

## CHAPTER III

### FINANCIAL REPORTING

A sound internal financial reporting and the availability of relevant and reliable information significantly contribute to efficient and effective governance by the State Government. Compliance with financial rules, procedures and directives as well as timeliness and quality of reporting on the status of such compliance is also attributes of good governance. Reports on compliance and controls, if effective and operational, assist State Governments in meeting their 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 Delays in furnishing Utilisation Certificates

Rule 212 of the General Financial Rules, 2005 provide that for grants provided for specific purposes, Utilisation Certificates (UCs) should be obtained by the Departmental officers from the grantees. The certificates so obtained are to be verified by the Departmental officers and forwarded to the Director of Accounts within 12 months from the dates of their sanction unless specified otherwise. However, of the 8,248 UCs due in respect of grants and loans aggregating ₹ 877.18 crore paid up to 2011-12, 7,564 UCs (92 *per cent*) for an aggregate amount of ₹ 772.05 crore (88 *per cent*) were outstanding as on June 2013. The Department-wise break-up of outstanding UCs is given in **Appendix 3.1**. The age-wise position of outstanding UCs as on 31 March 2013 is in **Table 3.1**.

**Table 3.1: Age-wise position of outstanding UCs as of 31 March 2013**

(₹ in crore)

Sl. No.	Range of delay in number of years	Utilisation certificates outstanding	
		Number	Amount
1	0 – 1	928	175.64
2	1 – 3	2070	288.81
3	3 – 5	1154	132.59
4	5 – 7	1007	105.11
5	7 and above	2405	69.90
	<b>Total</b>	<b>7564</b>	<b>772.05</b>

(Source: Information compiled by Audit from data received from Director of Accounts)

Out of 7,564 UCs amounting to ₹ 772.05 crore pending as on June 2013, 4,152 UCs (55 *per cent*) involving ₹ 597.04 crore (77 *per cent*) were pending for periods ranging from one to five years while 3,412 UCs involving ₹ 175.01 crore were pending for more than five years. Pendency of UCs mainly pertained to Directorate of Municipal Administration (₹ 295.49 crore), Directorate of Panchayats (North) (₹ 129.77 crore), Directorate of Art & Culture (₹ 128.43 crore), Directorate of Sports & Youth Affairs (₹ 51.51 crore), Directorate of

Education (₹ 37.02 crore), Directorate of Small Savings & Lotteries (₹ 27.76 crore), Directorate of Social Welfare (₹ 24.83 crore), and Directorate of Panchayats (South) (₹ 23.72 crore).

Non-submission of UCs in time may result in mis-utilisation of the grants. The large pendency in submission of UCs indicates lack of monitoring of utilisation of grants and loans by the Departments.

### 3.2 Non-submission/delays in submission of accounts by Grantee institutions

In order to identify the institutions which attract audit under Sections 14 and 15 of the CAG's (DPC) 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 purposes of assistance granted and the total expenditure of these institutions. A total of 610 annual accounts of 185 autonomous bodies/authorities due up to 2011-12 had not been received by the Accountant General as of June 2013. 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**

(₹ in crore)

Sl. No.	Delay in number of years	Number of bodies/ authorities	Grants received during the previous year
1	0-2	95	134.03
2	2-5	37	20.56
3	5-7	53	20.20
	<b>Total</b>	<b>185</b>	<b>174.79</b>

(Source: Compiled by Audit from records received from various Departments)

It can be seen from the above table that in respect of 53 Autonomous bodies/authorities, accounts were in arrears for more than five years. The major defaulters were educational institutions receiving Government grants for salaries, maintenance *etc.* Non-submission of annual accounts by a substantial number of autonomous bodies/authorities was in violation of the terms and conditions governing the release of grants by the Government and carried the additional risk of mis-utilisation of funds.

### 3.3 Delay in submission of accounts/audit reports by autonomous bodies

Several autonomous bodies have been set up by the State Government in the fields of education, irrigation, housing *etc.* Of these, audit of accounts

of 11 bodies in the State has been entrusted to the CAG. These bodies are audited by the CAG by verification of their accounts, financial transactions, operational activities, internal management and financial control system and procedures. The status of entrustment of audit, rendering of accounts to audit, issuance of Separate Audit Reports (SARs) and their placement in the Legislature are indicated in the **Appendix 3.3**. The delay in submission of accounts to Audit and placement of SARs in the Legislature by the autonomous bodies is summarised in **Table 3.3**.

**Table 3.3: Delays in submission of accounts and tabling of SARs**

Delays in submission of accounts (in months)	Number of autonomous bodies	Delay in submission of SARs in the Legislature (in years)	Number of autonomous bodies
0-3	-	0-1	4
4-7	2	1-2	2
8-10	1	-	-
11-25	5	-	-
26 and above	3	5 and above	4
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(Source: Compiled by Audit from records received from various autonomous bodies)

Out of the 11 autonomous bodies, the submission of account of 3 autonomous bodies had been delayed by more than 26 months and in respect of five, the delays were between 11 and 25 months. In the remaining two cases, the delays were between four to seven months. The reasons for delays though called for were not intimated by the respective autonomous bodies.

The inordinate delay in submission of accounts and presentation of the reports to the State Legislature resulted in delayed scrutiny of the functioning of these bodies, where Government investments are made. Further, necessary remedial action, if any, required to be taken by the Government was also delayed.

### 3.4 Departmental Commercial Undertakings

The Departmental undertakings of certain Government Departments performing activities of quasi-commercial nature are required to prepare *proforma* accounts in the prescribed format annually, showing the working results of financial operations so that the Government can assess their working. The 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 in time. Besides, the delay in all likelihood may also open the system to the risk of fraud and leakage of public money.

Head of Departments in the Government have to ensure that the undertakings prepare their accounts and submit the same to the Accountant General for audit within a specified timeframe. As of October 2013, there were two<sup>1</sup> such undertakings with Government investments of ₹ 748.16 crore (as per last audited accounts), both of which had heavy arrears in accounts. The Department-wise positions of arrears in preparation of *proforma accounts* by these two undertakings are given in **Appendix 3.4**.

### 3.5 Misappropriations, losses and defalcations

Rule 33 of the General Financial Rules, 2005 provides that any loss or shortage of public money, revenue or receipts has to be immediately reported by the subordinate authority concerned to the next higher authority as well as to the Statutory Audit Officer and the concerned Principal Accounts Officer. The State Government reported 28 cases of misappropriation, defalcation *etc.* involving Government money amounting to ₹ 1.99 crore up to June 2013 on which final action was pending. The Department-wise break up of pending cases is given in **Appendix 3.5**.

The age profile of the pending cases and the number of pending misappropriation cases are summarised in **Table 3.4**.

**Table 3.4: Profile of misappropriation**

Age profile and nature of pending cases			
Range in years	No. of cases	Amount involved (₹ in lakh)	Nature/characteristics of the cases
0-5	17	52.82	Misappropriation of cash/stores
5-10	8	100.09	
10 years & above	3	45.96	
<b>Total</b>	<b>28</b>	<b>198.87</b>	

(Source: Information furnished by concerned Departments)

The reasons for which the cases were outstanding are classified under three categories as listed in **Table 3.5** below.

**Table 3.5: Reasons for outstanding cases of misappropriations**

Reasons for the delay/outstanding pending cases	No. of cases	Amount (₹ in lakh)
Departmental action started but not finalised	17	178.50
Pending in the courts of law	5	4.35
Awaiting orders for recovery/write off	6	16.02
<b>Total</b>	<b>28</b>	<b>198.87</b>

(Source: Information furnished by concerned Departments)

<sup>1</sup> River Navigation Department and Electricity Department

### 3.6 Conclusion

Out of 7,564 UCs amounting to ₹ 772.05 crore pending as on June 2013, 4,152 UCs (55 per cent) involving ₹ 597.04 crore (77 per cent) were in arrears for periods ranging between one and five years. Further, 3,412 UCs involving ₹ 175.01 crore were pending for more than five years. In the absence of the requisite certificates, it could not be ascertained in Audit whether the recipients had utilised the grants for the purpose for which these were given. A total of 610 annual accounts of 185 bodies/authorities due up to 2011-12 had not been received by the Accountant General as of June 2013.

The State Government reported 28 cases of misappropriations, losses and defalcations *etc.* involving Government money amounting to ₹ 1.99 crore up to June 2013 on which final action was pending. Out of 28 cases, five cases involving ₹ 4.35 lakh were pending in courts of law and in 17 cases involving ₹ 1.79 crore. Departmental action had been initiated but yet to be finalised. The remaining six cases were awaiting orders for recovery/write off.

### 3.7 Recommendations

The Government should ensure timely receipt of utilisation certificates against the financial assistance provided to grantee institutions. Departmental enquiries in respect of all misappropriation cases should be expedited to bring the defaulters to book. Internal controls in all organisations should be strengthened to prevent such cases in future.

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**The 22 MAY 2014**



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**The 30 MAY 2014**

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**Comptroller and Auditor General of India**