

CHAPTER III
FINANCIAL REPORTING

A sound internal financial reporting system with relevant and reliable information significantly contributes to efficient and effective governance by the State. Compliance with financial rules, procedures and directives as well as the timeliness and quality of reporting on the status of such compliances is, thus, one of the attributes of good governance. Reports on compliance and controls, if effective and operational, assist the Government in meeting its basic stewardship responsibilities including 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 as well as the previous years.

3.1 Delay in furnishing Utilisation Certificates

3.1.1 Introduction

Grants-in-aid (GIA) are payments in the nature of assistance, donations or contributions made by one government to another government, body, institution or individual. GIA is given by the Union Government to the State Governments or Panchayati Raj Institutions, agencies, bodies and institutions. Similarly, the State Governments also disburse GIA to agencies, bodies and institutions such as universities, hospitals, co-operative institutions and others. The grants so released are utilised by these agencies, bodies and institutions for meeting day-to-day operating expenses and for creation of capital assets.

Rule 341(2) of Bihar Financial Rules states that only so much of the grant should be paid during the financial year as is likely to be expended during that year, the authority signing or countersigning a bill for Grants-in-aid under Rule 431 of Bihar Treasury Code 1937 should see that money is not drawn in advance of requirement. There should be no occasion for rush for payment of these grants in the month of March.

Finance Department's executive order dated 16 January 1975, prescribed time limit of one year from the date of sanction for giving Utilisation Certificates (UCs) which was revised to 18 months vide FDs executive order dated 19 October 2011.

The status of outstanding UCs as on 31 March 2016 are summarised in **Table 3.1**.

Table 3.1: Details of outstanding UCs

| Year(*) | Number of Utilisation Certificate awaited | Amount |
|--------------|---|------------------|
| Upto 2013-14 | 1,436 | 15,903.71 |
| 2014-15 | 323 | 7,809.29 |
| 2015-16 | 126 | 5,686.87 |
| Total | 1,885 | 29,399.87 |

(* The year mentioned above relates to "Due year" i.e. after 18 months of actual drawal)

(Source: Notes to Accounts for the year 2015-16)

During scrutiny of data in respect of UCs, it was revealed that 1885 UCs amounting to ₹ 29,399.87 crore were outstanding at the end of March 2016.

Out of the total amount of ₹ 29,399.87 crore, 86 per cent (amount-wise) of the due UCs pertain to five departments, namely Departments of Education (416 UCs amounting to ₹ 9,282.33 crore, 32 per cent), Panchayati Raj Department (232 UCs amounting to ₹ 7,417.19 crore, 25 per cent), Urban Development Department (555 UCs amounting to ₹ 4,074.32 crore, 14 per cent), Social Welfare Department (94 UCs amounting to ₹ 2,326.79 crore, 8 per cent) and Rural Development Department (35 UCs amounting to ₹ 2,130.95 crore, 7 per cent). The department wise break-up of outstanding UCs is given in **Appendix 3.1**.

The amounts outstanding for UCs beyond the specified periods indicates failure of the departmental officers to comply with the rules and procedures to ensure timely utilisation of the grants for the intended purposes.

3.1.2 Outstanding Utilisation Certificates of the Panchayati Raj Department

Test check of records of Outstanding UCs of Grant No. 16- “Panchayati Raj Department” was carried out from August to October 2016 for the period 2010-15. The year-wise status of Outstanding UCs in respect of Panchayati Raj Department on 30 June 2016 are summarised in **Table 3.2**.

Table 3.2: Details of Outstanding UCs as on 30 June 2016

(₹ in crore)

| Sl. No. | Name of the Department | Year of disbursement of GIA | No. of Outstanding UCs | Outstanding Amount |
|--------------|---------------------------|-----------------------------|------------------------|--------------------|
| 1. | Panchayati Raj Department | 2003-04 to 2009-10 | 60 | 1,768.13 |
| 2. | | 2010-11 | 32 | 400.04 |
| 3. | | 2011-12 | 27 | 465.57 |
| 4. | | 2012-13 | 55 | 1,112.56 |
| 5. | | 2013-14 | 38 | 2,091.35 |
| 6. | | 2014-15 (up to 30/11/14) | 23 | 1,141.93 |
| Total | | | 235 | 6,979.58 |

(Source: Data compiled by O/o AG (A&E))

Scrutiny of data related to UCs of Panchayati Raj Department revealed that 235 UCs of ₹ 6,979.58 crore were outstanding in this department at the end June 2016 of which 60 UCs of ₹ 1,768.13 crore pertained to the period of 2003-04 to 2009-10. Year-wise declining trend is noticed in number of pending UCs from 2012-13 (55 UCs) to 2014-15 (23 UCs). Status of new sanctions, adjustments and outstanding amount of UCs as on 30 June 2016 are summarised in **Table 3.3**.

Table 3.3: Status of outstanding UCs as on 30 June 2016

(₹ in crore)

| Sl. No. | Name of the Department | Outstanding amount of UCs (up to 24/09/2013) | New sanction orders received from 25/09/2013 to 30/06/2016 | Total outstanding amount | Total adjustment | Outstanding balance |
|---------|---------------------------|--|--|--------------------------|------------------|---------------------|
| 1. | Panchayati Raj Department | 4,231.62 | 9,479.35 | 13,710.97 | 6,731.39 | 6,979.58 |

(Source: Data compiled by O/o AG (A&E))

In spite of outstanding UCs of ₹ 4,231.62 crore, new sanction orders for ₹ 9,479.35 crore were issued during September 2013 to June 2016 resulting in a total outstanding UCs for ₹ 13,710.97 crore. Out of this, UCs for ₹ 6,731.39 crore were adjusted during the period and balance of outstanding UCs remained at ₹ 6,979.58 crore at the end of June 2016.

UCs outstanding beyond the specified periods indicates failure of the Panchayati Raj Department officers to comply with the rules and procedures to ensure timely utilisation of the grants for the intended purposes.

On this pointed out, the Government stated that the necessary instructions have been given to different departments for obtaining UCs.

3.2 Unadjusted Abstract Contingent bills

Rule 177 of Bihar Treasury Code (BTC), 2011 provides that a certificate shall be furnished by the DDO to the effect that money withdrawn on the abstract contingent bill (AC) shall be spent within the same financial year and that the unspent amount shall be remitted to the Treasury before 31 March of the year. Further, as per Rule 194 of the BTC, 2011, countersigned DC bill along with vouchers in support of the final expenditure shall be submitted to the Accountant General (A&E) within six months following the month in which the abstract bill was drawn and no AC bill shall be encashed after the end of this period of six months unless DC bill has submitted. Delayed submission or prolonged submission of DC bills renders the expenditure under AC bills opaque.

The year-wise details of drawal and adjustment of amounts of AC bills are given in **Table 3.4**.

Table 3.4: Status of submission of DC Bills against AC Bills

(₹ in crore)

| Year | AC bills drawn during year | | DC bills submitted during the year | | Outstanding DC bills | |
|---------------|----------------------------|------------------|------------------------------------|------------------|----------------------|------------------|
| | Number of bills | Amount | Number of bills | Amount | Number of bills | Amount |
| Up to 2012-13 | 94,017 | 31,946.11 | 79,870 | 29,756.09 | 14,147 | 2,190.02 |
| 2013-14 | 1,294 | 728.61 | 436 | 118.81 | 858 | 609.80 |
| 2014-15 | 2,097 | 2,040.06 | 525 | 410.63 | 1,572 | 1,629.43 |
| 2015-16 | 3,926 | 8,273.13 | 146 | 628.07 | 3,780 | 7,645.06 |
| Total | 1,01,334 | 42,987.91 | 80,977 | 30,913.60 | 20,357 | 12,074.31 |

(Source: Finance Account 2015-16 and information compiled by the office of the AG (A&E))

The above **Table 3.4** indicates that 3,926 AC bills amounting to ₹ 8,273.14 crore were drawn during 2015-16. Out of this, AC bills amounting to ₹ 3,029.81 crore (36.62 per cent) were drawn in March 2016 alone and ₹ 93.13 crore was drawn on the last day of the financial year. Substantial expenditure against AC bills in March indicates that the drawal was primarily to exhaust the budget provisions which reveals inadequate budgetary control.

Out of 3,926 AC bill drawn in 2015-16 amounting to ₹ 8,273.14 crore, 146 number of AC bills amounting to ₹ 628.07 crore were adjusted. Thus, 3,780 number of AC bills amounting to ₹ 7,645.07 crore was pending for the year 2015-16. The Outstanding AC bills mainly pertain to Capital Outlay on Other Rural Development Programme (₹ 4,262.81 crore), Capital Outlay on Road and Bridges (₹ 2,354.59 crore), Election (₹ 236.55 crore) and Capital Outlay on Medical and Public Health (₹ 100 crore).

Drawal of AC bills without submitting DC bills of previously drawn AC bills is in contravention of the provision.

3.3 Details of grants or loans paid to Bodies and Authorities

In order to identify institutions/organisations which attract audit under Section 14 and 15 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 (C &AG's DPC Act), the Government/Heads of Department are required to furnish to audit every year the detailed information about the financial assistance given to various institutions, the purpose for which the assistance is granted and the total expenditure of the institutions. Further, Regulation on Audit and Accounts, 2007 provides that Governments and Heads of departments which sanction grants and/or loans to bodies or authorities shall furnish to the Audit Office by the end of July every year, a statement of such bodies and authorities to which grants and/or loans aggregating ₹ 10 lakh or more were paid during the preceding year indicating the amount of assistance, the purpose for which the assistance was sanctioned and the total expenditure of the body or authority.

None of the Departments of the Government of Bihar had furnished such details for the year 2015-16. The matter was taken up with Finance Department in May 2016. The reply was awaited as of September 2016.

Forty two bodies/authorities in the State which attract audit under Section 14 of C&AG's (DPC) Act, 1971 have been identified by Audit and their audit have been conducted for various periods (March 2006 to March 2016) as of July 2016 as shown in *Appendix 3.2*.

Due to failure to submit of information about the financial assistance given by the Government, the purpose of assistance granted and the total expenditure of such bodies/authorities, it was not possible to provide assurance to Legislature/Government about the manner in which the grants sanctioned/paid by them has been utilised. This dilutes control in Government expenditure systems.

3.4 Delay in submission of Accounts/Audit Reports of Authorities or Bodies for certification

Section 20 (1) of the C&AG's (Duties, Power and Conditions of Service) Act, 1971, provides for the audit of accounts of any body or authority, if entrusted to the Comptroller and Auditor General by any law or if requested to do so by the Governor of a State having a Legislative Assembly. Such audit could be undertaken on such terms and conditions as may be agreed upon between Comptroller and Auditor

General and the concerned Government and shall have, for the purposes of such audit, right of access to the books and accounts of the bodies and authorities.

The audit of accounts of Bihar State Khadi and Village Industries Board (upto 2009-10), Rajendra Agriculture University, Pusa, Samastipur (from the year 2012-13), Bihar Agriculture University, Sabour, Bhagalpur (from the year 2010-11), Bihar State Legal Service Authorities, Patna (upto 2013-14) and Bihar State housing Board, Patna (upto 2015-16) were entrusted to the Comptroller and Auditor General. The position of submission of accounts by these bodies, issuance of Separate Audit Reports (SARs) by the Comptroller and Auditor General and their placement in the State Legislature are indicated in *Appendix 3.3*.

3.5 Outstanding balances under major suspense and remittance heads

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 some of major Suspense and Remittance heads to the end of last three years is indicated in **Table 3.5**.

Table 3.5: The position of Suspense and Remittance balances

| Name of Minor Head | 2013-14 | | 2014-15 | | 2015-16 | |
|--|----------------------|-----------|----------------------|-----------|----------------------|-------------|
| | Dr | Cr | Dr | Cr | Dr | Cr |
| 8658-101 - Pay and Accounts Office Suspense | 235.47 | 0.00 | 245.63 | 0.00 | 270.29 | 0.00 |
| Net | (Dr) 235.47 | | (Dr) 245.63 | | (Dr) 270.29 | |
| 8658-102 - Suspense Accounts (Civil) | 1,778.62 | 258.09 | 3,423.16 | 282.10 | 3,980.75 | 290.43 |
| Net | (Dr) 1,520.53 | | (Dr) 3,141.06 | | (Dr) 3,690.32 | |
| 8658-110 - Reserve Bank Suspense-Central Accounts Office | 1,225.14 | 894.60 | 1,235.26 | 894.60 | 1,242.12 | 894.60 |
| Net | (Dr) 330.54 | | (Dr) 340.66 | | (Dr) 347.52 | |
| 8782-102-Public Works Remittances | 12,047.47 | 12,187.96 | 11,913.94 | 11,994.34 | 1,09,773.31 | 1,09,574.26 |
| Net | (Cr) 140.49 | | (Cr) 80.40 | | (Dr) 199.05 | |
| 8782-103-Forest Remittance | 208.11 | 185.49 | 248.82 | 227.19 | 2,214.48 | 2,035.28 |
| Net | (Dr) 22.62 | | (Dr) 21.63 | | (Dr) 179.20 | |

(Source: Notes to Accounts for the year 2015-16)

There is net increase of ₹ 24.66 crore debit under 101-Pay and Accounts office suspense, ₹ 549.26 crore (debit) under 102-Suspense Accounts (Civil), ₹ 157.57 crore (debit) under 103- Forest Remittance and ₹ 6.86 crore (debit) under 110-Reserve Bank Suspense-Central Accounts office, in the year 2015-16 as compared to 2014-15.

If these amounts remain un-cleared, the balances under the Suspense Heads would accumulate and would not reflect true and fair picture of Government's expenditure.

Thus, clearance of outstanding balances under Suspense Heads would require to be vigorously pursued.

3.6 Temporary Advances and Imprest unadjusted

As per Rule 176 of Bihar Treasury Code 2011, no money should be withdrawn from the treasury unless it is required for immediate payment. Further, as per Rule 177, it is not permissible to draw advances in anticipation of expenditure from the Treasury either for the execution of works, completion of which is likely to take a considerable time or to prevent the lapse of appropriation. If under special circumstances, money is drawn in advance, the unspent balance of the amount so drawn should be refunded to the treasury by short drawal in the next bill or with a challan at the earliest possible opportunity and in any case before the end of the financial year in which the amount is drawn.

It was noticed that ₹ 191.23 crore of temporary advances and imprest was drawn upto 31 March 2016 by the DDOs of eight departments/organisations concerned. Department/Organisation-wise analysis of advances and imprest pending upto 31 March 2016 is given in **Table 3.6**.

Table 3.6: Department/Organisation wise analysis of pending Advances and Imprest

(₹ in crore)

| Sl. No. | Name of the Departments | Total amount of unadjusted Temporary advance and Imprest | | |
|--------------|--|--|---------|---------------|
| | | Temporary advance | Imprest | Total |
| 1 | Building Construction | 5.75 | 2.70 | 8.45 |
| 2 | Irrigation | 27.41 | 6.41 | 33.82 |
| 3 | National Highways | 0.78 | 0.09 | 0.87 |
| 4 | Public Health Engineering | 8.54 | 0.39 | 8.93 |
| 5 | Road Construction | 67.50 | 0.57 | 68.07 |
| 6 | Rural Works | 7.39 | 7.48 | 14.87 |
| 7 | Local Area Engineering Organisation (LAEO) | 43.43 | 9.75 | 53.18 |
| 8 | Tube wells and Minor Irrigation | 2.08 | 0.96 | 3.04 |
| Total | | | | 191.23 |

(Source: Notes to Accounts for the year 2015-16)

The pending cases of advances and imprest indicated laxity on the part of departmental officers in enforcing the codal provisions regarding adjustment of the advances involving substantial amount.

3.7 Reconciliation of Receipts and Expenditure

Rule 475 (viii) of the Bihar Financial Rules provides that the Heads of departments and the Accountant General (A&E), Bihar will be jointly responsible for the reconciliation of the figures given in the accounts maintained by the Head of the department with those of the figures appearing in the books of the Accountant General (A&E). The main objective of reconciliation is to ensure that the departmental accounts are sufficiently accurate to render an efficient departmental control of expenditure.

Scrutiny however revealed that, in spite of cases of pending of reconciliation of departmental accounts being pointed out in the earlier Reports and pursuance by the Accountant General (A&E), such lapses on the part of controlling officers continued to persist during 2015-16. Only for an amount of ₹ 56,809.23 crore (52.81 per cent of total Revenue and Capital expenditure of ₹ 1,07,581.96 crore) and for ₹ 77,789.31 crore (80.93 per cent of total Revenue receipts of ₹ 96,123.10 crore) were reconciled. Only 3,317 (15.71 per cent) Drawing and Disbursing Officers (DDOs) out of 21,116 DDOs have reconciled their accounts upto 31 March 2016.

3.8 Operation of omnibus Minor Head-800

Booking of receipts or expenditure under the Minor Head '800 – Other Receipts' and '800 – Other Expenditure' is considered as opaque classification of receipts and expenditure as these heads do not disclose the schemes, programmes etc., to which the amount relates. The head accommodates expenditure which cannot be classified under the available programme minor heads.

During 2015-16, ₹ 93.62 crore under 14 Revenue and Capital Major Heads of accounts on the expenditure side, constituting 0.09 per cent of the total expenditure (Revenue expenditure- ₹ 83,616 crore and Capital expenditure- ₹ 23,966 crore= ₹ 1,07,582 crore) was classified under Minor Head '800- Other Expenditure' below the respective Major Heads. Similarly, ₹ 940.20 crore under 44 Revenue Major Heads of accounts on the receipts side (excluding Grants-in-aid), constituting about 0.98 per cent of the total revenue receipts (₹ 96,123 crore) were classified under the Minor Head '800- Other Receipts' below the respective Major Heads. Instances where a substantial proportion (more than 10 per cent of the total under the related Major Head) of Receipts and Expenditure were classified under Minor Head 800- Other Receipts and Minor Head 800-Other Expenditure are detailed in *Appendix 3.4 and Appendix 3.5* respectively.

Classification of large amount under the omnibus minor Head "800"-other expenditure/Receipts reflected lack of transparency in financial reporting.

3.9 Transfer of Funds to Personal Deposit Accounts

Personal Deposit (PD) Accounts are opened to transfer funds from the Consolidated Fund for special cases where public interest requires speed of expenditure which is not possible through the normal treasury procedure or there are a large number of small beneficiaries dispersed in interiors such that direct disbursement through the Treasury is not practicable. PD administrators are required to review all PD accounts at the end of the financial year and transfer the amounts lying unspent after three consecutive financial years (including the financial year in which the money was withdrawn) back to the Consolidated Fund by reduction of expenditure to the concerned service head.

Table 3.7: Details of PD Accounts

(₹ in crore)

| Opening Balance | | Addition during the year | | Closed during the year | | Closing Balance | |
|-----------------|----------|--------------------------|--------|------------------------|--------|-----------------|----------|
| Number | Amount | Number | Amount | Number | Amount | Number | Amount |
| 170 | 3,472.44 | 01 | 0.00 | 0 | 0.00 | 171 | 4,126.37 |

(Source: Notes to Accounts for the year 2015-16)

An amount of ₹ 2,388.69 crore credited in 41 PD Accounts and an amount of ₹ 1,734.76 crore debited from 49 PD Accounts during the year leaving a balance of ₹ 4,126.37 crore in 171 PD Accounts, in which, 57 are inoperative. No PD Account was closed during the year.

Of the 73 treasuries which have furnished information regarding PD Accounts, 54 treasuries maintain PD Accounts and the remaining 19 treasuries¹ have intimated that there are no PD Accounts with them. An amount of ₹ 717.23 crore was lying unspent after three consecutive financial years in 14 PD accounts in 12 Treasuries (Appendix-3.6). During the year, no treasury/administrator of PD Accounts has furnished information regarding refund of the unspent balance to the Consolidated Fund.

3.10 Conclusion and Recommendations

Delay in furnishing Utilisation Certificates

- Utilisation certificates (UCs) of ₹ 29,399.87 crore were outstanding as on March 2016 against the Grant-in-aid (GIA) bills drawn by different departments. Out of this, UCs of three Departments viz. Education Department (416 UCs for ₹ 9,282.33 crore), Panchayati Raj Department (232 UCs for ₹ 7,414.19 crore) and Urban Development Department (555 UCs for ₹ 4,074.32 crore) are mainly pending for submission.

The State Government should ensure timely utilisation of the grants for the intended purpose and submission of UCs there against.

Unadjusted Abstract Contingent bills

- Significant amount of ₹ 12,074.32 crore drawn on Abstract Contingent (AC) bills remained outstanding as of March 2016 due to delay in submission of Detailed Contingent (DC) bills. This include 14,147 bills amounting to ₹ 2,190.02 crore outstanding for more than three years.

The State Government should ensure timely submission of DC bills as per extant rules and provisions.

Operation of omnibus Minor Head “800”

- Receipts and Expenditure ₹ 1,033.82 crore were classified under the omnibus minor head “800-Other Expenditure/Receipts” which reflected lack of transparency in financial reporting.

It is recommended that receipts/expenditure which cannot be classified under the available program minor heads may be booked under the minor head “800-Other Receipts/Expenditure”.

¹ Bihar Bhawan, New Delhi, Dalsinghsarai, Dehri-ono-sona, Dumraon, Hilsa, Lalganj, Mahua, Masaurhi, Mokama, Naugachhia, Pupri, Rajgir, Rajouli, Rossera, Secretariat Treasury (Vikash Bhawan, Patna), Shahpur Patori, Sikaraha, Tekari, Triveniganj

Transfer of Funds to Personal Deposit (PD) Accounts

- An amount of ₹ 4,126.37 crore was lying unspent in Personal Deposit Accounts of different State Government offices up to March 2016. The DDOs of PD Accounts did not refund the unspent balances to the Consolidated Fund.

Treasury/administrator of PD Accounts should ensure timely transferring of the unspent balance to the Consolidated Fund.

Un-adjustment of Temporary advances and Imprest

- Temporary advances and Imprest of ₹ 191.23 crore drawn upto March 2016 by eight Departments/Organisation remained to be adjusted

Government Departments/Organisation should ensure timely recovery/adjustment of Temporary advances and Imprest at the end of the year.

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