

## **CHAPTER-III: 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. The 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 Failure to submit Utilisation Certificate

Rule 116 (1) of the Sikkim Financial Rules (SFR) stipulates that every grant made for a specific object is subject to implied condition: (i) that the grant shall be spent upon the object within a reasonable time of one year from the date of issue of the letter sanctioning grant and (ii) that any portion of the amount which is not ultimately required for expenditure upon that object shall be duly surrendered to Government. Utilisation Certificates (UCs) outstanding beyond the specified periods indicates absence of assurance on utilisation of the grants for needed purposes and the expenditure shown in the accounts to that extent cannot be treated as final. The status of outstanding UCs as per the records of the Accountant General (AG), Sikkim is given below:

**Table 3.1: Outstanding Utilisation Certificates**

Year	Number of UCs awaited	Amount (₹ in crore)
Upto 2014-15	2,923	224.76
2015-16	182	112.02
2016-17	344	141.64
<b>Total</b>	<b>3449</b>	<b>478.42</b>

*Source: Finance Accounts*

It can be seen from the above table that there were 3,449 UCs amounting to ₹ 478.42 crore as on 31<sup>st</sup> March 2017. Out of this, 3,105 UCs for ₹ 336.78 crore were outstanding as 344 UCs for ₹ 141.64 crore pertaining to 2016-17 were not due as per Rule 116 (1) (i) of the SFR mentioned above.

Through the instrument of UCs, the Grantor obtains assurance about proper utilisation of the funds placed at the disposal of the Grantee for the sanctioned purpose and gets a certificate from the Grantee for the sanctioned purpose and also gets a certificate from the Grantee that the intended list of works have been executed, the details of which are available with him/her. Any delay in furnishing UCs to the Grantor or an inaccuracy in such reporting essentially undermines the control mechanism designed to prevent the diversion and proper utilisation of grants.

### 3.1.1 Review of Grants-in-aid

A detailed review on utilisation of Grants-in-aid in Cultural Affairs and Heritage Department for the period 2012-13 to 2016-17 revealed the following:

#### 3.1.1.1 Pendency in submission of Utilisation Certificates

Sikkim Financial Rules 110 to 116 lay down various procedures to be followed at the time of sanctioning grants-in-aid to any authority or body which *inter alia* including that while sanctioning grants the specific terms and conditions for utilisation of such grant should be indicated. Thereafter it is incumbent upon the grantor Department to watch over the utilisation of grants so released by obtaining utilisation certificates.

Utilisation Certificates (UCs) pending in respect of Cultural Affairs and Heritage Department were 104 valuing ₹ 130.90 lakh as on 31<sup>st</sup> March 2017. However, as per the records of the Office of the Senior Deputy Accountant General Sikkim (A&E), the position of outstanding UCs was 155 amounting to ₹ 182.00 lakh as on 31<sup>st</sup> March 2017. Hence, there was a difference of 51 UCs amounting to ₹ 51.91 lakh. Prima facie it appeared that the Department had not forwarded the UCs amounting to ₹ 51.91 lakh to the Office of the Senior Deputy Accountant General Sikkim (A&E) as illustrated below:

**Table 3.2: Statement showing pending utilisation certificates**

(₹ In lakh)

Sl. No.	Year	Total Grants released		Utilisation Certificates outstanding (Departmental figures)		Utilisation Certificates outstanding (A&E Office figure)		Difference	
		Number	Amount	Number	Amount	Number	Amount	Number	Amount
1	2012-13	416	210.48	--	--	--	--		
2	2013-14	284	283.70	--	--	--	--		
3	2014-15	390	444.17	3	0.80	3	0.8	--	--
4	2015-16	107	99.50	33	10.55	36	11.95	3	1.4
5	2016-17	117	189.25	68	119.55	116	169.25	48	49.7
	<b>Total</b>	<b>1314</b>	<b>1227.10</b>	<b>104</b>	<b>130.90</b>	<b>155</b>	<b>182.00</b>	<b>51</b>	<b>51.1</b>

Sources: Department and Sr. DAG (A & E) Office

The pendency of submission of UCs was mainly due to non-adherence to the instructions as stipulated in the Sikkim Financial Rules and lack of follow-up action to be taken by the Department.

Test check of records (June 2017) relating to pendency in submission of UCs of Cultural Affairs and Heritage Department, Government of Sikkim, Gangtok revealed the following irregularities:

Rule 111 (1) of the SFR states that ‘unless in any case Government directs otherwise, every order sanctioning a grant shall indicate whether it is recurring or non-recurring in nature and specify the object for which it is given and the conditions, if any, attached to the grants.

Test check of records revealed that the grants were neither indicated as recurring nor as non-recurring in nature. The Department had not imposed any condition on the Grantee for utilisation of the funds and the grants were released without any forwarding letter laying down any conditions attached thereto for timely submission of the UC, and purpose for which it was released. The receipts of the cheque for grants were simply obtained in a payment voucher.

Notification No. 10/CA & HD dated 8 October 2012 of Cultural Affairs and Heritage Department, Government of Sikkim in respect of Grants-in-aid stipulates that (i) Utilisation Certificate should be submitted within three months from the date of issue of Cheque and no future grant shall be released without obtaining the UCs for the grant so received in cases of grants for recurring festivals. (ii) Grants-in-aid shall be granted only to Registered Organisations/Clubs/Religious Institutions recognised by the Government of Sikkim and to those individuals excelling in the field of Art and Cultural activities. A copy of the Memorandum and Articles of Association and necessary credential in case of individual applicant should be submitted to the Department.

Test check of records revealed that 12 grantee units submitted their 12 UCs after a lapse of six months to two years from the date of receipt of grants during 2014-15 to 2016-17. Besides, the Department released 68 Grants-in Aid valuing ₹ 19,33,100 to 61 unregistered Organisations/Clubs/Religious Institutions during 2014-15 to 2016-17, out of which, Department had released grants to seven unregistered Organisations twice during 2014-15 and 2015-16.

Watch Register is an important register to keep a watch and control on release of grants and their utilisation. The Department had maintained the said register from 2017-18 (September 2017) only. However, the Watch Register did not have the column for due date for submission of UCs. Consequently, the Department could not keep a watch on the UCs.

### **3.2 Non-submission/delay in submission of accounts**

In order to identify new 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 State Government/Heads 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. None of the departments could submit the same though specifically called for.

The substantially funded Autonomous Bodies/Authorities are required to submit their annual accounts for audit by the CAG under the provision *ibid*. A total of 67 annual accounts of 31 Autonomous Bodies/Authorities for the period from 2009-10 to 2016-17 had not been received by the AG till September 2017 as detailed in **Appendix 3.1**. The age-wise delay in years is detailed in the table below:

**Table 3.3: Statement showing age-wise non-furnishing of accounts**

Sl. No.	Range of delays in number of years	Total number of accounts
1	5 and above	14
2	3-5	16
3	1-3	24
4	0-1	13
	<b>Total</b>	<b>67</b>

In the absence of finalisation of accounts and their subsequent audit, it could not be ensured whether the grants and expenditure have been properly accounted for and whether the purpose for which the grants were provided have actually been achieved.

### **3.3 Status of submission of accounts of autonomous bodies/Statutory Corporations and placement of Audit Reports before the State Legislature**

The audit of accounts of five<sup>1</sup> bodies in the State has been entrusted to the CAG. Those are audited with regard to their transactions, operational activities and accounts by conducting regulatory/compliance audit, review of internal management and financial controls, and review of systems and procedures.

Out of the five bodies, one had not submitted its accounts for the period ranging from 2013-14 to 2016-17 and two for the period from 2015-16 to 2016-17 as detailed in **Appendix 3.2**.

The audit of accounts of two bodies in the State has been entrusted to the CAG for which Separate Audit Report (SARs) are prepared for placement before the Legislature.

<sup>1</sup> (i) Sikkim Legal Services Authority (SLSA)  
(ii) Sikkim Housing and Development Board  
(iii) Sikkim State Electricity Regulatory Commission (SSERC)  
(iv) Sikkim Milk Union  
(v) Sikkim State Co-operative Supply and Marketing Federation (SIMFED)

SARs upto 2012-13 of State Legal Services Authority (SLSA) had been placed before the State Legislature while the SARs for 2014-15 and 2015-16 were issued on 11 December 2016 and 16 December 2016 respectively to the Government they had not been placed in the State Legislature.

SAR of Sikkim State Electricity Regulatory Commission (SSERC) for the year 2015-16 was issued to Government on 12 April 2017 but has not yet been placed before the Legislature. The details in this regard are given in **Appendix 3.3**.

### 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 annually in the prescribed format 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 remained 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 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 AG for audit within a specified timeframe. The position of arrears in preparation of proforma accounts by the two undertakings are given below:

**Table 3.4: Arrears in finalisation of proforma accounts and Government investment in departmentally managed commercial and quasi-commercial Undertakings**

Sl. No	Name of the Undertakings	Accounts finalised upto	Investment as per the last accounts finalised (₹ in crore)
1	Government Fruit Preservation Factory (GFPPF), Singtam	2010-11	1.48 <sup>1</sup>
2	Temi Tea Estate	2013-14	4.19 <sup>2</sup>

1. As on 31 March 2011, Operational fund ₹ 29239900 + Fixed Assets Fund ₹ 881951 + Local fund ₹ 100000 - Profit and Loss Accounts ₹ 15425583

2. As on 31 March 2014, General fund ₹ 6623531 + Revolving fund ₹ 15667563 + Plan fund ₹ 4000000 + Fund payable to GoS ₹ 15582712

### 3.5 Misappropriation, losses, etc.

There were four cases of misappropriation involving Government money amounting to ₹ 10,26,340 in respect of Transport Department at the end of 2016-17 where the final action was pending. The break-up of pending cases and age-wise analysis of misappropriation are as under:

**Table 3.5: Profile of pending cases of misappropriation, loss, defalcation, etc**

Age –profile of the pending cases			Status
Range in years	Number of cases	Amount involved (In ₹)	Amount Received
0-5	Nil		
5-10	2	(i) 94,255 (ii) 7,00,000 (approx.)	Nil
10-15	Nil		
15-20	2	(i) 53,885 (ii) 1,78,200	Nil
25 and above	Nil		
<b>Total</b>	<b>4</b>	<b>10,26,340</b>	<b>Nil</b>

Source: Departmental figures

### 3.6 Reconciliation of expenditure and receipts

To enable the controlling officers to exercise effective control over expenditure and to keep the expenditure within the budget grants and ensure accuracy of their accounts, expenditure recorded in their books have to be reconciled every month during the financial year with those recorded in the books of the AG.

Reconciliation had been completed for all Revenue and Capital Expenditure heads (₹ 4508.37) and Revenue Receipt heads (₹ 4610.30 crore) during 2016-17.

### 3.7 Conclusion and Recommendations

During the year 2016-17, all the COs reconciled the Government receipts and expenditure with the figures in the books of the AG.

However, the practice of not furnishing UCs in a timely manner against grants received, not furnishing of detailed information about financial assistance given to various institutions and not submitting of accounts by 31 Autonomous Bodies/Authorities as per time lines indicated that financial rules were not complied with. There were also delays in placement of SARs to Legislature.

*There is a need to ensure that the Audit Reports of the Autonomous Bodies are placed in the Legislature on time and UCs are submitted by the recipient of grants within the prescribed time.*

**Gangtok**  
**The 08 December 2017**

  
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**The 22 December 2017**

  
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