

## 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, 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

Article 208 of the Kerala Financial Code stipulates that the State may make such grants-in-aid for public purposes or activities carried out by private institutions or local bodies as are in conformity with Article 282 of the Constitution of India. Financial rules<sup>20</sup> stipulate that the authority sanctioning grant-in-aid has to stipulate, in every order sanctioning the grant, a time limit not exceeding one year from the date of sanction for utilisation of the grant and a time-limit of nine months for the submission of audited accounts. The utilisation certificate should be furnished within three months from the date of receipt of audited accounts. The Utilisation Certificate (UC) for grants-in-aid exceeding ₹10,000 has to be forwarded to the Accountant General (Accounts and Entitlement), Kerala. It was observed that 12 utilisation certificates for ₹32.92 crore<sup>21</sup> were not received (June 2017) by the AG (A&E), in respect of grants for which UCs were due during the period from 2014-15 to 2016-17. The age-wise position of delays in submission of Utilisation Certificates is summarised in **Table 3.1**.

**Table 3.1: Age-wise arrears in submission of Utilisation Certificates**

(₹ in crore)

Grant-in-aid released	UC due	Utilisation certificates outstanding as on June 2017		
		Delay	Number	Amount
Up to 2012-13	Up to 2014-15	More than two years	7	5.71
During 2014-15	During 2016-17	Up to one year	5	27.21
<b>Total</b>			<b>12</b>	<b>32.92</b>

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

Delay in furnishing of UCs increases the risk of unutilized fund being misused. Timely submission of UCs should not only be insisted upon but also ensured.

<sup>20</sup>Article 210 of the Kerala Financial Code (Vol. I)

<sup>21</sup>One UC for ₹ 0.25 crore out of ₹ 32.92 crore was received after finalization of accounts for 2016-17.

### 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 detailed information about the financial assistance provided to various institutions, the purpose of assistance granted and the total expenditure of the institutions to Audit every year.

As of March 2017, the annual accounts of four autonomous bodies/authorities due up to 2015-16 were not furnished to the Accountant General (Economic and Revenue Sector Audit), Kerala as detailed in **Appendix 3.1**.

### 3.3 Delay in submission of accounts/Audit Reports of Autonomous Bodies

The audit of accounts of 26 Autonomous Bodies in the field of legal aid, human rights, development of khadi, etc., in the State was 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 (SAR) and their placement in the Legislature are indicated in **Appendix 3.2**.

Audit observed that accounts of District Legal Services Authority, Palakkad are due for five years (from 2011-12), accounts of District Legal Services Authorities, Ernakulam and Kasaragod are due for four years (from 2012-13) and that of District Legal Service Authority, Wayanad is due for three years (from 2013-14). Apart from above, accounts of six bodies are due from 2014-15 onwards.

### 3.4 Departmentally managed Commercial Undertakings

The departmental undertakings of certain Government departments performing activities of quasi-commercial nature are required to prepare *pro forma* accounts annually in the prescribed format, showing the working results of financial operations so that the Government can assess the overall financial strength and efficiency of these departments in conducting their business. Non-finalisation of accounts in time prevents the above scrutiny and also puts the investment of the Government outside the scrutiny of Audit.

Heads of Department in the Government are also required to ensure that the undertakings prepare such accounts and submit to the Accountants General (General and Social Sector Audit/Economic and Revenue Sector Audit), Kerala within the specified timeframe.

The department-wise position of arrears in preparation of *pro forma* accounts and investments made by the Government in respect of four such undertakings, are

given in **Appendix 3.3**. Out of the four, three are running in loss (State Water Transport Department, Text Book Office and Rubber Plantation at Open Prison Nettukaltheri) and accounts of Text Book Office are in arrears from 1987-88. In the absence of up-to-date accounts, financial status of Text Book Office could not be ascertained.

### 3.5 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 Accountant General (General and Social Sector Audit)/Accountant General (Economic and Revenue Sector Audit), Kerala as well as to the Heads of Departments.

The final action on 106<sup>22</sup> cases of misappropriation, defalcation, etc., involving Government money amounting to ₹8.43 crore was pending with State Government. In 79 out of 106 cases, FIRs were lodged. The government should expedite action to register FIRs in remaining 27 cases. The position up to June 2017 is detailed in **Appendix 3.4** and **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.**

A. Age-profile of the pending cases			B. 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	17	179.69	Theft	16	1.85
5 – 10	16	86.84			
10 – 15	26	457.15	Misappropriation/ loss of material	90	840.87
15 – 20	24	74.63			
20 – 25	10	25.87			
25 and above	13	18.54			
<b>Total</b>	<b>106</b>	<b>842.72</b>	<b>Total pending cases</b>	<b>106</b>	<b>842.72</b>

*Source: Cases reported by departments of the State Government*

The reasons for delay in finalisation of outstanding cases were analysed by Audit and are summarised in **Table 3.3**.

<sup>22</sup> This includes cases detected by Audit during local audit as well as cases reported by Government departments as per codal provisions.

**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	20	208.23
2.	Departmental action initiated but not finalised	28	372.38
3.	Awaiting orders for recovery or write off	43	204.57
4.	Pending in the courts of law	15	57.54
<b>Total</b>		<b>106</b>	<b>842.72</b>

Source: Information received from Departments of the State Government

### 3.6 Management of funds entrusted to District Collectors

District Collector being the executive head of the district, is responsible for implementation of various schemes/programmes under his/her area of jurisdiction. Programmes include relief operation, land acquisition, development projects, etc. Funds received for implementation of these programmes are temporarily kept in a Special Treasury Savings Bank Account (STSB), a non-interest bearing account maintained in Treasury or in a Savings Bank/Current account maintained in a nationalised bank (outside Government account). Objectives of audit were to ascertain whether:

- the funds entrusted for the implementation of schemes were utilised in full, and if not, balance refunded back in time; and
- the monitoring system ensures timely utilisation of funds and accounting of the transactions.

Audit was conducted during the period April to July 2017, covering the receipts and utilisation of funds received between 2012 and 2017 in seven<sup>23</sup> out of fourteen district collectorates of Kerala. Scrutiny of files/records relating to STSB/Bank accounts maintained by the district collectorate and transactions carried out for implementation of various Central/State schemes was undertaken. Selection of district collectorates was made by grouping them region-wise and by using simple random sampling method without replacement.

#### 3.6.1 Audit observations

Funds for implementing various schemes (entrusted with District Collector) are released by State level departments/agencies with detailed guidelines/directions for implementation of the same. Accordingly, district administration has to plan for timely implementation of the schemes. However, there was delay in identification of projects, absence of timely action to execute the projects/schemes, failure to review utilised/unspent balances, etc., which led to blocking up of funds for many years in STSB/Bank accounts. Records of 34 schemes in the

<sup>23</sup>Alappuzha, Ernakulam, Kannur, Kollam, Palakkad, Thiruvananthapuram and Wayanad.

selected district collectorates were scrutinised and it was observed that an amount of ₹126.88<sup>24</sup> crore (**Appendix 3.6**) remained unutilised at the end of March 2017. Reasons for blockage of funds are summarised below:

### 3.6.1.1 *Delayed execution leading to blockage of funds*

District Collectors were receiving funds from State level implementing agencies or departments for execution of schemes. In respect of schemes where District Collector has to plan and identify works for execution, allotted funds were not fully utilised due to delay in identifying works, beneficiaries and for reasons beyond the control of district authorities. Consequently, funds received were retained in STSB/Bank account. Instances where substantial amount of funds remained unutilised and blocked up with District Collectors are detailed below:

- Rajiv Gandhi National Rural Drinking Water Supply Programme is a Centrally sponsored scheme and District Collectors are responsible for implementing the scheme in SC/ST habitations<sup>25</sup>. It was observed that out of the seven districts test checked, ₹8.23 crore remained unutilised with four<sup>26</sup> districts at the end of March 2017. At the same time, Wayanad district faced scarcity of funds and could not honour the bills for ₹2.39 crore of 46 works completed. This indicated deficiency in distribution of funds by Kerala Water Authority (State level implementing agency). District Collector, Alappuzha stated that difficulty in getting the feasibility report due to scattered living of SC/ST population and lack of water sources were the reasons for delayed implementation of the project. Kannur and Palakkad districts collectors stated that the delayed execution was due to lack of projects/requirement.

In respect of Accelerated Rural Water Supply Scheme (renamed as National Rural Drinking Water supply Programme in 2009) a centrally sponsored scheme the District Collector, Thiruvananthapuram maintained a STSB account in Additional Sub Treasury, Vanchiyoor and it was observed that the STSB account had an unutilised balance of ₹15.81 lakh as on 31.3.2017 and no amount was utilised from the account since 30.3.2007. This fact was reported to Government in October 2017, but reply still awaited (January 2018).

- As part of Tsunami Rehabilitation Programme, funds were released to Thiruvananthapuram (₹29.06 crore) and Kollam (₹140.19 crore) districts between 2007-08 and 2012-13 for various activities like construction of houses, water supply schemes, etc. However, at the end of March 2017 ₹7.03 crore remained unutilised with these districts (Kollam: ₹6.27 crore

<sup>24</sup> Out of ₹126.88 crore, ₹78.75 crore was pending for more than one year and the balance of ₹48.13 crore received during 2016-17.

<sup>25</sup> Habitations in which more than 40 *per cent* of the population belongs to SC/ST community.

<sup>26</sup> Alappuzha (₹1.02 crore), Kannur (₹5.06 crore), Palakkad (₹1.05 crore) and Thiruvananthapuram (₹1.10 crore).

and Thiruvananthapuram: ₹76 lakh). The District Collectors, Kollam and Thiruvananthapuram stated funds are being utilised for intended purposes. As per provisions of Kerala Financial Code (Rule 40(c)) funds should not be kept out of Government accounts even though it was covered by proper sanction. Hence the replies of the District Collectors are not tenable.

- During the last three years, ₹10.76 crore (₹3 crore: 31.3.2015, ₹5 crore: 31.3.2016, ₹2.76 crore: 31.3.17) was released to the District Collector, Thiruvananthapuram for executing the work relating to Attukal Pongala<sup>27</sup> preparedness. It was observed that due to absence of definite projects, more than 50 per cent of the released funds (₹6.76 crore) remained blocked up in two different accounts at the end of March 2017, of which, ₹four crore was pending for more than one year. District Collector replied that non-submission of bills in time by the implementing agencies was the reason for accumulation of funds. The reply was not tenable as the details of pending works/bills were not available in the files produced before Audit.
- During 2011-12, ₹1.18 crore was placed at the disposal of Special Tahsildar (LA), Thalassery, for the acquisition of 5.46 hectares of land for elephant corridor in Kottiyoor village of Kannur district. However, even after five years, only ₹21.33 lakh was utilised and the remaining amount (₹96.67 lakh) was blocked up in Deposit head (8443). District Collector stated that objection of the title holders in the compensation fixed for land was reason for delay in acquisition of land.
- In November 2015, ₹15 crore was released to District Collector, Alappuzha for paying compensation to the title holders of the land identified for setting up Medical College in Karthikappalli Taluk, Karuvatta village. ₹1108.66 lakh was paid as compensation and the balance was blocked up in work deposit account for the last two years. District Collector stated that land acquisition process was not continuing and further directions were awaited from Government.
- At the end of March 2017, an amount of ₹9.10 crore out of ₹35.28<sup>28</sup> crore, meant for various tribal development programmes, remained blocked in STSB account of District Collector, Palakkad. This included ₹3.72 crore meant for conservation cum development plan of Primitive and Vulnerable Tribal Groups and ₹3.15 crore meant for HUDCO housing scheme to the tribal people. District Collector replied that delay in completion of work by the beneficiaries was the reason for non-utilisation of funds under HUDCO housing scheme and non-availability of suitable

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<sup>27</sup> A famous festival organized in Attukal Devi Temple in Thiruvananthapuram, during the month of February-March every year.

<sup>28</sup> ₹20.78 crore in 2014-15, ₹10.77 crore in 2015-16 and ₹3.73 crore in 2016-17.

projects was the reason for non-utilisation of funds under conservation cum development plan.

- In Wayanad district, as part of implementing the project ‘Multi Sector Development Programme’, State Government released an amount of ₹24.30 crore (in four installments between March 2014 and March 2016) in the first phase and ₹15.77 crore was released (in three installments from March 2016 to April 2017) in the second phase. However, ₹7.31 crore released in the first phase and the entire amount of the second phase remained unutilised. It was replied that delay in getting administrative sanction for the work was reason for non-utilisation of funds under second phase and works under health sector included in phase I was in progress. The reply was not tenable as it was indicative of inaction in the matter by the Government.
- A project named ‘Valsalyam’ for making Kannur a child friendly district, in line with the provisions contained in Protection of Children from Sexual Offences Act, 2012, was conceived in the district. An amount of ₹33.73 lakh was released (2013-14) by the Social Justice Department for implementation of the project. However, even after four years district administration could utilise only ₹nine lakh for the project. District Collector replied that there was no time frame prescribed for utilisation of fund. Since the amount was shown as expenditure in Government accounts, retention of funds without utilization was against the provisions of Kerala Financial Code (Rule 40(c)). Hence the reply of the District Collector is not tenable.

### 3.6.1.2 *Blockage of funds due to non-implementation of schemes*

In respect of certain schemes, though the funds were released for implementing the programme defined by State level implementing agency, lack of initiative on the part of district administration has led to blockage of substantial portion of the fund in STSB/bank accounts. Instances noticed in Audit are detailed below;

- State Disaster Management Authority since its constitution in 2011, was releasing funds to District Collectors for various disaster preparedness activities and training programme. Programme includes strengthening of district emergency response capabilities, formation of emergency response teams and provide them training, preparation of district disaster management plans, implementation of district disaster management plan, drought relief operations, etc. It was observed that out of ₹341.16 lakh (funds released between 2012 and 2016), ₹192.40 lakh (56.40 per cent) remained unutilised in the test-checked districts at the end of March 2017. District Collector, Thiruvananthapuram replied that it was difficult to implement the schemes with the conditions stipulated by State Disaster Management authority (SDMA) and their request for relaxation was refused by SDMA. District Collectors of Alappuzha, Ernakulam, Kollam

and Wayanad stated that as per the orders dated 31.10.2016, Government permitted them to utilise the balance fund within one year. Further, District Collectors received funds for disaster mitigation programme as part of United Nation's Development Programme (UNDP) during 2008-09. In spite of the specific directions to utilise funds before June 2009, unutilised balances (₹8.36 lakh out of ₹38.60 lakh) were noticed in Ernakulam, Kannur and Kollam collectorates. Though, ₹11.25 lakh was released to Thiruvananthapuram collectorate under UNDP, no records were available to ensure receipt and utilisation of funds. Reply in this regard was awaited (January 2018).

- During 2012-13, the State Government decided to elevate the Government Schools to international standards and decided to provide basic facilities like toilets, girls friendly toilets, urinals and also to provide drinking water facilities which are deficient in Government schools of Kerala. Accordingly, funds were released to District Collectors for implementing the programme in their districts. It was observed that the District Collectors failed to utilise entire release even after four years and in four<sup>29</sup> district collectorates 31.26 per cent (₹319.18 lakh out of ₹1021.10 lakh) of the fund remained unutilised with them at the end of March 2017. Similarly, funds received for construction of girls friendly toilets, urinals, etc., in Vocational Higher Secondary Education schools were also not fully utilised (₹30.34 lakh out of ₹145.50 lakh) in the test-checked districts (except in Ernakulam and Wayanad). District Collectors, Kollam, Kannur and Palakkad stated that delay in submission of final bills was the reason for non-utilisation of balance funds. However, keeping the un-utilised balance out of Government account is against the provisions of Kerala Financial Code and also efforts were not there to complete the projects in time.
- State Government accorded administrative sanction for setting up of Virtual/Smart Classrooms in selected minority schools and funds amounting to ₹75 lakh (₹5 lakh for each school) were released (2014-15) to District Collectors (except Wayanad in test-checked districts) for implementation of the scheme in 15 schools. It was observed that though 47 per cent of the funds received by District Collectors were released (September 2015) to M/s Keltron for setting up of virtual classrooms in selected schools, the same was not established till the end of March 2017 and the remaining 53 per cent of the funds were blocked up with District Collectors for more than one year. District Collectors Alappuzha and Kollam stated that installation work was completed by M/s Keltron but final payment was pending for want of bills from M/s Keltron. District Collectors Ernakulam, Kannur and Palakkad stated that work was not completed and hence the balance fund was retained by them.

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<sup>29</sup>Kannur (₹45.48 lakh), Kollam (₹121 lakh), Palakkad (₹60.21 lakh) and Thiruvananthapuram (₹92.49 lakh).

### 3.6.1.3 Retention of un-utilised balance after implementation of schemes

Under ordinary circumstances, every programme may have a portion of the funds allocated remaining unutilised and in this situation it is the duty of the departmental officer to refund the unutilised balance as early as possible. It was observed in audit that in the following cases funds were retained by District Collectors without taking necessary steps to refund the unutilised balance.

- As per the Member of Parliament Local Area Development Scheme (MPLAD), each Member of Parliament (Lok Sabha and Rajya Sabha) was allotted a certain amount (₹1 crore from 1993-94, ₹2 crore from 1998-99 and ₹5 crore from 2011-12) in each year for execution of works of his/her choice in the constituency he/she represents. Nominated Members of the Lok Sabha and Rajya Sabha may also select works for implementation in one or more districts, anywhere in the country. Funds allotted would be kept in a savings bank account opened in the name of MP and administered by the District Collector. Once MP demits office, unutilised balance in the account is to be transferred to the account of his successor in the case of Lok Sabha MP and distributed among other MPs in the case of Rajya Sabha MP. Audit scrutiny revealed that in five districts<sup>30</sup>, an amount of ₹12.34 crore remained blocked up in the bank account of 33 MPs who demitted office one to seven years back, without being transferred or distributed. District Collectors stated that action was being taken to refund/transfer un-utilised balance immediately. However, undue delay was noticed on the part of District Collectors to surrender/distribute the unutilized balance, thereby violating the provisions of MPLAD scheme.
- During 2015-16, State Government decided to provide interest subsidy to jobless students of BPL category, who availed education loan from April 2004 to March 2009. In this regard, ₹1.90 crore (out of ₹12.28 crore) and ₹0.58 crore (out of ₹0.81 crore) remained unutilised in Alappuzha and Ernakulam respectively, as some of the bank accounts of students already closed. District Collector, Alappuzha stated that non-refund of balance fund was due to non-receipt of statement from State Bank of Travancore (bank entrusted to transfer the fund to beneficiaries account) and District Collector, Ernakulam was waiting for further direction from Government to refund the balance. Replies were not tenable, since the unutilised balances were not refunded to Government account immediately as per the provisions of Kerala Financial Code.
- As per the recommendations of Thirteenth Finance Commission (XIII FC) BPL families were to be given cash incentive (₹150/- per BPL family) for enrolling in UID. Out of ₹3.14 crore released to Ernakulam, Palakkad and

<sup>30</sup>Alappuzha (₹0.74 crore), Ernakulam (₹3.55 crore), Kannur (₹1.54 crore) Kollam (₹1.06 crore) and Thiruvananthapuram (₹5.45 crore).

Thiruvananthapuram district collectorates, unspent balance of ₹0.20 crore was idling even after the expiry (March 2015) of XIII FC period. District Collectors, Ernakulam and Palakkad stated that they were waiting for directions from Information and Technology Department to refund unutilised balance. Replies of the District Collectors were not tenable, as the refund could have been done much earlier as per the provisions of the General Financial Rules, without waiting for further directions.

- District Collector, Kollam, received an amount of ₹65 lakh in March 2014 for the construction of hospital ward building in THQ Hospital, Kottarakkara and construction was completed in November 2014. Unspent balance of ₹3.96 lakh was not remitted back to Government Account. District Collector, Kollam stated that balance fund was being utilised for purchase of furniture in the Hospital.

#### **3.6.1.4 Accumulation in MLASDF**

'Special Development Fund for Members of Legislative Assembly (MLA)' was constituted in the year 2001 for carrying out development activities as per the choice of MLA in his/her Constituency. Every year ₹one crore would be released to the District Collector under whose jurisdiction the constituency of the MLA falls and the same would be kept in a Special Treasury Savings Bank (STSB) account opened for the purpose. Projects/works would be executed by the District Collectors based on the suggestions received from the MLA and meet the expenditure from the funds entrusted to them. Audit collected the details of receipt and utilisation of funds from all the fourteen districts of the State and observed that against the release of ₹718 crore, utilisation was ₹656 crore resulting in a accumulation of ₹62 crore in STSB during the last five years. At the end of March 2017, STSB had an unspent balance of ₹290 crore. Considering this accumulation year after year, it is proposed to review the transfer of funds from Consolidated Fund to Public Account year after year and not being utilised fully in the year of its release.

The above facts were reported to Government in October 2017 and reply was awaited (January 2018).

### **3.7 Conclusion and Recommendation**

The Audit of Accounts of Autonomous Bodies, which was 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, are pending in respect of four bodies due to delay in submission of accounts for 2015-16.

Though funds for implementing various schemes were released to the District Collectors with detailed guidelines/directions, efforts were lacking from district authorities to implement it on time and utilise the funds fully in the year of release

or in the succeeding year. Funds released for specific programme of State Disaster Management Authority were not utilised fully by any of the District Collectors test-checked in audit. District authorities failed to refund the unspent balance in respect of MPLAD scheme, Education loan interest subsidy, Incentives for enrolling in UID, etc.

*It is recommended that a review of utilisation may be conducted at the District Collector level in every six months to avoid blockage of unspent balance.*



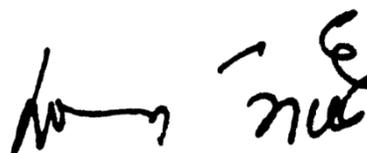
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