

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 rules²⁷ 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 ₹ 10,000 is to be forwarded to the Principal Accountant General (Accounts and Entitlement), Kerala. In the case of sanction not exceeding ₹ 10,000, the utilisation certificate is to be watched by the Head of Department who 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 160 utilisation certificates for ₹ 328.63 crore were yet to be received as of June 2012 in respect of grants paid during the period 2009-10 to 2011-12. 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	180	331.65	145	320.86
More than one year	232	243.33	15	7.77
Total	412	574.98	160	328.63

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

²⁷ Article 210 of the Kerala Financial Code (Vol.I)

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 273 bodies/authorities received for the year 2010-11, attracted audit by the Comptroller and Auditor General of India. Of these 273 bodies/authorities, 107 were audited during 2011-12.

As of March 2012, annual accounts of 20 autonomous bodies/ authorities due up to 2010-11 had not been received by the Principal Accountant General (Social and General Sector Audit), Kerala. The details of these accounts are given in **Appendix 3.2**

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

The State Government reported 115 cases of misappropriation, defalcation, etc., involving Government money amounting to ₹ 7.29 crore up to the period June 2012 on which final action was pending. The department-wise break up of pending cases and age-wise analysis are given in **Appendix 3.4** and the nature of these cases is given in **Appendix 3.5**. The pending cases in each category as emerged from these appendices are summarised in **Table 3.2**.

Table 3.2: 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	14	64.94	Theft	15	4.30
5 - 10	44	452.31	Misappropriation/loss of material	100	724.74
10 - 15	27	176.13			
15 - 20	13	18.98			
20 - 25	10	6.02	Total	115	729.04
25 and above	7	10.66	Cases of losses written off during the year	Nil	Nil
Total	115	729.04	Total pending cases	115	729.04

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 3.3**.

Table 3.3: 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	60	582.86
3	Awaiting orders for recovery or write off	37	68.14
4	Pending in the courts of law	18	78.04
Total		115	729.04

Source: Information received from Departments of the State Government

3.5 Operation of omnibus Minor Head - 800

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

During 2011-12, expenditure aggregating ₹ 3,568.16 crore was classified under the Minor Head '800 Other Expenditure' in the accounts under 75 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 'Rashtriya Krishi Vikas Yojana (ACA)' (₹ 211.34 crore), 'Special Development Fund for MLAs' (₹ 142.75 crore), 'Medical Allowance to

Pensioners' (₹ 133.67 crore), 'Pooled Fund for SCP' (₹ 124.00 crore), 'Jawahar Lal Nehru National Urban Renewal Mission (Central Assistance)' (₹ 108.18 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 ₹ 648.62 crore were classified under the Minor Head '800-Other Receipts' under 47 Major Head of accounts which represents 2.04 *per cent* of the total receipts under these Major Heads. Major amounts of Non-tax Revenue under Co-operation, Other Administrative Services, Ports and Light Houses, 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.

3.6 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. Article 282 (d) of 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 2011 was ₹ 128.18 crore. During 2011-12, an amount of ₹ 1,024.12 crore was credited to PD Accounts and ₹ 1,069.04 crore was debited to these accounts. The aggregate balance in the PD Accounts as on 31 March 2012 was ₹ 83.26 crore.

3.7 Conclusion

As of June 2012, 160 utilisation certificates for ₹ 328.63 crore were to be received in respect of grants paid during 2009-10 to 2011-12. Twenty annual accounts from 20 autonomous bodies/authorities due upto 2010-11 had not been received as of March 2012. The departmental compliance towards disposal of cases of losses, misappropriation, etc., was deficient and 115 cases involving ₹ 7.29 crore were pending final action as on June 2012. Significant amount of expenditure and receipts under Central and State schemes, booked under Minor head '800-Other Expenditure' and '800-Other receipts' were not distinctly depicted in the State Finance Accounts 2011-12 affecting the correctness of financial reporting.

3.8 Recommendations

The Government should ensure that:

- utilisation certificates in respect of the grants released for specific purposes are received in time;
- 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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