

3.1 Introduction

Sound internal controls and compliance with rules and procedures contribute significantly to good governance. These also ensure relevant, reliable and timely financial reporting and thereby assist the State Government in meeting its basic stewardship responsibilities, including strategic planning and appropriate decision making. This Chapter provides an overview of the State Government's compliance with various financial rules, procedures and directives during the current year.

3.2 Utilisation Certificates

Utilisation Certificates (UCs) should be furnished by the State Government to the GoI with regard to the funds provided by the latter for implementation of various socio-economic development programmes. Test check of implementation of five¹ flagship programmes and Finance Commission grants by Audit revealed that State Government was yet to submit UCs for an amount of ₹ 1,749 crore as of 31 March 2013 to GoI for the funds released by the latter. Further, UCs for an amount of ₹ 635 crore relating to social security pension and total sanitation campaign were pending from sectoral officers (*Appendix 3.1*).

State Government rules² also provide for submission of UCs by the grantees to the departmental officers where specific grants are provided, and forwarding them to the PAG (A&E) after verification. 19 UCs aggregating ₹ 4.68 crore in respect of grants released by the State Government during 1992-93 to 2012-13 were outstanding as of 31 March 2013. The delay in this regard ranged from one to 21 years, as summarized in *Appendix 3.1(a)*.

Audit scrutiny of several socio-economic development programmes revealed that the departmental authorities and the State Government in turn, have been submitting UCs after releasing the amount to the next level or placing in PD accounts and even before the expenditure is incurred. To quote an instance, GoI sanctioned ₹ 19.23 crore in two installments (₹ 6.90 crore in January 2009 and ₹ 12.33 crore in March 2010) to the State for 'Installation of Standalone Water Purification Systems' in 3,449 and 6,169 rural schools respectively under Rajiv Gandhi National Drinking Water Mission (RGNDWM). State Government expended ₹ 3.20 crore (46 per cent) during 2009-10 and was yet to utilize the remaining ₹ 16.03 crore as of 31 March 2013. However, UC was submitted to GoI in March 2010 itself for the first installment (₹ 6.90 crore).

Government accepted (December 2013) the audit observations and stated that it had instructed the Revenue, Panchayat Raj and Municipal Administration and Urban Development Departments to submit the outstanding UCs to PAG (A&E).

3.3 Submission of accounts/Audit Reports of Autonomous bodies

Several autonomous bodies have been set up by the State Government in the fields of Medical Education, Urban Development, Tribal Welfare etc. The audit of accounts of 18 such

¹ Social security pensions, PMGSY, IAY, Tribal Welfare, BWHP

² Note 1 below Article 211 A (2) of Andhra Pradesh Financial Code

bodies has been entrusted to the CAG of India. However, 15 out of the 18 bodies had not rendered annual accounts up to date i.e. 2012-13. The delay in submission of accounts for audit ranged from three to 111 months as of September 2013. Details of the period upto which accounts were due and rendered are given in **Appendix 3.2**.

State Government needs to take expeditious measures to ensure that these accounts are compiled and submitted for audit within a fixed timeframe, so as to ensure that financial irregularities, if any, do not go undetected.

Further, in order to identify the institutions which attract audit under Sections 14 and 15 of the CAG's (DPC) Act, 1971, the Government/Heads of Department are required to furnish to Audit every year detailed information about the financial assistance given to various institutions, the purpose of such assistance and the total expenditure of the institutions with regard to these amounts. 1862 annual accounts of 368 such assisted bodies/authorities due from 1993-94 to 2012-13 were not submitted to audit as of September 2013. Details of these accounts are given in **Appendix 3.3**.

3.4 Un-reconciled expenditure and receipts

To enable the Chief Controlling Officers (CCOs) of Departments to exercise effective control over budget and expenditure, and to ensure accuracy of their accounts, Financial Rules³ stipulate that expenditure recorded in their books be reconciled by them every month during the financial year with that recorded in the books of the PAG (A&E). Even though non-reconciliation of departmental figures has been pointed out regularly in Audit Reports, lapses on the part of CCOs in this regard continued to persist during 2012-13 also. As of June 2013 expenditure pertaining to 2012-13 amounting to ₹ 30,815 crore (25 per cent of total expenditure⁴) was not reconciled by 256 CCOs. Cases where 14 CCOs did not reconcile expenditure of ₹ 500 crore and above in each case are given in **Appendix 3.4**.

Further, every Controlling Officer should obtain regular accounts and returns from his/her subordinates for the amounts realized by them and paid into the Treasury, compare the figures with the accounts maintained in the office of the PAG (A&E) and reconcile any differences as early as possible before the accounts of the year are closed. However, receipts amounting to ₹ 50,160 crore (48 per cent of total receipts⁵) during 2012-13 under 42 heads were not reconciled by the concerned CCOs.

In fact, to assurance sought by PAG (A&E) from 620 CCOs on their compliance with Rules and Regulations, conformity with budgetary provisions and existence of adequate control mechanism for risk management during 2012-13, only 19 CCOs responded in the affirmative. The remaining 601 CCOs had not responded (August 2013).

Government stated (December 2013) that instructions have been issued to all the Chief Controlling Officers to reconcile their figures invariably on a monthly basis with those of PAG (A&E).

³ Article 9 of Andhra Pradesh Financial Code

⁴ Includes Revenue, Capital and Loans and Advances (₹ 1,21,764 crore)

⁵ Includes Revenue, Capital and Loans and Advances (₹ 1,04,256 crore)

3.5 Personal Deposit Accounts

As per APFC⁶, PD Accounts are created for discharging the liabilities of the Government arising out of special enactment, by debit to the Consolidated Fund. As per State Government's orders of April 2000, funds released during a particular financial year shall lapse by 31 March of next financial year (lapsable deposits under category 'C') and the administrators of PD accounts are required to close such accounts and transfer the unspent balances back to the Government account. Test check in Audit revealed that in violation of Government orders, ₹ 374.28 crore of lapsable deposits have not been lapsed to Government at the end of the financial year 2012-13. Due to non-rendering of administrator-wise PD accounts details to the Office of PAG (A&E), the details of expenditure met from the funds transferred to PD Account and transfer of unspent balances back to Government Account could not be verified in Audit in all the cases.

As per records of District Treasury Officers (DTOs) 1,02,520 PD accounts were in operation as of 31 March 2013 with a closing balance of ₹ 13,090 crore. The opening balance of 2012-13 differed from the closing balance of 2011-12 by 14,030 PD accounts (increased) and ₹ 9,212 crore (decreased), which has not been reconciled by the respective departments. The Director of Treasuries and Accounts (DTA) intimated Audit (July 2012) about the existence of 1,16,638 PD accounts with a closing balance of ₹ 23,483 crore as on 31 March 2012. The details in this regard as of 31 March 2013 were not furnished by the DTA despite specific request (October 2013). ***The variation between the figures of DTOs and DTA and between the opening and closing balances needs attention and reflects poorly on the funds control mechanism of the Government.***

Out of 1,02,520 PD accounts in the State, 23,317 pertain to various Panchayat Raj Institutions (PRIs) like Gram Panchayats/Mandal Praja Parishads/Zilla Praja Parishads, and Municipal Bodies like Town Panchayats/Municipalities/Municipal Corporations etc. As per Panchayat Raj Act, 1994 and Municipalities Act, 1965 all moneys received by the local bodies (both PRIs as well as urban local bodies) shall be kept in a 'Fund' (General Fund in PRIs and Municipal Fund in urban local bodies). These funds are in the nature of PD accounts and as per the Acts governing these bodies, no money received by these bodies can be expended without first accounting for it and remitting in to Treasury.

Audit scrutiny of operation of General Fund and Municipal Fund in 20 GPs and 38 urban local bodies on a sample basis during the year revealed several irregularities in operation of these Funds and accountal of receipts. Significant instances are listed below.

- Revenue collections were remitted to Savings Bank Account instead of to Fund/PD account in violation of APPR Act, which had the impact of placing the funds outside Government account. The total amount in this regard in the test checked GPs⁷ was ₹ 3.72 crore.

⁶ Article 271 (4) of Andhra Pradesh Financial Code

⁷ Shamshabad: ₹42.94 lakh; Ibrahimpatnam: ₹31.42 lakh; Boduppal: ₹2.98 crore

- Funds were held as 'Cash in hand' instead of remitting to Fund/PD account. During 2012-13, the amount so retained was ₹ 15.84 lakh (Shamshabad GP: ₹ 9.24 lakh; Wyrā GP: ₹ 6.60 lakh).
- There were delays in remitting tax collections into Fund/PD account with the Treasuries in 19 out of 20 test checked GPs. The delays ranged from one day (Ibrahimpattam) up to 488 days (Shamshabad GP).
- Some GPs have not remitted the tax collections in full to Fund/PD account, and the possibility of misappropriation cannot be ruled out. The non-remittance in the test checked GPs was ₹ 5.39 lakh during the period 2010-11 to 2012-13. Further, ₹ 1.52 lakh collected as tax (2008-09 to 2012-13) was misappropriated in Boduppall GP.
- There was ₹ 10 lakh difference between the opening and closing balances of Fund/PD account Cash Book in Shamshabad GP.
- None of the test checked GPs have reconciled the Fund/PD account Cash Book with Treasury Pass Book. Missing credits or debits in the Fund/PD account would not come to the notice of the GPs in the absence of such reconciliation.

Audit review of maintenance of PD accounts on a sample basis revealed numerous instances of parking funds in these accounts for several years without utilizing for the sanctioned purpose. Illustrative cases are given below:

- i. **Non-utilisation of funds for sanctioned purpose:** Eleventh and Twelfth Finance Commission grants amounting to ₹ 67.36 crore were placed in the PD Account of the Chief Executive Officer (CEO), ZPP, Rangareddy District (PD account No.13) during 2003-12 for e-panchayat project. While only ₹ 6.86 crore out of this amount was spent on the envisaged work up to March 2012, the remaining amount was placed in the Commissioner's PD account during January-March 2013 and parked in FDRs thereafter. The General Fund PD account of CEO, ZPP, Rangareddy also has an accumulated balance of ₹ 79.41 crore lying unutilized during 2012-13.
- ii. **Issue of self cheques to Bank Managers:** Government issued orders⁸ prohibiting issue of self cheques or cheques in the name of Manager of any bank. In violation of these orders, self cheques were issued to Bank Managers from Fund/PD account in several ZPPs and an amount of ₹ **599.18 crore** was drawn from Fund/PD account by DTOs through self cheques.
- iii. **Missing cheques:** As per cheque issue register of ZPP, Nalgonda (Fund/PD Account No.108), details of 265 cheques issued were not available. Therefore, Audit could not verify the details of the amounts paid through these cheques and the recipients of such amounts.

⁸ G.O.MS.No.43 Finance and Planning (W&M) Department dated 22-04-2000.

- iv. **Drawal of cheques without counter signature:** Drawal of cheques exceeding ₹ 10 lakh each should be countersigned by the Secretary to Government, Finance Department. However, DTO (Urban) Hyderabad allowed drawal of ₹ **376.40 crore** through 36 cheques exceeding ₹ 10 lakh each during 2012-13 without the counter signature of Secretary, Finance Department.
- v. **Non-receipt of Certificate of Acceptance of Balances (CABs):** If the Certificate of Acceptance of Balance is not received from the Administrator within the stipulated time, the Treasury Officer may withhold further payments. Despite non-receipt of CABs from 9,631 PD Account Administrators, the DTOs concerned allowed them to draw further funds from PD accounts.
- vi. **Social Security Pensions – Undisbursed pension funds lying outside Government Account:** In 2006, State Government brought all the Pension schemes under the Rural Development (RD) Department and entrusted the responsibility for release of funds and monitoring of the Pension schemes to the Society for Elimination of Rural Poverty (SERP), an agency under RD Department. An amount of ₹ 153.29 crore was lying in the SB Account of SERP on account of undisbursed pension during the period February 2012 to March 2013. Considering that this amount was lying outside Government account, Government needs to take measures to remit it back to the Government account.

In its written reply (December 2013), Government stated that PD Account cheques are being cleared online only after verifying the balances available with each of the PD Account Administrators. During the Exit Conference (December 2013), Government replied that they have instituted a Task Force to look into the entire gamut of PD Accounts and based on its recommendations, orders have been issued to streamline maintenance of PD Accounts. It was further stated that the Director, Local Fund Audit was asked to look into this issue specifically with regard to local bodies and assured that effective action would be initiated once that report is received.

3.6 Pendency of Detailed Contingent bills

As per Government orders,⁹ amount drawn on Abstract Contingent (AC) bills should be adjusted by submitting Detailed Contingent (DC) bills for the expenditure incurred, to the PAG (A&E)/Pay and Accounts Officer with supporting vouchers within one month of drawal of such amounts. In any event, a third AC bill is not to be admitted until the first AC bill is settled.

However, despite flagging this issue at regular intervals, as of 31 March 2013, DC bills were yet to be submitted for ₹ 1,210 crore drawn on AC bills. The year-wise details in this regard are given below.

⁹ G.O.Ms.No.285 Finance (TFR-II) Department dated 15-10-2005, Andhra Pradesh Treasury Code, Rule 16, sub Rule 18 (d) and G.O. No.s 391 and 507 of April/May 2002 of Finance Department

Table 3.1: Amount drawn on Abstract Contingent Bills

(₹ in crore)

Year	AC bills drawn		DC bills Submitted		DC bills pending	
	Number	Amount	Number	Amount	Number	Amount
Up to 2007-08	89,837	793	72,463	655	17,374*	138*
2008-09	7,383	158	6,088	145	1,295	13
2009-10	4,447	458	3,732	362	715	96
2010-11	3,158	774	2,599	659	559	115
2011-12	2,546	941	2,025	473	521	468
2012-13	2,285	658	1,018	278	1,267	380
Total	1,09,656	3,782	87,925	2,572	21,731	1,210

Source: Information from office of PAG(A&E)

*Excludes 82,130 AC bills for ₹222 crore upto 2002-03 for which details are not available.

Note: 237 AC bills for ₹44 crore in respect of PAO (Hyderabad) for 2004-13 which are under reconciliation are not included.

With ₹ 831 crore, Agriculture department tops the list of pendency in submitting DC bills followed by Revenue department with ₹ 224 crore and Secondary Education department with ₹ 59 crore as of March 2013. The department-wise details of AC bills for which DC bills are pending is given in **Appendix 3.5**. Among the districts, Anantapur accounted for the highest amount (₹ 283.63 crore) drawn on AC bills where the DC bills were not submitted.

Non-submission of DC bills even after the lapse of 10 years raises concerns about proper utilization of amounts drawn on AC bills. A review of working of Treasuries and PAO, Hyderabad during 2012-13 revealed the following.

- i. Out of ₹ 3,782 crore drawn on AC bills, ₹ 531.43 crore was paid through 17,449 AC bills by various DTOs in violation of Government orders not to honour third AC bill till the settlement of amounts drawn through the first AC bill.
- ii. While Government provided budget specifically under other grants-in-aid towards relief on account of natural calamities like drought for drinking water supply, flush and desilting (rural), Joint Director of Agriculture (JDA), Mahabubnagar drew ₹ 227.12 crore on 60 AC bills during 2009-13 of which DC bills were yet to be submitted for an amount of ₹ 101.55 crore as of June 2013.
- iii. JDA Ananthapur (₹ 187.26 crore), Srikakulam (₹ 106 crore) and Assistant Director of Agriculture (ADA) Srikakulam (₹ 71 lakh) drew (June 2011 to November 2012) money on AC bills for payment of input subsidy to farmers on account of natural calamities. However, the related DC bills were not submitted as of 31 March 2013.
- iv. Out of ₹ 115.53 crore released (May and June 2011, and April 2012) by the Commissioner and Director of Agriculture (CDA), an amount of ₹ 4.32 crore being unspent balance was deposited in Banks¹⁰ by JDA, Srikakulam instead of remitting to Government. In the absence of a DC bill, the details of amount spent and the balances could not be ascertained in audit.

¹⁰ APGVB, Srikakulam ₹ 3.58 crore and SBI, Srikakulam ₹ 0.74 crore

- v. District Collector, Mahabubnagar drew ₹ 3.93 crore in April 2010 on AC bill towards Calamity Relief Fund to mitigate the problem of scarcity of drinking water in rural areas and parked the amount in bank account. While ₹ 3.68 crore of this amount was utilised over a period of two years, the unspent balance of ₹ 25 lakh was lying in the bank account as of June 2013. DC bill for the entire amount is awaited.

Government stated (December 2013) that the Finance Department is constantly reviewing this issue and making efforts to reduce the number of AC bills pending with various Heads of Department.

3.7 Operation of omnibus Minor Head 800

The omnibus Minor Head - 800 accommodates the expenditure which could not be classified under the available programme minor heads. During 2012-13 expenditure aggregating ₹ **18,206 crore**, constituting 15.45 per cent of the total expenditure was classified under omnibus Minor Head '800-Other Expenditure' in respect of over 50 Major Heads in both revenue and capital sections. Similarly, revenue receipts aggregating ₹ **4,123 crore** accounting for 3.97 per cent of total revenue receipts were classified under the omnibus Minor Head '800-Other Receipts' under 45 Major Heads. Classification of large amounts under the omnibus Minor Head '800-Other Expenditure/Receipts' affects transparency in financial reporting and distorts proper analysis of allocative priorities and quality of expenditure.

Government stated (December 2013) that it had taken corrective action with regard to operation of Minor Head '800' while finalizing the budget estimates for 2013-14 and assured that efforts would be made in consultation with the Heads of Department to transfer the schemes to respective minor heads in BE 2014-15. Government also expressed hope that with the operationalisation of CFMS from the next financial year, the systemic deficiencies would be overcome.

3.8 Implementation of Indian Government Accounting Standards (IGAS)

3.8.1 Guarantees given by State Government

IGAS-1 requires that sector-wise and class-wise disclosures on guarantees given by the State Government should be incorporated in Finance Accounts from the year 2011-12 onwards. Although sector-wise details have been disclosed, class-wise details were not incorporated in Finance Accounts of the State.

3.8.2 Accounting and Classification of Grants-in-aid

As per IGAS-2, expenditure relating to Grants-in-aid should be classified as revenue expenditure even if it involves creation of assets, except in cases specifically authorized by the President on the advice of the Comptroller and Auditor General of India. State Government however, booked an expenditure of ₹ 1.47 crore under Capital section instead of under Revenue section.

3.9 Debt, Deposit and Remittance heads

Audit review of debt, deposit and remittance (DDR) heads during 2012-13 revealed the following.

3.9.1 Public Debt

Article 293 of the Constitution of India empowers State Government to borrow funds within the territory of India, upon the security of the Consolidated Fund of the State within such limits as may vary from time to time, to be fixed by an Act of the State Legislature.

3.9.1.1 Adverse Balances under MH 6003-Internal Debt

Adverse balances (Minus balances) under Loan heads indicate that the repayment was more than the loans availed of by the Government. Government departments that directly avail of loan have been classifying such loan amounts as their receipts, while in respect of SPVs and companies/corporations, these amounts do not enter Government accounts. Loan repayments are however, booked as debit under MH-6003-Internal debt in Government accounts which result in adverse balances. During 2012-13 adverse balances of ₹ 3,896 crore appeared under MH 6003-109-Loans from other Institutions due to accounting for payments without corresponding credits. These balances pertain to AP State Irrigation Development Corporation, AP Road Development Corporation, AP Power Finance Corporation Limited, and AP TRANSCO Bonds.

Government stated during the Entry Conference (August 2013) that it was a legacy issue and was being addressed. During the Exit Conference (December 2013) Government stated that it is difficult to book the expenditure to revenue account since it would impact the revenue surplus. It was however assured that the Government was exploring various options to deal with these adverse balances.

3.9.2 Deposits and Advances

3.9.2.1 Deposits

Government receives deposits for various purposes by or on behalf of various public bodies and members of the public, which are accounted for by repayment or otherwise. Government sometimes decides to set aside sums from the revenues of a year or a series of years, to be accumulated as a “fund”. The balance at the credit of such a “fund” is held as a deposit and expended on specified objects.

Deposits and Advances are divided into three categories. Details of these categories and the balances outstanding under these as of 31 March 2013 were as follows:

Deposits bearing Interest	₹ 4,145.79 crore	Credit balance
Deposits not bearing Interest	₹ 11,447.45 crore	Credit balance
Advances	₹ 22.97 crore	Debit balance

Audit review of balances under 'Deposits' during 2012-13 revealed the following.

- **Adverse Ledger Balances under Deposit Accounts:** Adverse/negative balance of ₹ 2,264.54 crore was outstanding under deposits at the end of 31 March 2013. A deposit account can have either a positive balance or nil balance. Negative balance indicates that the expenditure is more than the amount deposited. This can be due to misclassification or over payment in the Pay and Accounts Office/District Treasury Offices. Government needs to investigate into this adverse/negative balance and take appropriate corrective action.
- **Non-receipt of cheques in support of payments:** Manual of Treasury Accounts Department¹¹ stipulates that payments have to be supported by vouchers/cheques containing full details of payments made. However, in violation of this Manual, Treasuries have not furnished 4,583 cheques to PAG (A&E) for an amount of ₹ 327 crore. Out of these, 4238 cheques pertain to the last three years alone and relate to payment of ₹ 313.46 crore. Year-wise pendency in this regard is given in **Appendix 3.6**.
- **Unclaimed deposits of General Provident Fund (GPF):** Unclaimed deposits of ₹ 1.27 crore remained under General Provident Fund without remittance to the Consolidated Fund of the State in violation of Government orders dated April 2000.

3.9.2.2 Civil Advances

As per Article 236 of AP Financial Code, the functioning of Government often necessitates placing of funds at the disposal of Government Servants as temporary cash advances for public purposes. These are to be adjusted as expenditure under the appropriate heads of account or recovered from the parties concerned. Civil Advances of ₹ 9.18 crore were lying in inoperative heads of account for over three years. Government needs to review these advances and take appropriate corrective action.

3.9.3 Remittances

Remittances embrace all transactions which are adjusting heads of account and the debits or credits under these heads are eventually cleared by corresponding credit or debit either within the same or in another circle of accounting. Audit scrutiny of balances under remittances revealed the following.

- **Delay in furnishing Schedule of Settlement with Treasuries (SSTs):** 1,574 SSTs¹² were due from Treasuries/PAOs and an amount of ₹ 1,368.60 crore (₹ 63.77 crore under Forest remittances/cheques and ₹ 1,304.83 crore under Public works cheques) was lying unadjusted as of 31 March 2013 for want of SSTs from the Treasuries/PAOs. These balances have been outstanding from 2006-07 onwards.

¹¹ Para 197 (i)(a) of Manual of Treasury Accounts Department (Volume-I)

¹² 1,052 of Forest & 522 of Public Works

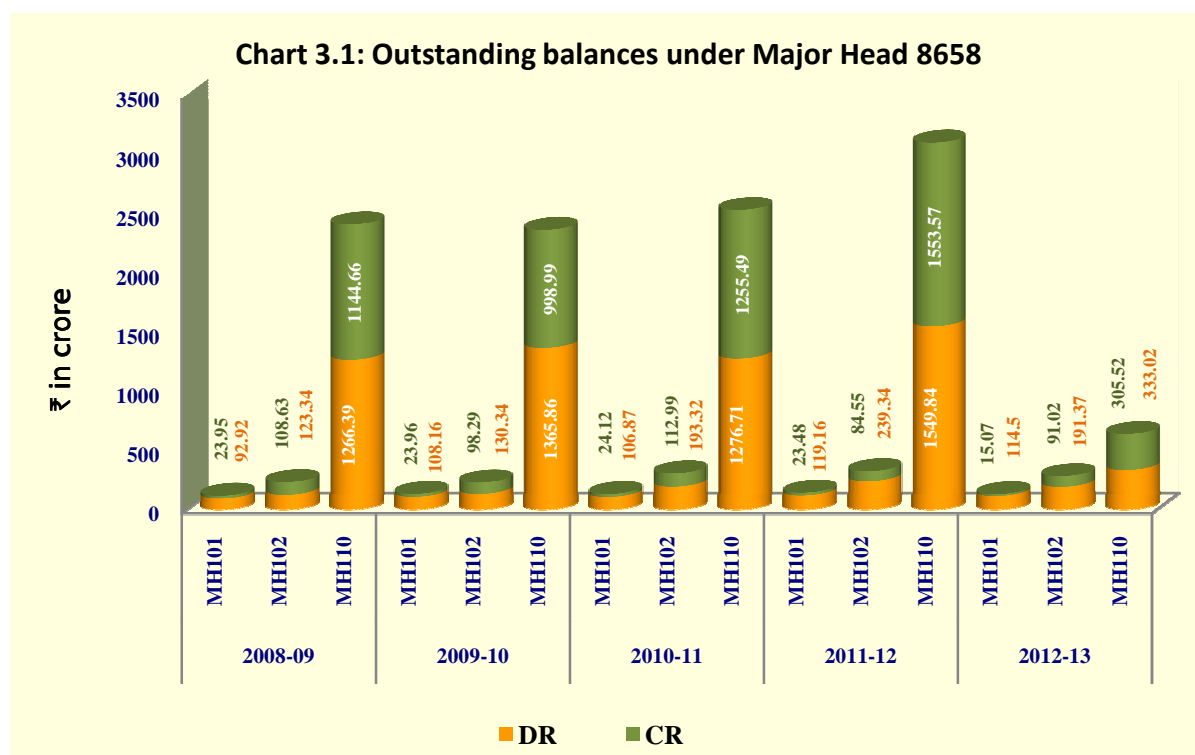
- **Public Works and Forest:** Remittances of ₹ 668.76 crore (Public Works) and ₹ 4.04 crore (Forest) into Treasury were lying unadjusted as of 31 March 2013. These balances have been outstanding from 2006-07 onwards due to non-receipt of SSTs and misclassification.
- **Public Works & Forest Cheques:** Cheques for an amount of ₹ 636.07 crore (Public Works) and ₹ 40.74 crore (Forest) pertaining to the period 2006-07 onwards were lying unadjusted as of 31 March 2013 due to non-receipt of SSTs and misclassification by the PAO/Treasuries.
- **Other Remittances:** The transactions under this head of account comprise of remittances by third parties like contractors and others directly into the Treasuries. An amount of ₹ 166.52 crore was lying unadjusted in this regard as of 31 March 2013 due mainly to non-availability of item-wise details.
- **Adjusting Account between Central and State Governments:** This head of account deals with the transactions between Central and State Governments like Central civil pensions paid at State Treasuries, cost of supplies made by DGSD, loans granted by Central Government to the State, repayment of loans/interest, grants-in-aid sanctioned by GoI and share of net proceeds of union receipts etc. There was an outstanding credit balance of ₹ 4.18 crore and a debit balance of ₹ 16.94 lakh under this head to the end of 31 March 2013. These balances have been outstanding for over five years.

Government needs to review and analyse all the unadjusted transactions/amounts mentioned above and take appropriate corrective action expeditiously.

3.10 Outstanding balances under Suspense Account (Major Head 8658)

Suspense heads are operated in Government accounts to reflect transactions that cannot be booked initially to their final head of account for some reason or the other. These are finally cleared by minus debit or minus credit when the amount is taken to its final head of account. If the amounts under suspense heads remain unadjusted, the balances under these heads get accumulated resulting in understatement of Government's receipts and payments.

The net balance under Major Head "8658-Suspense Accounts" in Finance Accounts of the Government of Andhra Pradesh was ₹ 292.60 crore (Debit) as on 31 March 2013. Finance Accounts reflect the net balances under Suspense accounts and therefore, the real magnitude of the outstanding amounts under these heads of account does not get reported in the annual accounts of the Government presented to the State Legislature. The position of suspense balances (Debit/Credit) under the important Minor Heads during the last five years is given below.



Source: Finance Accounts and Ledgers maintained by PAG(A&E)

3.10.1 Pay and Account Office – Suspense (MH 101)

This minor head is operated for the settlement of inter-departmental and inter governmental transactions arising in the books of PAOs under the Union Government, PAOs of the Union Territories and the Accountant General. Transactions under this minor head represent either recoveries effected or payments made by an Accounts Officer on behalf of another Accounts Officer against whom the minor head PAO Suspense has been operated. The outstanding debit balance under this head was ₹ 114.50 crore and the credit balance was ₹ 15.07 crore at the end of the year 2012-13. The outstanding debit balance was mainly in respect of PAO, Central Pensions, New Delhi (₹ 56.78 crore) and PAO, Shipping & Transport, Bangalore (₹ 26.99 crore). The outstanding credit balance was mainly in respect of PAO, Department of Economic Affairs (₹ 12.65 crore).

3.10.2 Suspense Account – Civil (MH 102)

The transactions which cannot be taken to the final expenditure/receipt head of account for want of certain information/documents (challans, vouchers etc.,) are at the first instance booked under this suspense head. The outstanding balance under this Minor Head as on 31 March 2013 was ₹ 191.37 crore (Debit) and ₹ 91.02 crore (Credit) indicating that an amount of ₹ 282.39 crore was required to be adjusted in respect of receipts and expenditure separately to their respective final heads of account. Major debit balances were outstanding in respect of FA&CAO, South Central Railway (₹ 76.28 crore), Charges/Charges Adjusted (₹ 42.18 crore) and Remittances in Treasuries in other accounting system (₹ 55.13 crore), whereas major credit balances were outstanding in respect of cheques drawn on treasuries in other accounts circles (₹ 56.60 crore), Tungabhadra Project Suspense- Remittances (₹ 12.67 crore) and Tungabhadra Project Suspense (₹ 7.18 crore) under this Minor Head.

3.10.3 Reserve Bank Suspense-Central Accounts Office (MH 110)

When transfer of huge balances between Central and State Governments take place on account of sanction of loan, grants-in-aid etc., the Minor Head 110-Reserve Bank Suspense-Central Accounts Office under Major Head-8658 is operated to record the transaction before taking it to its final head of account. The outstanding balances under this head as on 31 March 2013 were ₹ 333.02 crore (Debit) and ₹ 305.52 crore (Credit) which indicate that repayment of loans was understated by ₹ 333.02 crore and the amount of loans received from the GoI was understated by ₹ 305.52 crore. However, the Finance Accounts show a balance of ₹ 27.50 crore (Debit) since the balances were netted, which does not reflect the actual loans and repayments position of the State.

3.10.4 Inter-State Suspense - MH 8793

Transactions arising in a State Treasury relating to another State Government are classified under this category. On receipt of monthly accounts from Treasury and on completion of booking, transactions are verified and advices issued to the RBI for making necessary transfer of balances from one State to another. On receipt of intimation of the adjustment by RBI through 'clearance memos' the amounts shown under this head are withdrawn. An amount of ₹ 43.03 crore was lying unadjusted under Inter-State Suspense MH-8793 as on 31 March 2013 for want of clearance memos from RBI. Treasuries need to reconcile and clear these balances.

3.10.5 Outstanding balances under inoperative Subheads

Balances of ₹ 4.29 crore (Debit) were outstanding for more than four years under some inoperative sub heads. Government should take steps to review all inoperative subheads and verify if the purpose for which it was created is still valid.

3.10.6 Cheques and Bills

There was a debit balance of ₹ 100.58 crore under MH 8670 Cheques and Bills as on 31 March 2013. During 2012-13, cheques worth ₹ 22,494.25 crore were issued, against which cheques worth ₹ 22,717.74 crore were encashed, leaving a closing balance of ₹ 100.58 crore (Debit). The debit balance under MH 8670 indicates encashment of cheques in excess of issue, which needs to be investigated by the Government for probable misclassification or overpayment.

3.11 Non-receipt of supporting documents

Apart from the numerous accounts and amounts figuring under 'Suspense' heads as detailed above, supporting vouchers (numbering 76,669) for an expenditure of ₹ 4,233.38 crore relating to financial years 2002-03 to 2011-12 were not provided by the Treasuries to the Accountant General's Office. Further, supporting vouchers (numbering 21,751 of which around 4,000 were received by end of September 2013) for an expenditure of ₹ 1,608 crore relating to current year were not made available. A majority of these vouchers pertain to grants-in-aid, pay bills, pension payment and contingent bills. Government needs to take stringent measures to streamline the system of payments at all the account rendering units like Treasuries, PAOs, Public Works and Forest divisions and ensure that no expenditure is

admitted without supporting documents/vouchers. To ensure that these vouchers do not involve possible fraudulent payments, it is vital that the treasury officers and other accounts rendering officers concerned make concerted efforts to trace and forward the wanting vouchers/furnish certificate of payment as per extant rules.

During the Exit Conference (December 2013), Government assured that it would examine this issue in-depth and take corrective action starting with the vouchers relating to the current year.

3.12 Conclusion

Non submission of UCs by State Government to GoI and lower tiers of government to the State Government for funds released to them for implementation of specific socio-economic developmental programmes and delay in submission of annual accounts for audit by several State autonomous bodies/institutions reflects a violation of established rules and regulations. Large unspent balances lying in PD accounts, delay in submission of DC bills for almost a decade and non-maintenance of proper accounting records not only delay/deprive delivery of the intended benefits to the targeted population, but also render the system vulnerable to frauds and embezzlement of public funds.

Operation of omnibus Minor Head '800' for recording receipts as well as expenditure affected transparency in financial reporting. Large adverse balances under Debt, Deposit and Remittance and Suspense heads of account, non-lapsing of amounts under lapsable deposits, non-furnishing of Schedule of Settlement by the Treasuries/PAOs, non-receipt of clearance memos from RBI etc., indicate control deficiencies and result in understatement of Government's receipts and payments. Outstanding balances under inoperative PD accounts and DDR heads for long periods reflect gaps in monitoring mechanism.

Non-reconciliation of expenditure and receipts and non-submission of certificates of assurance by the CCOs with regard to their adherence to rules and regulations and conformity with budgetary provisions point to inadequate control mechanism for risk management in State Government. Non-furnishing of 4,583 cheques for an amount of ₹ 327 crore by the Treasuries and absence of over 94,420 supporting vouchers for an expenditure of ₹ 5,841 crore requires attention and raises serious concerns about the quality of accounts.

3.13 Recommendations

- 1. Government needs to adopt a stringent follow up mechanism to ensure that the departments adhere to the rules and regulations in the submission of UCs, DC bills and accounts for audit. Operation of omnibus Minor Head '800' should be minimized and discouraged. Correct classification of expenditure and receipt should be ensured. Adverse balances should be reduced drastically so as to improve transparency in Government accounts.*

2. *Government needs to streamline the system of payments at all the account rendering units like Treasuries, PAO, Public Works and Forest divisions and ensure that no expenditure is admitted without supporting documents/vouchers. To ensure that these vouchers do not increase vulnerability of fraudulent payments, it is vital that the treasury officers and other accounts rendering officers concerned make concerted efforts to trace and forward the wanting vouchers/furnish certificate of payment as per extant rules.*

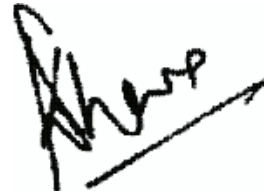


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