

Chapter III

Financial Reporting

A sound internal financial reporting system with relevant and reliable information significantly contributes to efficient and effective governance by a State Government. Compliance with financial rules, procedures and directives as well as timeliness and quality of reporting on the status of such compliances are some of the attributes of good governance. Reports on compliance and controls, if effective and operational, assist a State Government in meeting its basic stewardship responsibilities, including strategic planning and decision-making. This chapter provides an overview and status of the State Government's compliance with various financial rules, procedures and directives during the current year.

3.1 Delay in furnishing utilisation certificates

Financial rules³⁰ of the Government require that the authority sanctioning grant-in-aid is to stipulate in every order sanctioning the grant a time limit for utilisation of the grant not exceeding one year from the date of sanction. The utilisation certificate for grants-in-aid exceeding ₹ 10000, is to be forwarded to the Principal Accountant General (Accounts and Entitlement), Kerala. In the case of sanction not exceeding ₹ 10000, the utilisation certificate is to be watched by the Head of Department and he is required to send a statement to the Principal Accountant General (Accounts and Entitlement), Kerala indicating the number and date of sanction, authority issuing sanction, name of grantee institution, etc., not later than 30 June. It was observed that 47 utilisation certificates for ₹ 15.36 crore were yet to be received as of June 2011 in respect of grants paid during the period 2009-10 and 2010-11. Details of department-wise breakup of outstanding utilisation certificates are given in **Appendix 3.1**. The age-wise position of delays in submission of utilisation certificates is summarised in **Table 3.1**.

Table 3.1: Age-wise arrears of utilisation certificates

(₹ in crore)

Range of delay in number of years	Total grants paid		Utilisation Certificates outstanding	
	Number	Amount	Number	Amount
Less than 1 year	232	243.33	47	15.36

3.2 Non-submission/delay in submission of Accounts

In order to identify the institutions which attract audit under Sections 14 and 15 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971, the Government/Heads of Department are required to furnish to Audit every year, detailed information about the financial assistance provided to various institutions, the purpose of assistance granted and the total expenditure of the institutions. The accounts of 270 bodies/authorities received for the year 2009-10, attracted audit by the Comptroller and Auditor General of India. Of these 270 bodies/authorities, 129 were audited during 2010-11.

³⁰ Article 210 of the Kerala Financial Code (Vol.I).

As of March 2011, 10 annual accounts of ten autonomous bodies/authorities due up to 2009-10 had not been received by the Principal Accountant General (Civil and Commercial Audit), Kerala. The details of these accounts are given in **Appendix 3.2** and their age-wise pendency is presented in **Table 3.2**.

Table 3.2: Age-wise arrears of annual accounts due from Government Bodies

Sl. No.	Delay in number of years	Number of Bodies/ Authorities
1.	Less than 1 year	10

Source: As per records maintained by the Principal Accountant General (Audit)

3.3 Delay in submission of accounts/Audit Reports of Autonomous Bodies

There are 23 autonomous bodies in the field of legal aid, human rights, development of khadi, etc. The audit of accounts of these bodies in the State has been entrusted to the Comptroller and Auditor General of India under Sections 19(2), 19(3) and 20 (1) of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. The status of entrustment of audit, rendering of accounts to audit, issuance of Separate Audit Reports and their placement in the Legislature are indicated in **Appendix 3.3**.

3.4 Departmentally managed Commercial Undertakings

The departmental undertakings of certain Government departments performing activities of quasi-commercial nature are required to prepare *pro forma* accounts in the prescribed format annually, showing the working results of financial operations so that the Government can assess their working. The finalised accounts reflect their overall financial health and efficiency in conducting their business. In the absence of timely finalisation of accounts, the investment of the Government remains outside the scrutiny of Audit. Consequently, corrective measures cannot be taken in time and the delay may also open the system to the risk of fraud and leakage of public money.

Heads of Department in the Government are required to ensure that the undertakings prepare such accounts and submit the same to the Principal Accountant General (Civil and Commercial Audit), Kerala within a specified timeframe.

As of 31 March 2011, there were three³¹ such undertakings, which had not prepared their accounts up to 2009-10. The department-wise position of arrears in preparation of *pro forma* accounts and investments made by the Government is given in **Appendix 3.4**.

3.5 Misappropriations, losses, defalcations, etc.

Article 297 of the Kerala Financial Code provides that cases of defalcation or loss of public money, stamps, stores or other property should be reported to

³¹ Kerala State Insurance Department, State Water Transport Department and Text Book Office

the Principal Accountant General (Civil and Commercial Audit), Kerala as well as to the Heads of Department.

The State Government reported 119 cases of misappropriation, defalcation, etc., involving Government money amounting to ₹ 7.45 crore up to the period June 2011 on which final action was pending. The department-wise break up of pending cases and age-wise analysis are given in **Appendix 3.5** and the nature of these cases is given in **Appendix 3.6**. The pending cases in each category as emerged from these appendices are summarised in **Table 3.3**.

Table 3.3: Profile of misappropriations, losses, defalcations, etc.

Age-profile of the pending cases			Nature of the pending cases		
Range in years	Number of cases	Amount involved (₹ in lakh)	Nature/ characteristics of the cases	Number of cases	Amount involved (₹ in lakh)
Less than 5 years	20	142.15	Theft	15	4.30
5 - 10	49	425.71	Misappropriation/loss of material	104	740.32
10 - 15	20	64.44			
15 - 20	13	95.02			
20 - 25	11	7.20			
25 and above	6	10.10	Cases of losses written off during the year	Nil	Nil
Total	119	744.62	Total pending cases	119	744.62

Source: Cases reported by departments of the State Government

Further analysis indicates that the reasons for which the cases were outstanding could be classified under the four categories listed in **Table 3.4**.

Table 3.4: Reasons for outstanding cases of misappropriations, losses, defalcations, etc.

Sl.No.	Reasons for the delay/outstanding pending cases	Number of cases	Amount (₹ in lakh)
1	Awaiting departmental and criminal investigation	Nil	Nil
2	Departmental action initiated but not finalised	57	506.08
3	Awaiting orders for recovery or write off	43	150.83
4	Pending in the courts of law	19	87.71
	Total	119	744.62

Source: Information received from Departments of the State Government

3.6 Operation of omnibus Minor Head - 800

Bookings under Minor Head '800 – Other Receipts' and '800-Other Expenditure' is opaque as these heads do not disclose the schemes, programmes, etc, to which the amount relate. It accommodates expenditure/receipts which cannot be classified under the available programme minor heads.

During 2010-11, expenditure aggregating ₹ 3575.04 crore was classified under the Minor Head '800 Other Expenditure' in the accounts under 77 Major Heads of Accounts which constituted more than nine *per cent* of the total expenditure recorded under these Major Heads. Some significant expenditure on schemes such as 'Road renovation scheme implemented through Local Self Government Institutions (₹ 179.22 crore), 'Development of Vizhinjam Deep Water International Transshipment Terminal' (₹ 140.26 crore), 'Rashtriya

Krishi Vikas Yojana (ACA) (₹ 120.20 crore), 'Land Acquisition and Infrastructure Development under IT-Technopark and Infopark' (₹ 116.18 crore), 'Special Development Fund for MLAs' (₹ 108.00 crore), 'House to Houseless-SCP' (₹ 106.89 crore), 'Debt Relief Programme for Fishermen outside Tsunami Area' (Rs 100.00 crore), etc. are not depicted distinctly in the Finance Accounts, but are rolled up in the minor head '800-Other Expenditure' though the details of the expenditure are depicted at the sub-head (scheme) level or below in the Detailed Demands for Grants and corresponding Head-wise Appropriation Accounts forming part of the State Government accounts.

Similarly, Revenue Receipts aggregating ₹ 435.96 crore were classified under the Minor Head '800-Other Receipts' under 51 Major Head of accounts which represents 1.69 per cent of the total receipts under these Major Heads. Major amounts of Non-tax Revenue under Co-operation, Other Administrative Services, Roads and Bridges, etc. were classified under this Minor Head.

Classification of large amounts under the omnibus Minor head '800-Other Expenditure/Receipts' affected the transparency in financial reporting.

3.7 Transfer of funds to Personal Deposit Accounts

Transfer to Personal Deposit Accounts (PD Accounts) is booked as expenditure in the Consolidated Fund (service major heads) of the State. The Kerala Financial Code stipulates that the PD Accounts administered by Government officers, which are created by transferring money from the Consolidated Fund of the State should be closed at the end of the financial year and the balance credited back to the Consolidated Fund unless such PD Accounts were created by law or Rules having the force of law. The aggregate balance in the PD Accounts as on 31 March 2010 was ₹ 76.34 crore. During 2010-11, an amount of ₹ 918.07 crore was credited to PD Accounts and ₹ 866.23 crore was debited to these accounts. The aggregate balance in the PD Accounts as on 31 March 2011 was ₹ 128.18 crore.

3.8 Conclusion

Non-submission of utilization certificates in respect of grants released for specific purposes indicated lack of proper monitoring by the departments in the utilization of grants and loans. Non-submission of the annual accounts for audit by the grantee institutions was fraught with the risk of misutilisation of funds. Due to delays in finalisation of accounts by departmental commercial undertakings, the Government's investments in these organisations could not be scrutinised by Audit. The large number of the outstanding cases of misappropriations, losses, etc. and non-recovery of amounts indicated lack of sincere efforts by the departments to make good the losses and fix responsibility.

Significant amounts of expenditure and receipts under Central and State schemes, booked under the Minor head '800-Other expenditure' and '800-Other receipts' were not distinctly depicted in the State Finance Accounts of 2010-11, affecting the correctness of financial reporting.

3.9 Recommendations

The Government should ensure that:

- the departments submit utilisation certificates in respect of the grants released for specific purposes to the grantee institutions in time;
- the annual accounts in respect of the autonomous bodies are submitted in time to the Principal Accountant General (Civil and Commercial Audit), Kerala;
- departmental enquiries in respect of all fraud and misappropriation cases are expedited to bring the defaulters to book and internal controls in all the organisations are strengthened to prevent such cases and
- large amounts received or expended under various schemes are depicted in the accounts distinctly, instead of clubbing the same under the Minor head '800-Other Expenditure' and '800-Other Receipts' to ensure correctness in financial reporting.



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