

# Chapter 3 Financial Reporting

## 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 Pendency of Detailed Contingent Bills

Orders issued by the Government<sup>1</sup> stipulate that amount drawn on Abstract Contingent (AC) bills should be adjusted by submitting Detailed Contingent (DC) bills for the expenditure incurred, to the Principal Accountant General (A&E)/Pay and Accounts Officer, with supporting vouchers, within one month of drawal of such amounts. However, despite flagging this issue by the Principal Accountant General at regular intervals, the DC bills as of 31 March 2011 were submitted only for ₹ 1,115 crore against ₹ 2,359 crore drawn on AC bills (47 *per cent*). The year-wise details in this regard are given in **Table 3.1**.

**Table 3.1: Amount drawn on Abstract Contingent Bills**

(₹ in crore)

Year	Drawn on AC bills		DC bills Submitted		Percentage of amount adjusted/ accounted for	Cumulative No. of pending DC bills	
	Number	Amount	Number	Amount		Number	Amount
Upto 2005-06	67,932	452	43,466	287	63	1,06,596*	387*
2006-07	13,252	233	10,460	147	63	2,793	86
2007-08	10,710	169	7,873	131	78	2,837	38
2008-09	7,805	187	5,247	97	52	2,558	90
2009-10	4,871	505	3,386	310	61	1,485	195
2010-11	3,366	813	1,505	143	18	1,862	670
Total	1,07,936	2,359	71,937	1,115	47	1,18,131	1,466

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

About 76 *per cent* (₹ 1,107 crore) of the outstanding AC bills pertain to Agriculture (₹ 692 crore) and Revenue (₹ 415 crore) Departments. The Department-wise position of pending DC bills as of 31 March 2011 is detailed in **Appendix 3.1**.

<sup>1</sup> G.O.Ms.No.285 Finance (TFR-II) Department dated 15-10-2005.

### 3.3 Delay in furnishing Utilisation Certificates

Financial Rules<sup>2</sup> provide that for the grants provided for specific purposes, Utilisation Certificates (UCs) should be obtained by the departmental officers from the grantees and forwarded to the Principal Accountant General after verification, within 18 months from the date of their sanction, unless specified otherwise. However, 269 UCs aggregating ₹ 31 crore due in respect of grants paid during 1992-2011, were outstanding as of 31 March 2011 i.e., from 11 to 18 years.

### 3.4 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, Tribal Welfare and Rural & Urban Development etc. The audit of accounts of 20 such bodies in the State has been entrusted to the CAG of India. However, none of the 20 bodies had rendered the annual accounts up to date i.e. 2010-11. The delay in submission of accounts for audit ranged from three months to 87 months. Details of the period upto which accounts were rendered and accounts due are given in **Appendix 3.2**.

The 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.

### 3.5 Departmental Commercial Undertakings

The departmental undertakings of certain Government departments performing activities of quasi-commercial nature are required to prepare *pro forma* accounts in the prescribed format annually showing the working results of financial operations so that the Government can assess their working. In the absence of timely finalisation of accounts, the investment of the Government remains outside the scrutiny of Audit/State Legislature. Consequently, corrective measures, if any, required for ensuring accountability and improving efficiency cannot be taken on time. Besides, the delay affects the transparency in the operations of these entities and is fraught with the risk of fraud and leakage of public money.

The Heads of Departments in the Government are to ensure that the undertakings prepare such accounts and submit them to the Principal Accountant General for audit within a specified time frame. As of 31 March 2011, the accounts of seven out of nine undertakings have been in arrears for various periods ranging from 1 to 46 years. Out of these, the accounts of Fish Seed Farm, Tungabhadra Dam have been in arrears from the year 1963-64 onwards. The details of investment, block assets, turnover etc., in respect of five undertakings<sup>3</sup> are not even available with the concerned departments, which reflects very poorly on the internal control system within the State Government departments.

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<sup>2</sup> Note below Article 211-A(2) of Andhra Pradesh Financial Code

<sup>3</sup> Govt. central press, Hyderabad, Govt. regional press, Kurnool, Govt. regional press, Vijayawada, Govt. distillery, Hyderabad and Fish seed farm, TB Dam

CAG has been expressing serious concern on this issue in successive Audit Reports. However, there was no improvement in this regard. The department-wise position of arrears in preparation of proforma accounts and investment made by the Government in these undertakings are given in **Appendix 3.3**.

### 3.6 Unreconciled expenditure and receipts

To enable the Controlling Officers of Departments to exercise effective control over expenditure to keep it within the budget grants and to ensure accuracy of their accounts, Financial Rules<sup>4</sup> 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 Principal Accountant General (A&E). Even though non-reconciliation of departmental figures is being pointed out regularly in Audit Reports, lapses on the part of Controlling Officers in this regard continued to persist during 2010-11 also. Out of the total expenditure<sup>5</sup> of ₹92,972 crore during 2010-11, expenditure amounting to ₹ 14,789 crore (16 per cent) was not reconciled by 260 Controlling Officers as of June 2011. Cases where nine Controlling Officers did not reconcile expenditure of ₹ 500 crore and above in each case are given in **Table 3.2**.

**Table 3.2: Unreconciled expenditure**

(₹ in crore)

Sl. No.	Department/Controlling Officer	Amount not reconciled
1	Finance (MH 2049 – Interest payments)	1,066
2	Land Administration (MH 2053 – District Administration)	729
3	Director General & Inspector General of Police (MH 2055-Police)	2,644
4	Higher Education, Secretariat Department (MH 2202-General Education)	544
5	Medical Education (MH 2210 Medical and Public Health)	506
6	Panchayat Raj (MH 2515 – Other Rural Development Programmes)	1,039
7	Municipal Administration and Urban Development, Secretariat Department (MH 6215-Loans for Water Supply and Sanitation)	500
8	Director General & Inspector General of Police (MH 6216- Loans for Housing)	911
9	Municipal Administration and Urban Development, Secretariat Department (MH 6217 Loans for Urban Development)	960

Further, every Controlling Officer should obtain regular accounts and returns from his subordinates for the amounts realised by them and paid into the treasury and compare the figures with the accounts maintained in the office of the Principal Accountant General (A&E) and reconcile any differences as early as possible before the accounts of the year

<sup>4</sup> Article 9 of the Andhra Pradesh Financial Code

<sup>5</sup> Includes revenue, capital and loans and advances

are closed. However, receipts<sup>6</sup> amounting to ₹ 52,569 crore (65 *per cent* of total receipts) during 2010-11 under 49 heads were not reconciled by the concerned Controlling Officers.

### 3.7 Misappropriations, losses, defalcations, etc.

Financial Rules<sup>7</sup> lay down the responsibilities of Government servants in dealing with Government money, the procedure for fixing responsibility for any loss sustained by the Government and the action to be initiated for recovery of such losses.

The State Government reported 472 cases of misappropriation, defalcation, etc. involving Government money amounting to ₹ 35 crore (up to April 2011) on which final action was pending. The department-wise break up of pending cases and year-wise analysis is given in **Appendix 3.4**. The highest amount misappropriated was ₹ 24 crore in Social Welfare (including Tribal Welfare) Department in 26 cases while the highest number of misappropriation cases (260) involving ₹ one crore were pending in Revenue Department.

### 3.8 Operation of omnibus Minor Head 800

During the past two decades, the range and diversity of Government activity had increased manifold, outpacing the number of available programme minor heads. The omnibus Minor Head - 800 accommodates the expenditure which could not be classified under the available programme minor heads.

During 2010-11, expenditure aggregating ₹ 11,046 crore, constituting 12 *per cent* of the total expenditure (₹ 89,657 crore), was classified under Minor Head 800-Other Expenditure against 44 Major Heads under Revenue and Capital sections. Major expenditure on power subsidy, rice subsidy, capital outlay on roads and bridges, special programmes for rural development, and general economic services etc., was classified under omnibus Minor Head – 800 instead of depicting distinctly.

Similarly, revenue receipts aggregating ₹ 4,699 crore (6 *per cent* of total revenue receipts of ₹ 80,996 crore) were classified under omnibus Minor Head ‘800-Other Receipts’ under 46 Major Heads. The total non-tax revenue under other rural development programmes, ports and light houses, urban development, civil supplies etc., was classified under this Minor Head.

Classification of large amounts under the omnibus Minor Head ‘800 – Other Expenditure/Receipts’ affects the transparency in financial reporting.

### 3.9 Functioning of Treasuries

Significant irregularities relating to disbursement of pension/family pension observed by the Principal Accountant General (A&E) during inspection of Treasuries are given below.

<sup>6</sup> Includes revenue, capital and loans and advances

<sup>7</sup> Articles 5, 273, 294, 300 to 302 of the Andhra Pradesh Financial Code

### 3.9.1 Excess payment of pension/family pension

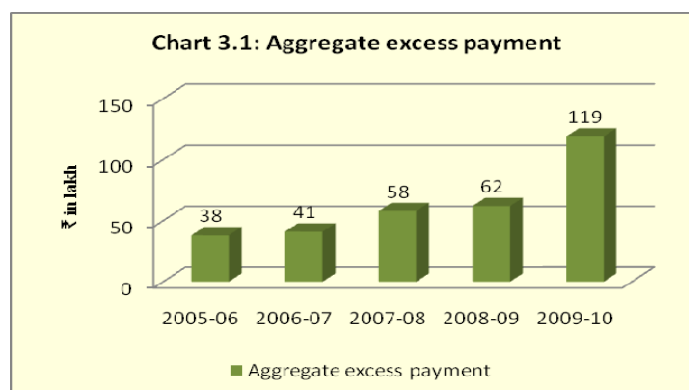
A test check of records relating to payment of pension and family pension in all 23 District Treasuries, 149 Sub-Treasuries and seven Asst. Pension Payment Offices during 2010-11 revealed excess payment of ₹ 1.39 crore in 311 cases as given in **Table 3.3** below:

**Table 3.3: Excess payment of pension/family pension**

Nature of irregularity	No. of cases	(₹ in lakh)
		Amount involved
Irregular sanction of Dearness Relief	70	35
Non-reduction of commuted portion of pension	93	33
Excess payment of Enhanced Family Pension beyond period of eligibility and time limit	47	28
Irregular payment of financial assistance	7	10
Incorrect computation of pension consequent on revision of pension	20	8
Payment of pension after death of the pensioner	21	7
Excess payment of pension ignoring recovery of Gratuity payment order	9	6
Erroneous payment of Family Pension	2	4
Payment of Gratuity on time barred authorization	1	4
Double payment/Payment after transfer of PPO/Full pension instead of provisional pension	4	2
Incorrect restoration of commuted portion of pension	13	1
Payment of inadmissible Interim Relief	24	1
Total	311	139

The treasuries commenced recovery of excess paid pension from pensioners in equal installments. During 2010-11 an amount of ₹ 29 lakh was recovered.

Excess payment of pensionary benefits observed during the last five years is given in **Chart 3.1** below:



### 3.10 Conclusion

Internal controls within the State Government departments were not functioning as envisaged with regard to compliance with various rules and procedures instituted by the Government. Financial reporting cannot be accurate and reliable in the absence of compliance with the basic requirement of compilation of accounts by the Government undertakings and bodies and non-accountal/adjustment of large amounts drawn on abstract

contingent bills by the departmental authorities. Non-reconciliation of huge amounts of receipts and expenditure raised doubts about the authenticity of these figures reflected in the accounts. Further, classification of various important items of expenditure relating to subsidies, capital outlay on roads and bridges, special programmes for rural development, revenue receipts etc. under omnibus Minor Head – 800 affected the transparency in accounts of the State Government.



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