than 1 year	457	85.23
TOTAL	**505**	**158.13**

(Source: Finance Accounts 2024-25 and Office of the Accountant General (A&E))

Quarterly analysis of Temporary Advance (TA) bills drawn during the year revealed that 26 *per cent* of the total amount was drawn in the first quarter, eight *per cent* in the second quarter, four *per cent* in the third quarter, and 62 *per cent* in the fourth quarter. Further, 61 *per cent* of the amount drawn in the fourth quarter pertained to the month of February.

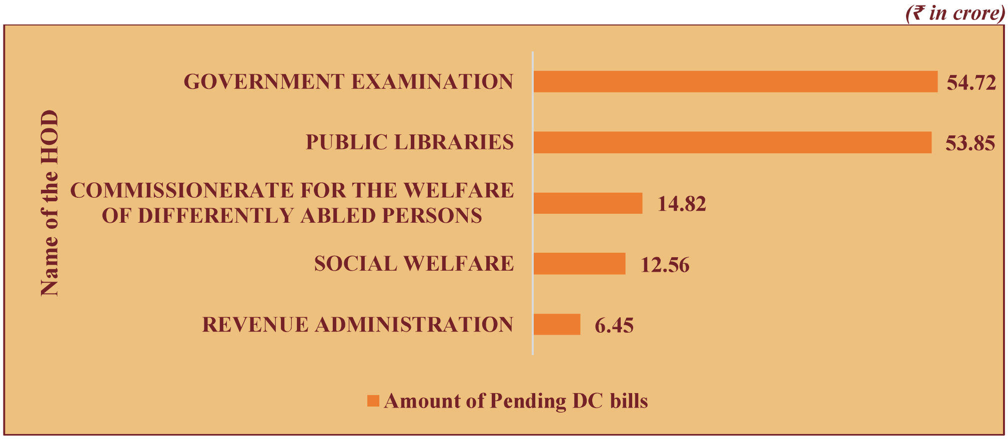
Test check of details of bills remaining unadjusted for more than 10 years as shown in **Table 3.7** above revealed that one bill amounting to ₹0.14 crore was drawn on 31 March 2005 by the DDO, Directorate of Animal Husbandry towards expenditure on training and seminar and was adjusted only in July 2025. Another bill was drawn on 13 March 2002 for an amount of ₹0.53 crore by the Director General of Police (DGP) under the jurisdiction of Pay and Accounts Office (PAO) (East) towards purchase of traffic signals. Audit scrutiny revealed that though this bill continued to appear as pending to be adjusted in the records of PAO (East), the adjustment details were not traceable, as the DDO, the Chennai City Police under DGP who had initially drawn the bill was subsequently transferred to PAO (South) jurisdiction.

It was also observed that under the category more than one year and less than five years, one bill drawn by the DDO, Anna Centenary Library in October 2022 for ₹0.38 crore towards TN Talk function was adjusted only in July 2025. Similarly, fours bills under PAOs jurisdiction amounting to ₹12.58 crore drawn during the period (March 2019 to March 2020) were remitted back into the government account between July 2025 and October 2025.

The **Chart 3.3** shown below depicts the top five Heads of the Departments (HOD) with whom TA bills remained unadjusted.

Chart 3.3: Pending TA Bills in respect of five major Heads of the Departments

(₹ in crore)



(Source: Office of the Accountant General (A&E))

Further, audit scrutiny on pending TA bills remaining unadjusted relating to Grant 52 – Commissionerate for Welfare of Differently abled persons, which was taken up for budget review, revealed that 15 bills were drawn during March 2023 to March 2025. Of these, nine bills amounting to ₹14.54 crore were drawn in March 2023 and November 2023, another bill (₹0.05 crore) in December 2024 and the remaining five bills amounting to ₹0.23 crore in March 2025. Audit observed, from the reply of the department, that in respect of the TA bills drawn during 2023, adjustment bills were submitted in the months of May, August and October 2025. For the remaining bills, the Department stated (November 2025) that the submission of adjustment bills was still under process.

Failure to adjust advances over prolonged periods and delays in submitting adjustment bills weaken compliance with fiscal responsibility norms. Further, in the absence of such adjustment bills against the advances drawn, the expenditure reflected in the Finance Accounts cannot be considered accurate or final.

3.6 Personal Deposit Accounts

Personal Deposit (PD) account is intended for a specific purpose for which it is created. It is governed by Article 269 of the Tamil Nadu Financial code – Vol I. These PD accounts are created by transferring funds from the Consolidated Fund to the Public Account for discharging the liabilities of the Government arising out of special enactments. PD Accounts are operated during the financial year period 1st April to 31st March next year. No money may be accepted for deposit under PD account in a treasury, except under an order of the Government and authority from the Accountant General, (A&E). These PD accounts are of the nature of deposits not bearing interest and operated under the Head of Account "8443 – Civil Deposits – 106 – Personal Deposits" as per the List of Major and Minor Heads of Union and States (LMMH).

During the year 2024-25, an amount of ₹253.95 crore was transferred from the Consolidated Fund of the State to Personal Deposit (PD) Accounts. This includes ₹16.73 crore transferred to PD Accounts in March 2025. Details of PD accounts as of 31 March 2025 are given in **Table 3.8** below.

Table 3.8: Status of PD Accounts during the year 2024-25

(₹ in crore)

Opening Balance (As on 01-04-2024)		Addition during the year 2024-25		Disbursement during the year 2024-25		Closing Balance (As on 31-03-2025)	
No. of Adminis-trators	Amount	No. of Adminis-trators	Amount	No. of Adminis-trators	Amount	No. of Adminis-trators	Amount
0	0	47	253.95	47	254.03	0	(-) 0.08*

**Minus balance is under reconciliation.*

(Source: Finance Accounts 2024-25 and data maintained by the AG (A&E) Tamil Nadu)

The above 47 PD accounts were operated under the sub-head "AA" below HOA "8443-106" and were closed at the end of the year. There are also no PD accounts which are inoperative under the above HOA for more than 3 years.

Audit, however, observed that in addition to the above PD Accounts which were authorised by the Accountant General (A&E), another PD account with the nomenclature "Personal Deposits – Funds deposited from other sources – Other than Consolidated Fund -under sub-head "AC" below the same HOA, is still under operation having ₹74.31 crore as closing balance.

Operation of this kind of PD accounts not only results in lack of transparency but is also violative of the extant Financial Code.

3.7 Operation of Minor Head-800

Minor Head-800 relating to "Other Receipts" and "Other Expenditure" is intended to be operated only when the appropriate minor head has not been provided in the accounts. Regular operation of Minor Head-800 is to be discouraged, since it renders the accounts opaque. 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 year 2024-25, ₹33,806.60 crore under 70 Major Heads of account, constituting 8.99 *per cent* of the total expenditure (₹ 3,75,777.35 crore) was classified under the Minor Head - 800 - Other Expenditure in the accounts. Similarly, ₹24,017.90 crore under 46 Major Heads of account, constituting 8.49 *per cent* of total Revenue Receipts (₹2,82,829.28 crore) was classified under "800 - Other Receipts". In comparison, during 2023-24, 9.12 *per cent* of revenue expenditure and 6.47 *per cent* of receipt were booked under this Minor Head.

Audit observed that out of 469 instances of booking under Minor Head 800 – Other Expenditure/Receipts, alternative minor heads were identified by the Office of the PAG (A&E) and communicated to the State in 97 cases, of which 51 suggested alternative minor heads were accepted by the State. Similarly, in respect of "Other Receipts", alternative minor heads were adopted by the State in 11 instances. Further, during the Exit Conference, it was stated that an exercise is underway to reclassify receipts and expenditure booked under Minor Head 800 - Other Receipts/Expenditure, wherever feasible.

The fact that such substantial proportions of the expenditure/receipts is booked under the omnibus Minor head "800" is a cause of concern, since it adversely impacts transparency in financial reporting as a transparent public accounting system is not merely an administrative necessity but is a cornerstone of good governance.

Issue related to measurement

3.8 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. Significant suspense items balances for the last three years have been shown in **Table 3.9** below.

Table 3.9: Balances under Suspense and Remittance Heads

(₹ in crore)

Head of Account		2022-23		2023-24		2024-25	
1		Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
8658	**Suspense Account**						
101	Pay and Accounts Office-Suspense	83.81	(-)9.08	(-)75.85	0.42	(-)101.35	2.93
	Net Debit (Dr.) / Credit (Cr.)	**(+)92.89**		**(-)76.26**		**(-)104.27**	
102	Suspense Account-(Civil)	1.71	(-)0.19	14.04	0.00	(-)12.63	(-)0.08
	Net Debit (Dr.) / Credit (Cr.)	**(+)1.90**		**(+)14.04**		**(-)12.55**	
109	Reserve Bank Suspense-(Headquarters)	4.29	(-)0.88	0.91	(-)0.08	0.02	(-)1.01
	Net Debit (Dr.) / Credit (Cr.)	**(-)5.17**		**(-)0.62**		**(-)1.03**	
110	Reserve Bank Suspense- (Central Accounts Office)	(-)22.63	(-)0.57	(-)0.01	0.00	(-)0.01	0.00
	Net Debit (Dr.) / Credit (Cr.)	**(-)22.06**		**(-)0.01**		**(-)0.01**	
112	Tax Deducted at Source (TDS) Suspense	0.00	3.80	0.00	(-)45.05	0.12	19.24
	Net Debit (Dr.) / Credit (Cr.)	**(-)3.80**		**(+)45.05**		**(+)19.12**	
123	AIS Officers' Group Insurance Scheme	0.07	0.07	0.10	0.08	0.07	0.09
	Net Debit (Dr.) / Credit (Cr.)	**0.00**		**(+)0.02**		**(-)0.01**	

(Source: Finance Accounts of the respective years)

The Head "8658 – 101 – PAO Suspense" is intended for settlement of transactions between the Accountant General (A&E) and various other Pay and Accounts Offices (PAOs) of the Government of India. The transactions under this head mainly relate to the payments made by the State Government to Central Government Civil Pensioners. It could be seen from **Table 3.9** above that an outstanding balance of ₹104.27 crore exists under this head. Out of this ₹104.27 crore, one payment relates to Central Freedom Fighters pensioners (₹89.16 crore) and another amounting to ₹11 crore relates to dues from the Ministry of Shipping and Transport.

Non-clearance of outstanding balances under these heads affects the accuracy of receipt/expenditure figure under different heads of accounts which are carried forward from year to year of the State Government.

3.9 Reconciliation of Departmental Figures

To exercise effective budgetary control over revenue/expenditure and to ensure accuracy in accounts, State Financial Rules stipulate that the Chief Controlling Officers (CCOs)/Controlling Officers (COs) are to reconcile every month, the receipts and expenditure recorded in their books with the figures of the Accountant General (A&E). As per Rules 124 and 127 of the Tamil Nadu Budget Manual, departmental accounts maintained by the CCOs and the progressive actuals, month by month are required to be reconciled with figures maintained by the Accountant General(A&E).

During 2024-25, out of 148 CCOs for Receipts and 213 CCOs for Expenditure, 19 CCOs relating to receipts and 21 CCOs with respect to expenditure did not reconcile the figures. Further, trend analysis for the past three years revealed that the number of CCOs not reconciling the figures has been on the increasing trend as shown in **Table 3.10** below. Such instances call for necessary action to restore fiscal discipline and strengthen State's Public Finance architecture.

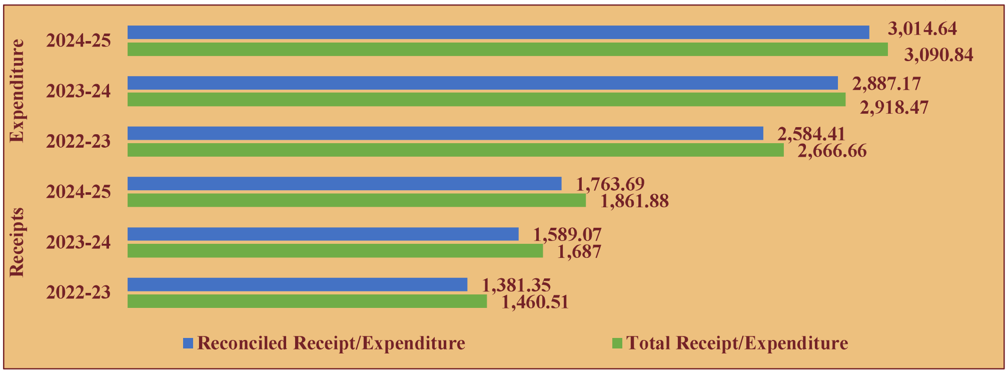
Table 3.10: Status of Reconciliation of Receipts and Expenditure by Controlling Officers

Year	Total No. of Controlling Officers	No. of Controlling Officers reconciled their receipts/ expenditure		
		Fully reconciled	Partially reconciled	Not reconciled
Receipts				
2022-23	122	73	44	5
2023-24	140	82	54	4
2024-25	148	4	125	19
Expenditure				
2022-23	214	120	89	5
2023-24	215	132	79	4
2024-25	213	0	192	21

(Source: Information maintained by office of the Accountant General (A&E))

Chart 3.4.: Status of reconciliation of Receipts and Expenditure during the period 2022-23 to 2024-25

(₹ in crore)



(Source: Information maintained by the Accountant General (A&E))

As non-reconciliation of figures can lead to discrepancies/inaccuracies in the books of accounts, necessary action for the reconciliation of all receipts and expenditure is required to be taken.

3.10 Reconciliation of cash balances

In terms of Section 20, 21 and 21 A of the Reserve Bank of India (RBI) Act, 1934, the RBI acts as a banker to the Central and State Governments. 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 the agency banks through link offices and report to CAS, Nagpur. The agency banks have to send the receipts/payment scrolls on a daily basis in the prescribed form to the sub-treasury/treasury concerned without delay. Further, the consolidated monthly statement of the agency banks prepared by the link banks are to be sent to RBI which in turn should forward the monthly consolidated statement to the Accountant General (A&E). The above system being in place, there should not be any difference between the cash balance position as per the books of the Accountant General (A&E) and CAS, Nagpur. Even if differences occur in the month wise balance, there should not be any difference between cash balance position at the closing of the Annual Accounts by April 25 of every year.

It was, however, seen that as per accounts of the Accountant General (A&E), the cash balance of the State Government as on 31 March 2025 was ₹33.95 crore (credit) while the same was reported as ₹35.62 crore (credit) by the Reserve Bank of India. As such, there was an unreconciled difference of ₹69.57 crore (credit), which was under reconciliation between the Accountant General (A&E), Tamil Nadu and the State Government. It was reported that the difference was mainly due to non-reporting of receipts by the banks to the Treasuries.

The trend of differences in cash balance in the last five years is given in **Table 3.11** below.

Table 3.11 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
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.)
2023-24	110.02 (Cr.)	1.98 (Cr.)	112.00 (Cr.)
2024-25	33.95 (Cr)	35.62 (Cr.)	69.57 (Cr)

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

3.11 Lapse of deposits to the Government

In connection with the transactions of public business, the Government receives moneys deposited with them for various purposes, by or on behalf of various public bodies and members of the public and afterwards account for them by repayments or otherwise. In this regard, as per Article 271 of the Tamil Nadu Financial Code Vol. I, in certain circumstances, the following types of Deposits *viz.,* (i) Revenue Deposits and Public Works Deposits remaining unclaimed for more than four complete financial years and (ii) Security deposits according to intended completion date of each class of deposit are to be credited to the Government under appropriate revenue head of account.

From the details furnished by the Office of the Accountant General (A&E), it was seen that the total amount of ₹76.78 crore under various types of deposits, *viz.,* Revenue deposits (₹45.67 crore), Public works deposits (₹19.88 crore) and Security deposits (₹11.23 crore) continue to remain unclaimed after the respective scheduled period under deposits heads of account and were not credited/taken to the appropriated revenue heads of account.

The absence of timely action to bring these amounts to the Government Accounts not only contravenes the codal provisions but also reflects the fact that, to that extent, cash remains outside the State's active cash management framework.

Issue related to disclosure

3.12 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 (CAG), prescribe the form of accounts of the Union and of the States. On the advice of the CAG, the President of India has so far notified four Indian Government Accounting Standards (IGAS). Compliance to these Accounting Standards by the State Government as well as deficiencies therein during 2024-25 are detailed in **Table 3.12** below.

Table 3.12: Compliance to Accounting Standards

Sl. No.	Accounting Standards	Essence of IGAS	Compliance by State Government
1.	IGAS-1:	Guarantees Given by the Government –Disclosure requirements	Complied (Statement 9 and 20 of Finance Accounts)
2.	IGAS-2:	Accounting and Classification of Grants-in-aid	As per IGAS 2, the grants-in-aid for creation of capital assets should be classified under Revenue expenditure. However, expenditure of ₹0.50 crore towards Grants in Aid for creation of capital assets under the scheme "Support to Tribal Research Institute" was incorrectly classified under Capital Account resulting in understatement of Revenue Expenditure to that extent. (Statement 10 of Finance Accounts)
3.	IGAS-3:	Loans and Advances made by Government	Partially complied. The Government of Tamil Nadu restructured the old loans given by it during 2018-19. Though Statements 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 remained pending during 2024-25, following the restructuring undertaken in 2018-19. Hence, details relating to the repayment of arrears of loan entities could not be included in the Finance Accounts Statements. Reconciliation with the State Government is under progress. (Statement 7 and 18 of Finance Accounts)
4	IGAS-4:	Prior period adjustments	Complied (Statement 13 of Finance Accounts)

(Source: Finance Accounts)

3.13 Submission of accounts of Autonomous Bodies

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 such institutions/bodies.

Upto the year 2024-25, there are 86 Institutions/Bodies whose Accounts were pending for the period ranging from 1 year to 5 years. The details of pending accounts are given in ***Appendix 3.1*** and their age-wise pendency is presented in **Table 3.13** below.

Table 3.13: Age-wise analysis of arrears of Accounts of bodies/authorities

Sl. No.	Delay in number of years	Number of Institutions
1	Upto one year	56
2	More than one year and upto three years	24
3	More than three years and upto five years	6
Total		**86**

(Source: Data compiled from information furnished by Heads of Department)

The major defaulting institutions/bodies were those receiving grants towards salaries and maintenance, predominantly relating to educational institutions. In reply, the Government stated that the delays in submission were attributable to the non-finalisation of accounts by the Auditor.

Audit scrutiny of autonomous bodies further revealed that the accounts of the Voluntary Health Service, a unit under the Health and Family Welfare Department were pending for submission to Audit for the period from 2020-21 to 2022-23 and subsequently were submitted only on 13 January 2026. In response, the Department stated that the delay was due to temporary staff shortages arising from an increased workload and the lapse was inadvertent.

As the delay in finalisation of accounts hampers Audit in providing an assurance to the Legislature that the grants were utilized for the intended objective, the departments need to take action to submit the accounts in a timely manner.

Other issues

3.14 Performance of State DISCOMs in Tamil Nadu

1. Evolution and Structural Reorganization of State DISCOM in Tamil Nadu.

The Tamil Nadu Electricity Board (TNEB) was formed on 01 July 1957 under Section 54 of the Electricity (Supply) Act 1948 as a vertically integrated utility responsible for generation, transmission and distribution of electricity in the State.

Subsequently, in pursuance of Section 131 of the Electricity Act, 2003, the Government of Tamil Nadu (GoTN) approved[4] the re-organization of TNEB into three Companies. Accordingly, three Companies namely TNEB Limited, Tamil Nadu Generation and Distribution Corporation Limited (TANGEDCO) and Tamil Nadu Transmission Corporation Limited (TANTRANSCO) were incorporated during 2009. TANGEDCO, an integrated utility engaged in generation and distribution activities and TANTRANSCO, a transmission utility were brought under TNEB Limited as subsidiary companies.

A second major reorganization was made[5] in March 2024, by which, the generation activities of TANGEDCO were hived off into two separated companies namely the Tamil Nadu Power Generation Corporation Limited (TNPGCL), for handling fossil fuel-based generation and the Tamil Nadu Green Energy Corporation Limited (TNGECL), for hydel and wind generation and for facilitation of renewable energy generation by the private sector. TANGEDCO, which was left with Distribution activity was renamed as the Tamil Nadu Power Distribution Corporation Limited (TNPDCL) on 27 June 2024.

2. Implementation of UDAY Scheme and its salient features

With the objective of improving the health of state-owned DISCOMs[6], the Ministry

4 On 08 October 2008
5 Vide G.O. No. 32 dated 06 March 2024
6 DISCOMs for the purpose of UDAY included combined Generation, Transmission and Distribution Undertakings.

of Power (MoP), Government of India (GoI) launched the Ujwal DISCOM Assurance Yojana (UDAY) Scheme in November 2015. The Scheme envisaged reforms for realising affordable and accessible 24x7 Power for All with the following main objectives:

- Financial turnaround of the DISCOMs, and
- Improving operational efficiency of the DISCOMs.

As prescribed in the Scheme, a tripartite Memorandum of Understanding (MoU) was signed by and amongst GoI, GoTN and TANGEDCO (Integrated Utility) on 09 January 2017 specifying the responsibilities of the respective parties for achieving the financial and operational milestones. The salient features of the Scheme/MoU, inter alia, include;

- Reduction in gap between Average Cost of Supply (ACS) and Average Revenue Realised (ARR) to zero by 2018-19.
- States shall take over 75 *per cent* of DISCOM's debt as on 30 September 2015.
- States shall take over the future losses of DISCOMs in a graded manner up to the year 2020-21.

The key performance insights in implementation of the Scheme in the state of Tamil Nadu includes**:**

- **Debt Takeover Shortfall**: GoTN was obligated to take over 75 *per cent* of the debt (₹56,317 crore) but ultimately took over only 34.38 *per cent* (₹22,815 crore), citing financial constraints.
- **Interest Burden:** Failure to convert the remaining 25 *per cent* of debt into low-interest bonds, combined with increased borrowing for capital and working capital, led to an additional interest burden of ₹10,154.46 crore during 2017–20.
- **Financial Health:** The primary objective of eliminating the ACS-ARR gap (Average Cost of Supply vs. Average Revenue Realized) also failed. The gap worsened from (-) 0.60 in 2015-16 to (-)1.07 in 2019-20, with total outstanding debts rising from ₹81,312 crore to ₹1,23,895.68 crore as on 31 March 2020.

3. RDSS Scheme and its salient features

After UDAY Scheme, the Government of India approved the Revamped Distribution Sector Scheme (RDSS) on 30 June 2021 having total outlay of ₹3,03,758 crore with an estimated Gross Budgetary Support (GBS) of ₹97,631 crore from the Central Government. The objectives of the scheme are:

(i) Reducing the AT&C losses to 12 to 15 *per cent* by 2024-25 and,

(ii) Reducing the gap between the Average Cost of Supply (ACS) and Average Revenue Realised (ARR) to zero by 2024-25.

The total outlay approved for Tamil Nadu stood at ₹28,731.74 crore which includes ₹19,163.50 crore for smart metering and ₹9,568.24 crore for loss reduction works. The scheme is under initial stages of implementation as tendering and award of works are in progress.

4. Government Financial Support and Subsidies to DISCOMs

The State government has consistently increased its financial support to sustain TANGEDCO's operations. Details of the tariff subsidy and grants extended by the Government to TANGEDCO during the period from 2013-14 to 2024-25 are presented in **Table 3.14.**

Table 3.14: Year-wise of tariff subsidy and grants provided during 2013-14 to 2024-25

(₹ in crore)

Year	Tariff Subsidy	Grants	Total
2013-14	4,985.09	962.00	5,947.09
2014-15	5,953.00	2,000.00	7,953.00
2015-16	6,879.33	1,053.00	7,932.33
2016-17	8,484.91	2,350.00	10,834.91
2017-18	7,724.30	4,857.77	12,582.07
2018-19	7,693.92	5,013.00	12,706.92
2019-20	8,053.11	5,345.08	13,398.19
2020-21	8,269.73	7,563.00	15,832.73
2021-22	8,876.36	11,671.06	20,547.42
2022-23	12,069.97	12,315.36	24,385.33
2023-24	14,976.42	17,127.18	32,103.60
2024-25	7,515.95	17,121.03	24,636.98
Total	**1,01,482.09**	**87,378.48**	**1,88,860.57**

(Source: 2013-14 to 2023-24 - Policy note of Energy Department and Appropriation Accounts 2024-25)

It could be seen from **Table 3.14**, that both tariff subsidy and grants exhibit an overall increasing trend during the period under review. The total financial support, in the form of subsidy and grants, increased significantly from ₹5,947.09 crore in 2013–14 to ₹24,636.98 crore in 2024–25, representing an increase of nearly 314 *per cent*.

Audit also noted that timely finalisation of Ind AS Accounts up to 2022–23 enabled TANGEDCO to avail additional financial support of ₹6,000 crore (equivalent to 0.25 *per cent* of GSDP) from the Government.

The UDAY scheme's implementation in Tamil Nadu was hindered from the outset by **partial debt takeover** and the treatment of assistance as **loans rather than grants**. While the recent 2024 unbundling into green and fossil-fuel corporations marks a strategic shift, the utility continues to face a widening ACS-ARR gap and a heavy debt-servicing burden.

3.15 Misappropriations, losses, thefts, etc.

Article 294 of the Tamil Nadu Financial Code (Vol-I) stipulates that the Heads of Office should report all cases of defalcations or loss of public money, stores or other movable or immovable properties to the Accountant General (A&E). Further, the Financial Code prescribes the principles and procedures to be followed for enforcing responsibility for losses and disposal of cases.

As on 31 March 2025, 340 cases of misappropriation, losses and theft, involving ₹ 27.92 crore were pending disposal. The department-wise break-up of pending cases is given in ***Appendix 3.2***. The age-wise profile along with reasons for pendency is given in **Tables 3.15 and 3.16** respectively.

Table 3.15: Profile of misappropriations, losses, defalcations, etc.

Range in years	No. of cases	Amount involved (₹ in crore)
0-5	60	3.43
6-10	15	9.44
11-15	29	3.37
16-20	29	2.95
21 and above	207	8.73
Total	**340**	**27.92**

(Source: Departmental data/information)

Table 3.16 Reasons for pendency of the cases

(₹ in crore)

Sl. No.	Reasons for pendency	No. of cases	Amount involved
1	Awaiting departmental and criminal investigation	139	10.65
2	Departmental action initiated but not finalized.	99	4.99
3	Criminal proceedings finalized but recovery of the amount still pending.	12	0.76
4	Awaiting orders for recovery or write off	65	3.72
5	Pending in Courts of law	25	7.80
	Total	**340**	**27.92**

(Source: Departmental data/information)

Analysis of a case of misappropriation involving ₹20.13 lakh in the Health and Family Welfare Department during 2005-06 revealed that the individual concerned was dismissed from service in July 2015. After a lapse of five years, in 2020, the individual sought a review of the dismissal, citing the pendency of a criminal case as the reason for the delay. Subsequently, in 2023, he filed a writ petition before the Madras High Court seeking to quash the dismissal order and for reinstatement with all consequential benefits. The Hon'ble Court dismissed the writ petition and granted 16 weeks' time to the Department to dispose of the matter. Accordingly, the Department disposed of the case in September 2025 and the individual was not reinstated. The misappropriated amount could not be recovered, as no dues were payable to the individual.

3.16 Follow up action on State Finances Audit Report

In every State, the Public Accounts Committee (PAC)/Finance Department require the line departments to provide 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 line departments are also required to provide Action Taken Notes (ATNs) to the Accountant General (Audit) (for vetting and onward transmission to the PAC) within three months of tabling the Reports.

3.16.1 Status of discussion of the State Finances Audit Reports by the Public Accounts Committee (PAC)

Out of 273 pending paragraphs included in the SFARs from 2008-09 to 2023-24 pending for discussion, only 31 paragraphs have been discussed (as of November 2025).

3.16.2 Action Taken Notes (ATNs) pending from the Departments

Action Taken Notes are pending from various departments in respect of five paras (2020-21 to 2022-23) relating to persistent savings, 11 paras (2009-10 to 2017-18) relating to Appropriation *vis-a-vis* Allocative priorities, three paras (2020-21 to 2022-23) on unnecessary/excessive/inadequate supplementary provision, four paras on anticipated savings partially surrendered or not surrendered (2008-09 and 2015-16) and four paras on expenditure without provision for the period from (2014-15 to 2022-23).

3.17 Conclusion

This chapter highlights systemic issues affecting the completeness, transparency and reliability of the State's financial reporting. In addition to non-achievement of the targets relating to Fiscal indicators (Revenue and Fiscal Deficit) during the year, quality of account was affected due to weaknesses in accounting and financial management practices thereby diluting the accuracy of the State's reported financial position.

Audit observed that off-budget borrowings, undischarged liabilities and partial transfer of statutory levies resulted in understated liabilities and reduced transparency. Funds remained outside the Government's active cash management framework due to unspent balances in DDO bank accounts, lapsed deposits not brought to revenue, delays in submission of utilisation certificates, non-adjustment of temporary advances over extended periods and continued operation of unauthorised personal deposit accounts further weakened accountability and financial reporting.

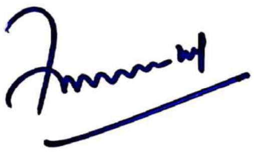
The extensive use of the omnibus Minor Head "800 – Other Receipts/Expenditure" obscured the true nature of receipts and expenditure, limiting meaningful analysis of allocative priorities. In addition, arrears in submission of accounts by autonomous bodies and long-pending cases of misappropriation and losses point to gaps in internal controls and follow-up mechanisms.

Overall, while the accounting framework is in place, deficiencies in compliance, disclosure and timeliness continue to affect the quality of financial reporting and transparency.

3.18 Recommendations

1. *The Audit recommends that the State Government strengthen financial reporting and accountability through focused corrective measures. All liabilities, including off-budget borrowings undertaken through public sector undertakings and statutory bodies, should be comprehensively disclosed to present a transparent picture of the State's debt position.*
2. *Timely discharge of statutory and contractual obligations such as interest payments, pension contributions, and transfers to designated funds should be ensured to avoid accumulation of hidden liabilities and misstatement of fiscal indicators. Mechanisms for strict monitoring of utilisation certificates and adjustment of temporary advances should be institutionalised.*

3. *Classification of transactions under appropriate heads of account should be strengthened by restricting the routine use of Minor Head "800" and completing reclassification exercises in a time-bound manner.*
4. *Expeditious investigation and closure of cases relating to misappropriation, losses and thefts are essential to safeguard public funds and reinforce fiscal discipline.*



(FREDERICK SYIEMLIEH)
Principal Accountant General (Audit-I),
Tamil Nadu

Chennai
The 12 May 2026

Countersigned

(K. SANJAY MURTHY)
Comptroller and Auditor General of India

New Delhi
The 22 May 2026