

Financial Reporting

CHAPTER – III

FINANCIAL REPORTING

A sound internal financial reporting system based on compliance with financial rules is one of the attributes of good governance. This chapter provides an overview and status of compliance of the departments of the State Government with various financial rules, procedures and directives during the current year.

3.1 Non-submission of utilisation certificates

Sikkim Financial Rules (SFR) (Rule 116 (1)) states that every grant made for a specific object is subject to the implied conditions, (i) that the grant shall be spent upon the object within a reasonable time (which should ordinarily be interpreted to mean one year from the date of issue of the letter sanctioning the grant as per note below Rule 116), if no time limit has been fixed by the sanctioning authority; and (ii) that any portion of the amount which is not ultimately required for expenditure upon that object shall be duly surrendered to Government. However, 777 utilisation certificates (UCs) aggregating to ₹ 6.32 crore in respect of grants-in-aid paid up to 2011-12, were in arrears as of March 2012 as detailed in **Appendix 3.1**.

The age-wise arrears of UCs is summarised in **Table 3.1**

Table - 3.1: Age-wise arrears of utilisation certificates

(₹ in lakh)

Sl. No.	Range of Delay in Number of Years	Total grants released		Utilisation Certificates in arrears	
		Number	Amount	Number	Amount
1	9 & above	32	51.81	5	1.26
2	7-9	0	0	0	0
3	5-7	355	79.00	0	0
4	3-5	444	858.22	163	272.06
5	1-3	213	744.97	69	174.12
6	0-1	636	946.35	540	184.57
Total		1,680	2,680.35	777	632.01

Source: Information furnished by the State Government departments

Major cases of non-submission of UCs related to Ecclesiastical Department (85 per cent) and Cultural Affairs and Heritage Department (10 per cent). Non-submission of UCs defeats the very purpose of release of the money to the beneficiary organisations and also gives rise to possibility of misuse/ diversions.

3.1.1 Review of grants

A detailed review on utilisation of grants in Cultural Affairs and Heritage Department revealed the following:

- The Notification No. 4/CA dated 7.12.2002 of Cultural Affairs and Heritage

Department (CHD), Government of Sikkim, Gangtok, laid down the general guidelines in respect of grants-in-aid and stipulated that Utilisation Certificates (UCs) should be submitted within three months from the date of release of grants.

Test check (August 2012) revealed that the CHD released grants of ₹ 10.49 crore (including ₹ 8.66 lakh paid from Other Charges head during 2010-11) to 500 numbers of units during the year 2007-08 to 2011-12. However, UCs in respect of 284 numbers for ₹ 4.67 crore were not received till the date of audit (November 2012) as detailed in **Appendix 3.2.**

- The grants for fairs and festivals should not exceed ₹ 1 lakh. However, the Department paid more than ₹ 1 lakh for fair and festivals in 16 cases (₹ 28.18 lakh) during 2007-08 to 2011-12 as detailed at **Appendix 3.3.**
- The grants for repair and renovation of religious/cultural institutions should be released 60 per cent in advance and remaining balance released after inspection of progress and satisfactory completion of the work. However, the Department paid ₹ 1 lakh (@ ₹ 20,000 each) in full to five units and inspection of progress was also not done.
- According to Sikkim Financial Rules, Institutions or Bodies receiving grants-in-aid exceeding ₹ 1 lakh per annum recurring or ₹ 5 lakh non-recurring were required to maintain subsidiary accounts of the Government grants and furnish to the Accountant General:
 1. A copy of the audited statement of their accounts; and
 2. A copy of their Constitution.

Test check revealed that against 26 cases of recurring grants above ₹ 1 lakh released during 2007-08 to 2011-12, in 14 cases involving ₹ 1.44 crore, no audited statement of accounts and copy of their Constitution (except Sikkim Academy and Namgyal Institute of Tibetology) was furnished as detailed at **Appendix 3.4.**

Similarly, in case of non-recurring grants exceeding ₹ 5 lakh, against 22 cases released during 2007-08 to 2011-12, in 8 cases involving ₹ 2 crore, no audited statement of accounts and copy of their Constitution (except Namgyal Institute of Tibetology) was furnished as detailed at **Appendix 3.5.**

- The State Government decided (August 2008) to provide financial assistance to all the ethnic communities of Sikkim for construction of their traditional houses to showcase their culture, tradition and also to facilitate them to organise such meetings and programmes on their own without having to spend their resources on hired premises. Each of these ethnic communities should have their own land for construction of traditional houses and the maximum financial assistance under this scheme was fixed at ₹ 50 lakh per house.

As per Cabinet sanction, 2nd installment of ₹ 25 lakh was to be released subject to the submission of Detailed Project Reports (DPRs) and UCs of the first installment.

Test-check revealed that the Department released grants of ₹ 2.50 crore to ten¹ communities (eight communities in 2008-09 and two communities in 2010-11) as 1st installment.

The Department released 2nd installment to all the ten communities for ₹ 2.50 crore (eight in 2010-11 and two in 2011-12) against which seven² communities were yet to submit the UCs of 2nd installment.

Audit scrutiny on release of 2nd installment of grants to these ten communities revealed that none of these communities had submitted the DPR. Thus, the release of 2nd installment of ₹ 2.50 crore was irregular. Further, analysis on annual accounts of these ten communities revealed that ₹ 95.86 lakh was irregularly diverted by eight³ communities for acquisition of land. It was noticed that seven⁴ of these communities were yet to start (June 2012) the construction. It was also noticed that the Bhujel Community, instead of utilising had invested the funds of ₹ 35.59 lakh (₹ 10 lakh + ₹ 25.59 lakh) in Fixed Deposits with the Bank.

The Department had not laid down the guideline as to the planning, mode of execution and completion of house/ monitoring of the progress. Thus, funds were also utilised irregularly and also parked with a bank thereby resulting in non-construction of community traditional houses in these cases.

- Watch Register is an important register to keep a watch and control on release of grants and its utilisation. The Department had not maintained the said register. Consequently, the Department could not keep a watch on the utilisation certificate for ₹ 98.91 lakh released in 2007-08.

During discussion, the Commissioner-cum-Secretary, Cultural Affairs and Heritage Department while admitting the fact on non-compliance with the Notification issued on 7 December 2002 stated (September 2012) that the Department would revisit the Notification as the amount prescribed in that notification needs changes and action would be taken to amend the same.

As with Traditional Houses, the Commissioner-cum-Secretary admitted the fact that there were irregularities on utilisation of funds on land and also investing in the Bank. However, it was stated that necessary action would be taken to ensure that the Communities completed the traditional houses from their own funds. It was further agreed that Watch Register was important and henceforth, Watch Register would be maintained.

¹Chettri/Bahun, Newar, Tamang, Sunwar, Lepcha, Thami, Mangar, SC community, Limbu and Bhujel.

²Chettri/Bahun, Newar, Tamang, Sunwar, Lepcha, Thami and Limbu.

³SC community: ₹ 6.96 lakh, Bhujel: ₹ 4.50 lakh, Thami: ₹ 20.90 lakh, Chettri/Bahun: ₹ 25 lakh, Tamang: ₹ 5 lakh, Newar: ₹ 10 lakh, Sunwar: ₹ 50 lakh and Mangar: ₹ 16 lakh

⁴Bhujel, SC community, Chettri/Bahun, Newar, Tamang, Sunwar and Thami.

3.2 Non-submission/delay in submission of accounts

To identify the Institutions which attract Audit under Sections 14 and 15 of the CAG's (Duties, Powers and Conditions of Service) Act 1971, the Heads of the Government departments were required to furnish to Audit every year information about the Institutions to which financial assistance of ₹ 25 lakh or more was given, the purpose for which assistance was granted and the total expenditure of the Institutions.

Departments did not furnish information in respect of twenty seven Bodies and Authorities pertaining to grants received aggregating ₹ 25 lakh or more for the period ranging from two years to more than five years, as detailed in **Appendix 3.6**.

3.3 Status of submission of accounts of autonomous bodies and placement of audit reports before the State Legislature

Several Autonomous Bodies have been set up by the State Government in the field of Rural Development, Urban Development, Khadi and Village Industries, State Health and Family Welfare, Science and Technology, etc. The audit of accounts of eight bodies in the State have been entrusted to the CAG. These are audited with regard to their transactions, operational activities and accounts, conducting regulatory/compliance audit, review of internal management and financial controls, review of systems and procedures, etc.

Separate Audit Reports of two Autonomous Bodies for the years 2005-06 to 2007-08, one Autonomous Body for the years 2007-08 to 2009-10 and one Autonomous Body for the years 2006-07 to 2009-10 were yet to be placed before the State Legislature.

The status of entrustment of audit, rendering of accounts to Audit, issuing of Separate Audit Report and their placement before the State Legislature are indicated in **Appendix 3.7**.

3.4 Departmental Commercial Undertakings

The departmental undertakings of certain Government departments performing activities of commercial and 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 of departmentally managed commercial and quasi-commercial undertakings 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 the Audit/State Legislature. Consequently, corrective measures, if any required, for ensuring accountability and improving efficiency cannot be taken up in time. Besides, the delay in all likelihood may also open the system to risk of fraud and leakage of public money.

The heads of departments in the Government are to ensure that the undertakings prepare and submit such accounts to the Principal Accountant General for audit within a specified time frame. In respect of five undertakings which have been closed/transferred/converted into co-operative federation, proforma accounts were due from 2006-07. The position of arrears in preparation of proforma accounts by the undertakings is given in **Appendix 3.8**.

3.5 Misappropriation, losses, etc.

There were nine cases of misappropriation, losses, etc., involving Government money amounting to ₹ 2.39 crore at the end of 2011-12 on which final action was pending. The department-wise break up of pending cases and age-wise analysis is given in **Appendix 3.9** and nature of these cases are given in **Appendix 3.10**. The age-profile of the pending cases with the number of cases pending in each category of theft, misappropriation/loss, etc. is given in **Table 3.2**.

Table - 3.2: Profile of pending cases of misappropriation, loss, defalcation, etc.

(₹ in lakh)

Age-profile of the pending cases			Nature of the pending cases	Number of cases	Amount involved
Range in years	Number of cases	Amount involved			
16-20	2	12.96	Misappropriation/ Loss of material	8	239.33
11-15	1	42.63			
6-10	2	149.00			
0-05	3	34.74			

Source: Information from State Government Department

Around 70.40 per cent of the amount involved pertained to Transport Department.

3.6 Reconciliation of expenditure and receipts

To enable the controlling officers to exercise effective control over expenditure, to keep it within the budget grants and to ensure accuracy of their accounts, expenditure recorded in their books have to be reconciled by them every month during the financial year with those recorded in the books of the Senior Deputy Accountant General (Accounts & Entitlements).

Even though, non-reconciliation of departmental figures was being pointed out regularly in Audit Reports, lapses on the part of Chief Controlling Officers (CCOs) in this regard, were noticed during 2011-12. All the 33 CCOs for Receipt Heads had fully reconciled their receipt accounts. Also in respect of 48 CCOs for Expenditure Heads, reconciliation has been completed in all cases.

3.7 Comments on Accounts

Suspense and Remittances

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. The position of gross figures under major suspense heads for the last three years is given below:

8658-Suspense Accounts

Table 3.3: Details of Suspense Accounts

(₹ in lakh)

Minor Head	2009-10		2010-11		2011-12	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
101-PAO-Suspense	556.76	147.35	453.16	0.11	763.17	468.14
Net	Dr 409.41		Dr 453.05		Dr 295.03	
102-Suspense Account (Civil)	224.63	182.08	90.64	(-)14.66	98.66	(-)13.15
Net	Dr 42.55		Dr 105.30		Dr 111.81	
112-Tax Deducted at Source	2.02	509.83	1,215.33	1,520.68	1,453.62	2,027.28
Net	Cr 507.81		Cr 305.35		Cr 573.66	
123-AIS Suspense	1.25	3.64	2.70	3.33	5.29	32.64
Net	Cr 2.39		Cr 0.63		Cr 27.35	
135-Cash Settlement between PAG, Sikkim and Other States	18.16	1.73	21.68	00	75.43	12.34
Net	Dr 16.43		Dr 21.68		Dr 63.09	

Source : Finance Accounts

➤ Pay and Accounts Office (PAO) Suspense

In the absence of any entitlement functions with the office of the Sr. DAG (A&E) Sikkim, this minor head was directly operated by the State Government for settlement of the pension disbursed to the Central Government pensioners and pensioners of other States (other than West Bengal and North-Eastern States). The pension disbursed by the State Government were booked as debit balance and on receipt of the reimbursement claim raised by the State Government, the debit balance was adjusted. The net debit balances under this head had been showing a fluctuating trend.

➤ Suspense Account (Civil)

This minor head was operated for accounting transactions due to absence of certain information/documents, viz. voucher, challans, etc., as they cannot be taken to the final receipt or expenditure head. This minor head was credited for recording receipts and debited for expenditure incurred. On receipt of requisite information/documents, etc., the minor head was cleared by minus debit or minus credit by per contra debit or credit to the concerned head of account. The net debit balances under this head had been showing an increasing trend during 2009-12.

➤ Tax deducted at Source

Consequent upon the implementation of the Central Income Tax in the State of Sikkim with effect from 16 June 2008, the tax deducted at source were credited under this minor head. The amount was directly remitted to the Government of India by the State Government giving per contra credit alongwith the necessary adjustment in the accounts. The net credit balance under this head was the amount to be remitted to the Government of India. The credit balance under this head had been showing a fluctuating trend.

➤ Accounts suspense

Contributions towards the Central Government Employees Group Insurance Scheme

recovered from the salaries of the All India Service Officers who were serving in the State of Sikkim were credited under this minor head. As and when the contributed amount was transmitted by the State Government to the Government of India, the balance would be debited with necessary adjustment in the accounts. The credit balance under this head had been showing a fluctuating trend.

➤ **Cash settlement between Principal Accountant General, Sikkim and other States**

This minor head was operated for the settlement of pension paid by the State Government in respect of the pensioners of West Bengal and North-Eastern States Government pensioners. On receipt of the claim alongwith the details of pension disbursed by the State Government, the claims were forwarded to the respective Accountants General and the amount was booked as debit balance under this minor head. On receipt of cheque/demand draft against the claim, the debit balance would be reduced by giving per contra debit adjustment in the accounts. The net debit balance under this head had been showing an increasing trend during 2009-12.

3.8 Conclusion

The foregoing discussion discloses deficiencies in furnishing UCs in time against grants/loans received, non-furnishing of detailed information about financial assistance received by various Institutions and non-submission of accounts in time. There was delay in placement of Separate Audit Reports to the Legislature and arrears in finalisation of accounts by the Autonomous Bodies/Authorities. Besides, cases of misappropriation and loss indicated inadequacy of controls in the departments.

Gangtok
The



(L. Angam Chand Singh)
Principal Accountant General (Audit),
Sikkim, Gangtok

Countersigned

New Delhi
The



(Vinod Rai)
Comptroller and Auditor General of India