CHAPTER III

FINANCIAL REPORTING

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A sound internal financial reporting system and the availability of relevant and reliable information significantly contribute to efficient and effective governance by a State Government. Compliance with financial rules, procedures and directives as well as timeliness and quality of reporting are some of the 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 of the State Government's compliance with some of the financial rules, procedures and directives during 2016-17.

3.1 Delay in furnishing of utilisation certificates

Article 210A of the Tamil Nadu Financial Code provided that for grants released during a year for specific purposes, Utilisation Certificates (UCs) should be obtained by the departmental officers from the organisations to whom grants were given and after verification, the UCs should be forwarded to the Accountant General (Accounts and Entitlements) (AG (A&E)) within 18 months from the date of release of the grants, unless specified otherwise.

It was found that in respect of 329 grants released during 2013-16, 11 UCs for ₹ 79.03 crore were not furnished by the grantees as of September 2017. Department/Chief Controlling Officer-wise break-up of outstanding UCs is given in **Appendix 3.1** and the year-wise analysis of delays in submission of UCs is summarised in **Table 3.1**.

Table 3.1: Year-wise position of outstanding Utilisation Certificates

(₹ in crore)

Period	Utilisation certificates outstanding	
	Number	Amount
2013-14	1	2.72
2014-15	9	64.15
2015-16	1	12.16
Total	**11**	**79.03**

(Source: Accountant General (A&E), Tamil Nadu)

Non-receipt of UCs indicates that the departmental officers failed to comply with the rules to ensure accountability of the agencies that received Government grants.

3.2 Non-reconciliation of receipts and expenditure

As per Rules 124 and 127 of the Tamil Nadu Budget Manual, departmental accounts maintained by the Chief Controlling Officers (CCOs) and the progressive actuals, month by month are required to be reconciled with those entered in the books of the AG (A&E), so as to ensure that the departmental accounts are sufficiently accurate to secure departmental financial control and also to ensure accuracy of the accounts maintained by the AG (A&E) from which final published accounts are compiled. As per Rule 128 of the Tamil Nadu Budget Manual, the CCO is required to send a Reconciliation Certificate (RC) to the AG (A&E) after necessary adjustments are made either in the accounts of the CCO or in the books of the AG (A&E).

However, it was seen that out of 207 CCOs in the State, 44 CCOs for expenditure and 52 CCOs for receipts did not reconcile their accounts with AG (A&E) as detailed in **Appendix 3.2.** It was observed that six CCOs did not reconcile their expenditure with the AG (A&E) for the whole year as given in **Table 3.2.**

Table 3.2: Non-reconciliation of expenditure for the whole year

Sl.No.	CCO	Major Head	Amount pending reconciliation (₹ in crore)
1.	Directorate of Environment	3435	4.41
2.	Police Training College	2055	178.15
3.	Commissioner of Transport	3435	1.52
4.	Director of Stationery and Printing	2058	108.41
5.	Director of Rural Development and Panchayat Raj	2505	4,779.22
6.	Secretary to Government, Finance	2049	20,533.27
		Total	**25,604.98**

(Source: Accountant General (A&E), Tamil Nadu)

Non-reconciliation of accounts impacted the assurance on the completeness and correctness of receipts and expenditure figures depicted in the accounts.

3.3 Non-submission/delay in submission of accounts

Sections 14 and 15 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971 (DPC Act) envisages audit of accounts of institutions receiving Government grants, subject to conditions stipulated based on the quantum of the grants received, etc. In order to identify the institutions which attract audit under the DPC Act, every year, the heads of department were required to furnish to Audit the information about the financial assistance given to various institutions, the purposes for which the assistance was granted and the total expenditure of these institutions/bodies.

The annual accounts of 367 institutions/bodies, due up to 2016-17, were not received (June 2017) by Audit from the heads of department who released the financial assistances to them. The details are given in **Appendix 3.3** and their age-wise pendency is presented in **Table 3.3.**

Table 3.3: Age-wise arrears of annual accounts due from Institutions/Bodies

Sl. No.	Delay in number of years	Number of the Institutions/Bodies
1.	Up to one year	89
2.	More than one year and upto three years	128
3.	More than three years and upto five years	61
4.	Five years and above	89
	Total	**367**

(Source: Data compiled from information furnished by the Heads of Department)

The major defaulters were educational institutions receiving Government grants for salaries, maintenance, etc. Due to non-receipt of the annual accounts of the grantees, Audit could not scrutinise the accounts of such institutions which would qualify for audit under the DPC Act.

3.4 Non-adjustment of temporary advances

The Drawing and Disbursing Officers (DDOs) draw temporary advances for the purpose of meeting contingent expenditure either on the authority of standing orders or specific sanctions of the State Government. According to Article 99 of the Tamil Nadu Financial Code, the advances should be adjusted by presenting detailed bills and vouchers as soon as possible.

It was noticed that 452 temporary advances amounting to ₹ 183.86 crore drawn up to 31 March 2017 by DDOs through Pay and Accounts Offices/District Treasury Offices were remaining unadjusted as on 30 June 2017. Age-wise analysis of the advances pending is given in **Table 3.4**.

Table 3.4: Age-wise analysis of advances pending

Sl. No.	Pendency	Number of Advances	Amount (₹ in crore)
1.	More than 10 years	14	1.63
2.	More than 5 years and less than 10 years	23	7.02
3.	More than 1 year but less than 5 years	69	106.36
4.	Less than one year	346	68.85
	Total	**452**	**183.86**

(Source: Data compiled by the Accountant General (A&E), Tamil Nadu)

The pendency, involving substantial amounts, indicated laxity on the part of Departmental Officers in enforcing the codal provisions regarding adjustment of the advances.

3.5 Operation of Personal Deposit Accounts

Personal Deposit (PD) Accounts are created for specific purposes by debiting the service heads in the Consolidated Fund of the State and crediting Personal Deposits (Sub-head 'AA - Minor head - 106' under '8443 Civil Deposits') and authorisations are issued by AG (A&E). Under extant Rules, these PD Accounts are required to be closed by the administrators at the end of the financial year by minus debit to the relevant service heads. Further, there should be a separate PD Account for every scheme implemented by the Administrator.

During 2016-17, based on requests from GoTN, AG (A&E) issued authorisations to open 198 PD Accounts for incurring expenditure on various schemes. The Administrators, however, opened only 78 PD accounts. It was noticed that in violation of the authorisation to open separate PD Account for each of the scheme, several Administrators opened a single PD Account to book expenditure under multiple schemes. Opening a single PD Account to cater to more than one scheme rendered it impossible to ensure that funds allotted for different schemes are utilised for the intended scheme.

During the Entry Conference (July 2017), the Secretary (Expenditure), Finance Department directed to issue circulars to Administrators for opening separate PD Account for each authorisation and also to ensure that all the balance amount in the PD Account are remitted back to Government Account.

A total of 24 PD Accounts in 13 District Treasuries (DTs) and 3 Pay and Accounts Offices (PAOs) were not closed on 31 March 2017, by minus debit to the service head concerned. The PD Accounts which were not closed on 31 March 2017 included five accounts with negative balances aggregating to ₹ 2.76 crore. The negative balance indicated possible excess withdrawal, over and above the amount transferred from the service head.

Major amounts lying in PD Accounts included ₹ 1.48 crore in DT, Villupuram in the account of District Adi-Dravidar Welfare Office, Villupuram, ₹ 0.80 crore in DT, Nilgiris in the account of District Adi-Dravidar Welfare Office, Udagamandalam and ₹ 0.14 crore in two PD Accounts of Tamil Nadu Legislative Assembly Secretariat. The two PD Accounts of Tamil Nadu Legislative Assembly Secretariat were being operated without closure for the last five years. Operation of PD Account continuously, without closure on 31 March was not in order. During Exit Conference (November 2017), the Secretary (Expenditure), Finance, accepted the audit observation on these PD Accounts. Non-closure of PD Accounts created by debiting service head led to depiction of inflated expenditure under the related service head.

3.6 Misappropriations, losses, defalcations, etc.

Article 294 of the Tamil Nadu Financial Code stipulates that heads of office should report all cases of defalcations or loss of public moneys, stores or other movable or immovable properties to the AG (A&E). Further, the Financial Code prescribes the principles and procedures to be followed for enforcing responsibility for losses and disposal of such cases.

As of 31 March 2017, 392 cases of misappropriation, shortages, theft and loss involving a total amount of ₹ 14.88 crore, were pending disposal. The department-wise break-up of pending cases and the nature of these cases are given in **Appendix 3.4**. The age-profile of the pending cases and the number of cases pending in each category *viz.,* misappropriation, loss, theft, etc., are summarised in **Table 3.5**.

Table 3.5: Profile of misappropriations, shortages, thefts, losses, etc.

Age-Profile of the Pending Cases			Nature of the Pending Cases		
Range in years	Number of cases	Amount involved (₹ in lakh)	Nature of the cases	Number of cases	Amount involved (₹ in lakh)
0 - 5	9	232.96	Thefts	35	12.82
6-10	38	388.28	Losses and Shortages	146	228.17
11-15	36	278.05	Misappropriations	211	1,247.10
16 - 20	61	376.44			
21 - 44	248	212.36			
Total	**392**	**1,488.09**	**Total pending cases**	**392**	**1,488.09**

(Source: Information furnished by Heads of Department)

The reasons for pendency of the cases are classified under the categories listed in **Table 3.6.**

Table 3.6: Reasons for pendency of the cases of misappropriations, shortages, thefts, losses, etc.

Reasons for the pendency		Number of cases	Amount (₹ in crore)
(i)	Awaiting departmental and criminal investigation	179	7.79
(ii)	Departmental action initiated but not finalised	127	2.69
(iii)	Criminal proceedings finalised but recovery of the amount still pending	16	1.64
(iv)	Awaiting orders for recovery or write off	48	0.75
(v)	Pending in Courts of law	22	2.01
	Total	**392**	**14.88**

(Source: Information received from Heads of Department)

3.7 Deficiencies noticed in the Pay and Accounts Offices

Accumulation of unencashed cheques

Paragraph 92 (iii) of the PAO Manual and Rule 49 of Tamil Nadu Treasury Code specify that in cases where cheques are not encashed within three months after the month of their issue, the payees should be advised by the PAO/DT of the fact of those cheques having become time-barred and should be requested to obtain fresh cheques surrendering the time-barred cheques. If no reply is received from the payee within a month after the issue of intimation by the PAO/DT and the fact of non-payment of cheque is also certified by the bank, action should be taken to cancel the cheque. However, six PAOs[1] failed to undertake these actions as described below:

[1] PAO (East), PAO (North), PAO (South), PAO (Madurai), PAO (High Court) and PAO (Secretariat)

It was noticed from the details of unencashed cheques furnished by the six PAOs that 56,739 cheques for ₹ 306.23 crore remained unencashed (June 2017) for periods up to 30 years. The age-wise profile of the number of cases and the value of cheques depicted as unencashed, as per the books of PAOs, are summarised in **Table 3.7**.

Table 3.7: Details of unencashed cheques

(₹ in crore)

Delay in number of years	Number of cases	Value of cheques
0-5 years	1,614	244.76
5-10 years	14,311	8.63
10-20 years	32,571	43.06
20-30 years	8,243	9.78
Total	**56,739**	**306.23**

(Source: Information furnished by PAOs)

Thus, the amount indicated in **Table 3.7** was neither paid to the eligible person nor could be utilised by the State Government.

3.8 Amounts booked under Minor Head "800"

Booking of receipts or expenditure under the Minor Head - "800 - Other Receipts" and "800 - Other Expenditure" is considered opaque classification of receipts and expenditure as these heads do not disclose the schemes, programmes, etc., to which the amounts relate. These minor heads normally accommodate the receipts/expenditure which cannot be classified under the available programme minor heads or due to incorrect identification of receipts/expenditure under the available heads of account at the stage of budget preparation.

During 2016-17, under 16 major heads in the Revenue and Capital sections, expenditure aggregating to ₹ 11,434.63 crore (79.42 *per cent* of the total expenditure of ₹ 14,397.26 crore in these heads) was classified under the minor head '800 - Other Expenditure'. The entire expenditure under "Capital Outlay on Nutrition", "Capital Outlay on Other Transport Services" and "Flood Control and Drainage" were classified under the omnibus Minor head '800 - Other Expenditure', instead of depicting the same under relevant minor heads below the functional major heads as indicated in **Appendix 3.5**.

Similarly, under 23 major heads, revenue receipts aggregating ₹ 2,026.28 crore (91.20 *per cent* of the total receipt of ₹ 2,221.79 crore), were classified under minor head '800 - Other Receipts'. The entire receipts under "Urban Development", "Family Welfare" and "Other Industries" were classified under the omnibus Minor head '800 - Other Receipts' as indicated in **Appendix 3.6**.

Classification of the large amount under the omnibus Minor head "800 - Other Expenditure/Receipts" reflected lack of transparency in financial reporting.

3.9 Conclusion

Departmental officers failed to ensure adherence to the terms and conditions relating to timely submission of Utilisation Certificates in respect of grants released. Similarly, 367 autonomous bodies/institutions did not submit their accounts due up to 2016-17 to Audit. Temporary advances drawn up to 31 March 2017 by the DDOs involving an amount of ₹ 183.86 crore in 452 cases remained unadjusted. Due to operation of multiple schemes under one PD Account, only 78 PD accounts were opened against 198 authorisations. The State Government departments reported 392 cases of misappropriations, losses, defalcation, etc., involving a total amount of ₹ 14.88 crore up to March 2017 on which final action was pending. There were 56,739 number of cheques amounting to ₹ 306.23 crore remaining unencashed due to non-initiation of timely action by PAOs.

3.10 Recommendations

- Government may ensure receipt of UCs for grants already released before releasing further grants.
- Institutions/bodies receiving Government grants may be made responsible to submit their audited accounts in time.
- Operation of PD Accounts by Government Officers requires closer monitoring to avoid possible wrong booking of expenditure and excess withdrawals.

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