

## Chapter III

### Financial Reporting

A sound internal financial reporting with relevant and reliable information significantly contributes to efficient and effective governance by the State Government. Compliance with financial rules, procedures and directives as well as the timeliness and quality of reporting on the status of such compliance is thus one of the attributes of good governance. The reports on compliance and controls, if effective and operational, assist the 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 Rules provide that for the grants provided for specific purposes, Utilisation Certificates (UCs) should be obtained by the departmental officers from the grantees and after verification, these should be forwarded to the Accountant General (Accounts & Entitlement) within 12 months from the date of their sanction unless specified otherwise. However, of the 440 utilisation certificates (UC) in respect of five departments aggregating ₹ 1586.24 crore, paid up to 2011-12, 75 UCs (17.05 per cent) for an aggregate amount of ₹ 73.54 crore were in arrears. The department-wise break-up of outstanding UCs is given in **Appendix 3.1** and the age-wise delay in submission of UCs is summarised in **Table 3.1**.

**Table 3.1: Age-wise arrears of utilisation certificates**

*(Rupees in crore)*

Sl. No.	Range of delay in number of years	Total grants paid		Utilisation certificates outstanding	
		Number of cases	Amount	Number of cases	Amount
1	0 - 1	16	119.68	9	31.64
2	1 - 3	200	880.20	56	35.51
3	3 - 5	224	586.36	10	6.39
<b>Total</b>		<b>440</b>	<b>1586.24</b>	<b>75</b>	<b>73.54</b>

In the absence of the certificates it could not be ascertained whether the recipients had utilised the grant for the purpose for which these were given.

#### 3.1.1 Accounting and Classification of Grants-in-Aid

As per the Indian Government Accounting Standards (IGAS)-2 (Accounting and Classification of Grants-in-Aid) Expenditure under Grants-in-Aid are classified and accounted under Revenue Expenditure. However, it was noticed that an amount of ₹ 12.82 crore being grants-in-aid had

been incurred under Capital Expenditure instead of Revenue Expenditure which is violation of IGAS-2.

### **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/Head of the Departments are required to furnish to Audit every year detailed information about the financial assistance given to various Institutions, the purpose of assistance granted and the total expenditure of the Institutions.

46 annual accounts of 15 Autonomous Bodies/Authorities due up to 2011-12 had not been received as of October 2012 by the Accountant General (Audit). 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	No. of the Bodies/ Authorities	Grants received (Rupees in Lakhs)
1	1 – 3	12	Not Available
2	3 – 5	-	Not Available
3	5 – 7	3	Not Available

It is seen from the table above that delay in submission of accounts ranged between five and seven years in respect of the three Bodies/Authorities.

Due to the absence of annual accounts and subsequent audit of these 15 Bodies and Authorities involving 46 annual accounts, the proper accounting/utilisation of the grants and loans disbursed to these Bodies/Authorities remained unverified. The reasons for non-preparation of the accounts were, however, not intimated.

### **3.3 Delay in submission of Accounts/Audit Reports of Autonomous Bodies**

Several Autonomous Bodies have been set up by the State Government in the field of development of Khadi and Village Industries, State Legal activities, Power and pollution regulations etc. Of these, the audit of accounts of the Nagaland Khadi and Village Industries Board (NKVIB) up to 2013-14 was entrusted to the Comptroller and Auditor General of India under Section 19 (3) of the DPC Act. However, the annual accounts of the Board for the year 2011-12 due for submission by June 2012 had not been furnished (October, 2012). The status of entrustment of audit, issuance of SAR and its placement in the Legislature in respect of NKVIB are indicated in **Table 3.3**

**Table 3.3: Delay in submission of Accounts and tabling of Separate Audit Reports**

Year of SAR	Period of entrustment	Date of issue of SAR	Date of placement in the Legislature	Delay in placement in the Legislature (Years)
2009-10	2009-14	31.10.2012	NA	-
2010-11	2009-14	The Draft SAR issued to the Board on 20.7.2012 for comments and reminder sent on 16.8.2012. Replies are awaited (October 2012).	NA	-
2011-12	2009-14	Accounts not yet received	NA	-

Nagaland Electricity Regularity Commission and Nagaland Hospital Authority were established<sup>13</sup> under the State Legislative Act and the audit of accounts entrusted to the Comptroller and Auditor General of India under Section 104 and 105 of Central Electricity Act 2003 and Rule 14 of Notification issued under Section 22 of Hospital Authority Bill 2003 by the Government of Nagaland, Health and Family Welfare Department. However, though the annual accounts of these Authorities/Bodies were due for submission to the Accountant General (Audit) every year, the Accounts have not been furnished since its inception.

Further, the Audit of five<sup>14</sup> Authorities/Bodies could not be taken up due to non-receipt of audit entrustment from the State Government.

### 3.4 Departmental Commercial Undertakings

Activities of quasi-commercial nature are also performed by the departmental undertakings of certain Government departments. The department-wise position of the year up to which proforma accounts was not finalised in these undertakings are given in **Appendix 3.3**. It was noticed that:

As on 31 March 2012, there were eight departmentally managed Government commercial undertakings.

A mention was made in the Report of the Comptroller and Auditor General of India on State Finances for the year 2010-11 about delay in preparation of Proforma accounts of these undertakings. Despite this, accounts were in arrears for periods ranging from 2 to 32 years as of January 2012.

The finalised accounts of departmentally managed commercial undertakings reflect their overall financial health and efficiency in conducting their business. In the absence of timely finalisation of accounts, Government's investment remains outside the scrutiny of the Audit/State

<sup>13</sup> Nagaland Electricity Regulatory Commission (04.03.08), Nagaland Hospital Authority.

<sup>14</sup> Nagaland Legal Service Authority 2011-12, Nagaland State Pollution Control Board 2007-08, Nagaland State Agricultural Marketing Board 2009-10, Development Authority 2009-10, Nagaland Board of School Education 2011-12.

Legislature. Consequently corrective measures, if any, required could not be taken in time. Besides, the delay also opens the system to risk of fraud and leakage of public money.

### **3.5 Balances lying unspent in bank accounts**

The Government provides State's share to various Departments/Agencies for implementation of Centrally Sponsored/State Schemes. These Departments/Agencies retain such funds outside the Government account in their bank accounts. As the funds are generally not spent fully by the implementing agencies in the financial year of their receipt, there remain unspent balances in bank accounts and in civil deposits.

The details of funds drawn, its utilisation and funds kept in civil deposit/current bank accounts in respect of 12 Departments/agency are presented in **Table 3.4**.

**Table 3.4: Non-utilisation of funds during the year 2011-12**

*(Rupees in Lakh)*

Sl No	Name of Department/Directorate	Amount drawn	Expenditure incurred	Amount kept in civil deposit	Amount kept in current bank account
1	Directorate of Economics and Statistics	48.30		48.30	
2	Directorate of Prisons	345.44			345.44
3	Directorate of Sericulture	227.87			227.87
4	Directorate of Employment and Craftsmen Training	205.00		205.00	
5	Directorate of New & Renewable Energy	79.65		79.65	
6	Directorate of Land Resources	130.44			130.44
7	Directorate of Horticulture	5870.97	3957.82		1913.15
8	Directorate of Higher Education	1077.80			1077.80
9	Chief Electoral Officer	405.05			405.05
10	Directorate of Technical Education	122.00		122.00	
11	Directorate of Evaluation	116.95		63.22	53.73
12	Transport Commissioner	2494.18	2362.43		131.75
	<b>Total</b>	<b>11123.65</b>	<b>6320.25</b>	<b>518.17</b>	<b>4285.23</b>

The above table shows that an amount of ₹ 111.23 crore was drawn by departments during the year 2011-12 for implementation of different schemes. Out of the amount drawn, the departments utilised only an amount of ₹ 63.20 crore (57 per cent) in the current financial year. The remaining amount was kept in Civil Deposit ₹ 5.18 crore (11 per cent) and current Bank Account ₹ 42.85 crore (89 per cent).

### 3.6 Misappropriation, loss, defalcation, etc.

Rule 20 of General Financial and Accounts Rules Part-I provides that any loss of public money, departmental revenue or receipts, stamps, stores or other property held by or on behalf of Government, caused by misappropriation, fraudulent drawal/payment or otherwise discovered in a treasury, any other office/department shall be reported immediately by the office concerned to the next higher authority as well as to the Accountant General. An attempt was made to collect the information regarding misappropriation, loss, defalcation etc. in all the departments of the State Government. In response, the State Vigilance Commission, Department of Technical Education and office of Transport Commissioner reported 11 cases of misappropriation, defalcation, etc. involving Government money amounting to ₹ 45.34 crore and 3 theft cases amounting to ₹ 0.12 crore up to the period 31 March 2012 on which final action was pending. The department-wise break up of pending cases and age wise analysis is given in **Appendix 3.4** and nature of these cases is given in **Appendix 3.5** The age-profile of the pending cases and the number of cases pending in each category viz. theft and misappropriation/loss as emerged from these appendices are summarised in **Table 3.5**.

**Table 3.5: Profile of Misappropriations, losses, defalcation, etc.**

(Rupees in lakh)

Age-Profile of the Pending Cases			Nature of the Pending Cases		
Range in Years	Number of Cases	Amount Involved (rupees in lakh)	Nature/Characteristics of the Cases	Number of Cases	Amount Involved (Rupees in lakh)
0 - 5	12	Bifurcation amount of range in years were not provided by the Deptts..Hence, only the consolidated total is shown	Theft	3	12.30
5 - 10	2		Misappropriation	10	4532.41
10 - 15			Defalcation	1	1.27
15 - 20					
<b>Total</b>	<b>14</b>				<b>14</b>

A further analysis indicates the reasons for which the cases were outstanding as detailed in **Table 3.6**

**Table 3.6: Reasons for Outstanding cases of Misappropriation, loss, defalcation, etc.**

Reasons for the Delay/Outstanding Pending Cases		Number of Cases	Amount (Rupees in lakh)
i)	Awaiting departmental and criminal investigation	1	8.00
ii)	Departmental action initiated but not finalized	9	4342.69
iii)	Criminal proceedings finalised but execution of certificate cases for the recovery of the amount pending	2	135.06
iv)	Awaiting orders for recovery or write off		
v)	Pending in the courts of law	2	60.23
Vi	Others		
<b>Total</b>		<b>14</b>	<b>4545.98</b>

Two Departments (Vigilance Commission and Health & Family Welfare) reported recovery amounting to ₹ 0.16 crore. The highest amount of misappropriation and loss amounting to ₹ 23.37 crore involving one case of misappropriation occurred in Department of Industries & Commerce, where final action was not taken by the State Government (October 2012).

### **3.7 Conclusion**

Timely submission of utilisation certificates was a major area of concern. At the end of March 2012, 75 UCs involving an aggregate of ₹ 73.54 crore were pending for submission even after a lapse of one to five years from various departments. Though the accounts of the State Autonomous Bodies and Departmental Commercial Undertakings were over due, those accounts were not submitted (October 2012). Non-submission of accounts in time amounted to non-compliance with the financial rules. As on 31 March 2012, 11 cases of misappropriation, defalcation etc. involving ₹ 45.34 crore and 3 theft cases involving ₹ 0.12 crore in 8 Departments were pending for finalisation. Cases of misappropriation, defalcation, and theft indicated inadequacy of controls in the departments.

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