

**CHAPTER IV**

**QUALITY OF ACCOUNTS**

**AND FINANCIAL**

**REPORTING PRACTICES**



## CHAPTER IV: QUALITY OF ACCOUNTS AND FINANCIAL REPORTING PRACTICES

A sound internal financial reporting system and compliance with relevant rules and procedures significantly contributes to efficient and effective governance. Compliance with financial rules, procedures and directives as well as the timeliness and quality of reporting on the status of such compliance is, thus, one of the attributes of good governance. Reports on compliance and controls, if effective and operational, assist the Government in meeting its basic stewardship responsibilities, including strategic planning and decision-making. This Chapter provides an insight of the status of UT Government's compliance with various financial rules, procedures and directives by various departmental officials of the UT Government.

### 4.1 Funds kept outside Consolidated Fund or Public Account of the UT

Government of Puducherry issued notification<sup>1</sup> for Puducherry Motor Vehicles (Amendment) Rules, 2011. The notification provided for insertion of new Rule 252, which provided for levy of service charges for driving licence, registration certificate, taxation and permit. For this purpose, a Personal Deposit Account was required to be operated by Transport Commissioner in accordance with the General Financial Rules (GFR, 2017). Rule 97(1) of the GFR, 2017 contemplated that the Personal Deposit (PD) Account, shall form part of the Government Account and be located in the Public Account thereof. The notification further stated that the amount collected towards service charges shall be utilised for settlement of payment of dues to the vendor of smart card and the remaining amount, if any, shall be utilised for developmental activities of the Department.

The Transport Department opened a Current Account in State Bank of India, Puducherry and deposited the service charges in the account and payment from the account was made to the smart card vendors. The balance available in the account after settling the bills of vendors was ₹ 6.70 crore as of March 2020. Thus, opening of PD Account outside the Government Account was not in order and it carries the risk of lack of accountability for the collection of revenue of the UT.

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<sup>1</sup> G.O.Ms No.16/Tr.Sectt/2011 dated 16 November 2011.

## 4.2 Non-inclusion of clear cut liabilities in the budget

### *Non-provision of funds for long pending liabilities to the contractors*

In the process of preparation of Annual Budget estimates for any year, the concerned department should scrupulously consider the possible receipts and expenditure, along with the committed liabilities due for settlement during the year. Rule 50(3) of the GFR, 2017, clearly states that the estimates should include suitable provision for liabilities of the previous years which are to be discharged during the current year.

On a scrutiny of works executed under Demand No.16-Public Works and Demand No.32-Building Programmes, it was noticed that the Public Works Department had huge arrears in the settlement of final bills to the contractors. Details of dues as of March 2020 are given in **Table 4.1**.

**Table 4.1: Details of pending bills to contractors**

(₹ in crore)

| Grant No. and description | Upto 2017-18 | 2018-19     | 2019-20      | Total        |
|---------------------------|--------------|-------------|--------------|--------------|
| 16 - Public Works         | 20.93        | 6.54        | 8.11         | 35.58        |
| 32 - Building Programmes  | 3.68         | 0.89        | 8.30         | 12.87        |
| <b>Total</b>              | <b>24.61</b> | <b>7.43</b> | <b>16.41</b> | <b>48.45</b> |

Audit observed that the department had a committed pending liability to the tune of ₹ 32.04 crore as of March 2019 and no specific allocation of funds was made in the Budget for 2019-20 for settlement of dues. The Department replied that while submitting budget proposal every year, provision of funds was sought for by the department for settlement of the pending liabilities, but the Finance Department restricted the same every year due to paucity of funds.

Thus, clearing of the committed liability of ₹ 32.04 crore upto March 2019 was not prioritised and the Department had further accumulated a liability of ₹ 16.41 crore in 2019-20. Incidentally, it was seen that there was a saving of ₹ 114.93 crore under Capital Section of Grant No.16 - Public Works.

Similarly, in respect of Puducherry Electricity Department, the outstanding liability as of March 2020 was ₹ 605.92 crore towards outstanding dues to power generation companies.

### 4.3 Non discharge of liability in respect of interest towards interest bearing deposits

Interest bearing Security Deposits (SD) in the UT are accounted for under the Head of Account 8336-101-Security Deposits, for which interest on deposits are to be provided in the UT budget. As per Clause 6.10 (8) of the JERC Electricity Supply Code, 2010 read with Section 47 (4) of the Electricity Act, 2003, the distribution licensee shall pay interest, at the bank rate notified by the Reserve Bank of India from time on such SD taken from the consumer. Further, as per Clause 5.135 of JERC Electricity Supply Code, 2018, the licensee shall pay interest to the consumer at the State Bank of India Base Rate prevailing on the 1<sup>st</sup> April for the year, payable annually on the consumer's SD with effect from the date of such deposit in case of new connections energised after the date of notification and in other cases, from the date of notification of JERC Supply Code, 2018. The interest accrued during the year shall be adjusted in the consumer's bill in the first billing cycle of the ensuing financial year.

The details of liability towards interest payable on SD, budget allocation for the above liability, interest actually paid and shortfall in allocation of funds during the years 2017-18 to 2019-20 are detailed in **Table 4.2**.

**Table 4.2: Details of interest payable on Security Deposits**

(₹ in crore)

| Year         | Amount of Interest to be paid on SD | Budget Allocation made | Extent of shortfall in allocation ( <i>per cent</i> ) | Interest paid by Department* | Savings     | Interest to be paid |
|--------------|-------------------------------------|------------------------|-------------------------------------------------------|------------------------------|-------------|---------------------|
| 2017-18      | 10.99                               | 3.50                   | 68                                                    | 3.50                         | 0.00        | 7.49                |
| 2018-19      | 11.44                               | 5.00                   | 56                                                    | 4.20                         | 0.80        | 7.24                |
| 2019-20      | 13.14                               | 5.38                   | 59                                                    | 5.11                         | 0.27        | 8.03                |
| <b>Total</b> | <b>35.57</b>                        | <b>13.88</b>           | <b>61</b>                                             | <b>12.81</b>                 | <b>1.07</b> | <b>22.76</b>        |

\* Under HOA: 2049-60-101-01 in Finance Accounts

The shortfall in allocation ranged between 56 and 68 *per cent* during 2017-20 which led to continued non-discharge of liability towards interest amounting to ₹ 22.76 crore on Security Deposits.

### 4.4 Funds transferred directly to State Implementing Agencies

Government of India transfers funds directly to Implementing agencies/ Non-Government Organisations in the UT for implementation of various

schemes and programmes. These transfers are exhibited in Appendix VI of Volume II of the Finance Accounts. These funds are not routed through the State Budget/State Treasury system, therefore, Finance Accounts do not capture the flow of these funds or the related expenditure.

During the year 2019-20, Government of India transferred ₹ 172.02 crore directly to Implementing Agencies/Non-Government Organisations for various Central Schemes/programmes. The agencies that have received funds of more than ₹ one crore directly from GoI for implementing various developmental schemes during 2019-20 are shown in **Table 4.3**.

**Table 4.3: Funds in excess of ₹ one crore transferred by Government of India directly to implementing agencies**

(₹ in crore)

| Sl. No. | Name of the Schemes of Government of India                          | Name of the Implementing Agency                   | Government of India releases during 2019-20 |
|---------|---------------------------------------------------------------------|---------------------------------------------------|---------------------------------------------|
| 1.      | Food Subsidy for Decentralised procurement of Foodgrains Under NFSA | Department of Civil Supplies and Consumer Affairs | 152.28                                      |
| 2.      | Pradhan Mantri Kisan Samman Nidhi                                   | Department of Agriculture                         | 5.83                                        |
| 3.      | e-District                                                          | Puducherry e-Governance Society                   | 5.05                                        |
| 4.      | National AIDS and STD Control Programme                             | Puducherry State Health Society                   | 4.81                                        |
| 5.      | Pradhan Mantri Matru Vandana Yojana                                 | Women and Child Development Department            | 1.60                                        |
| 6.      | National Horticulture Mission                                       | Agriculture Department                            | 1.50                                        |

#### 4.5 Delay in submission of Utilisation Certificates

The financial rules<sup>2</sup> stipulate that where grants-in-aid (GIA) are given for specific purposes, concerned departmental officers should obtain Utilisation Certificates (UCs) from grantees within 12 months of the closure of the financial year, which, after verification, should be forwarded to the Directorate of Accounts and Treasuries (DAT) to ensure that the funds have been utilised for intended purpose.

As of March 2020, UCs amounting to ₹ 449.36 crore in respect of 653 cases were outstanding. The year-wise breakup of outstanding UCs are given **Table 4.4**.

<sup>2</sup> Rule 238 of the General Financial Rules, 2017.

**Table 4.4: Year-wise breakup of outstanding Utilisation Certificates**

| Sl.No        | Range of delay in number of years | Utilisation Certificate outstanding |                     |
|--------------|-----------------------------------|-------------------------------------|---------------------|
|              |                                   | Number                              | Amount (₹ in crore) |
| 1            | More than 9 years                 | 172                                 | 23.10               |
| 2            | 9-5 years                         | 110                                 | 35.91               |
| 3            | 5-1 years                         | 371                                 | 390.35              |
| <b>Total</b> |                                   | <b>653</b>                          | <b>449.36</b>       |

(Source: Data furnished by the Director of Accounts and Treasuries)

- Out of 653 UCs, 172 UCs involving ₹ 23.10 crore (5.14 per cent) were pending for more than nine years.
- 110 UCs involving ₹ 35.91 crore (7.99 per cent) were pending for more than five years.
- 371 UCs involving ₹ 390.35 crore (86.87 per cent) were pending for periods ranging from five to one year.

Pendency of 453 UCs for an aggregate amount of ₹ 317.01 crore pertained to departments of Adi-Dravidar Welfare, Local Administration and Town and Country Planning.

The details of age-wise arrears in submission of UCs are given in **Table 4.5**.

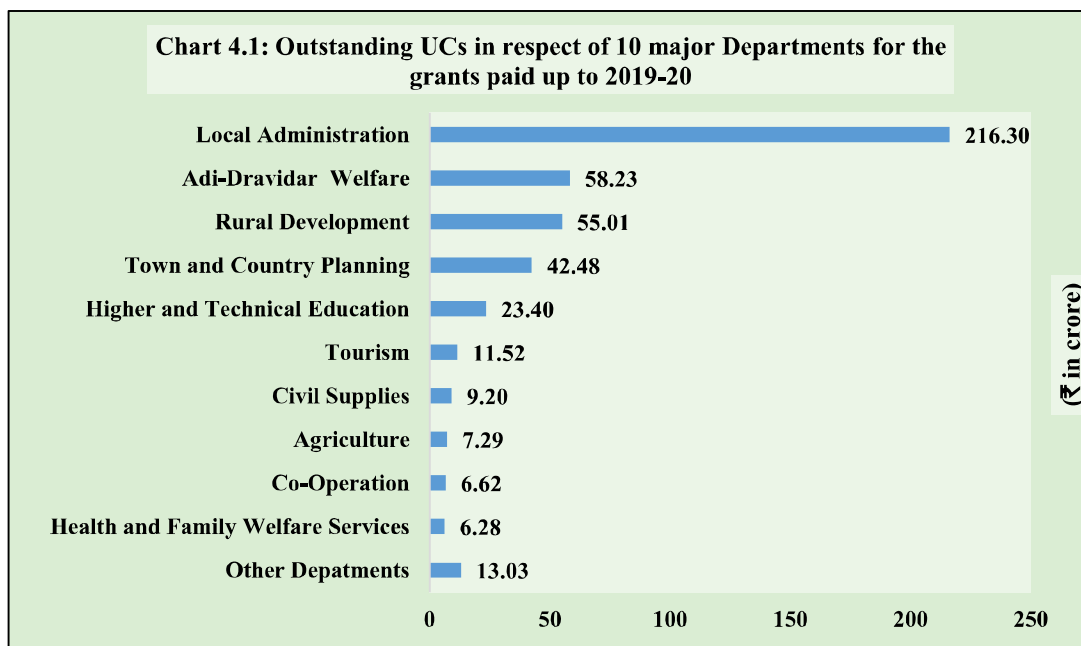
**Table 4.5: Age-wise arrears in submission of Utilisation Certificates**

| Year         | Opening Balance | Amount | Closing Balance | Amount       |
|--------------|-----------------|--------|-----------------|--------------|
|              |                 |        |                 | (₹ in crore) |
| Upto 2015-16 | 318             | 82.37  | 350             | 103.54       |
| 2016-17      | 350             | 103.54 | 426             | 140.10       |
| 2017-18      | 426             | 140.10 | 515             | 278.29       |
| 2018-19      | 515             | 278.29 | 653             | 449.36       |
| 2019-20      | 653             | 449.36 | 658*            | 450.41       |

\* UCs for the GIA disbursed during 2019-20 become due only during 2020-21

(Source: Data furnished by the Directorate of Accounts and Treasuries)

The details of department-wise break-up of UCs pending are depicted in **Chart 4.1**.



(Source: Data furnished by the Directorate of Accounts and Treasuries)

Non-submission of the UCs meant that the authorities have not explained as to how funds were spent over the years. Therefore, there is no assurance that the expenditure against the grants has actually been incurred for the purpose for which it was authorised. Since high pendency of UCs is fraught with the risk of misappropriation of funds, it is imperative that the UT Government should monitor this aspect closely and hold the concerned persons accountable for submission of UCs in a timely manner.

#### 4.6 Non-adjustment of Temporary Advances

The Drawing and Disbursing Officers (DDOs) draw temporary advances for the purpose of meeting contingent and miscellaneous expenditure either on the authority of standing orders or specific sanctions of UT Government. As per Rule 323 (1) of the GFR, 2017, adjustment bills along with balances, if any, should be submitted by the Government servants within 15 days of the drawal of advances, failing which, the advances/balances would be recovered from the next salary of the Government servants.

As of 31 March 2020, 1,456 advances aggregating to ₹ 114.62 crore were pending in respect of 257 DDOs out of 665 DDOs as per the records of the Directorate of Accounts and Treasuries, Puducherry. Age-wise analysis of the pending advances is given in **Table 4.6**.

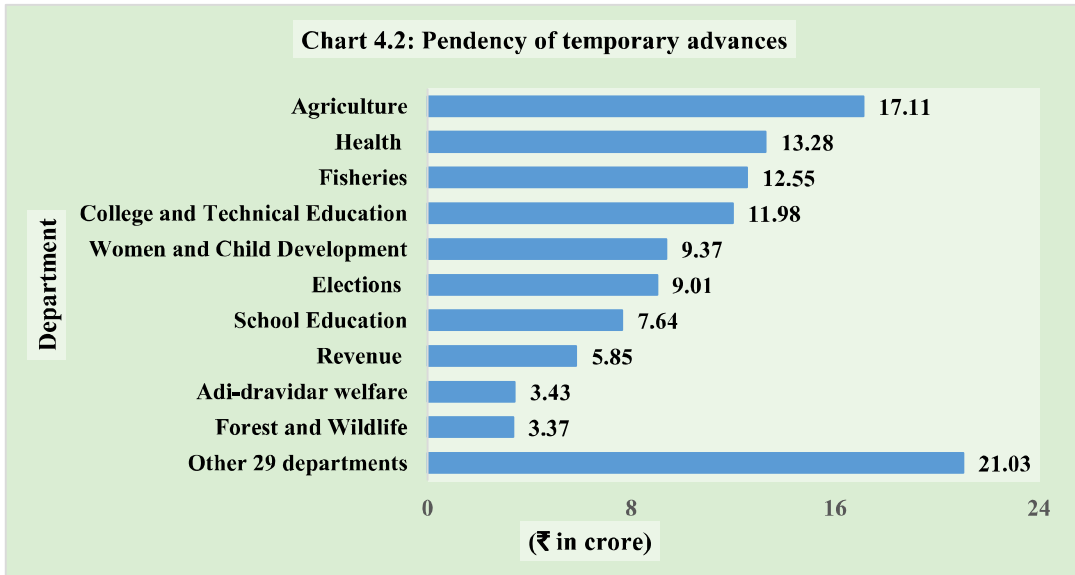


**Table 4.6: Age-wise analysis of pending advances**

| Sl. No.      | Pendency                                    | Number of advances | Amount        |
|--------------|---------------------------------------------|--------------------|---------------|
|              |                                             |                    | (₹ in crore)  |
| 1            | More than 10 years                          | 265                | 15.75         |
| 2            | More than five years but less than 10 years | 214                | 12.82         |
| 3            | More than one year but less than five years | 342                | 28.57         |
| 4            | Less than one year                          | 635                | 57.48         |
| <b>Total</b> |                                             | <b>1,456</b>       | <b>114.62</b> |

(Source: Data furnished by the Directorate of Accounts and Treasuries)

The department-wise details of pending advances are depicted in **Chart 4.2**.



(Source: Data furnished by the Directorate of Accounts and Treasuries)

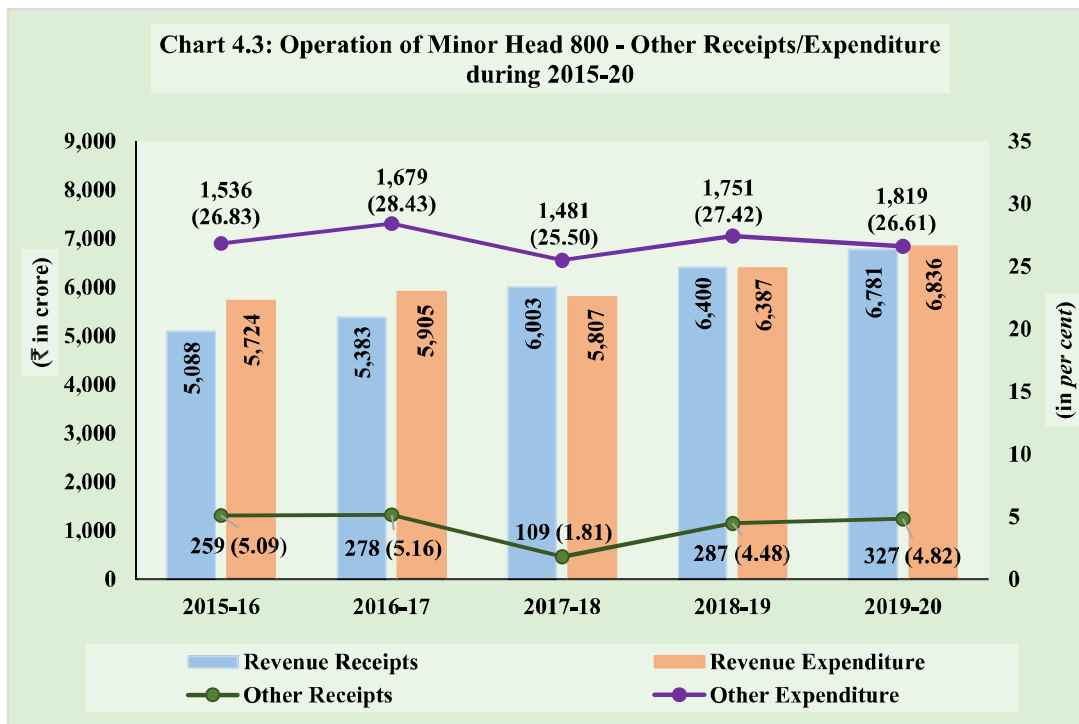
The pendency in respect of 265 advances involving ₹ 15.75 crore for more than 10 years indicated serious laxity on the part of the departments in enforcing the provisions contemplated for adjustment of the advances. Further, there is no assurance that the expenditure of ₹ 114.62 crore has actually been incurred during the financial year for the purpose for which it was authorised by the Legislature. Advances drawn and not accounted for increased the possibility of wastage/misappropriation/malfeasance, etc.

#### 4.7 Indiscriminate use of Minor Head '800'

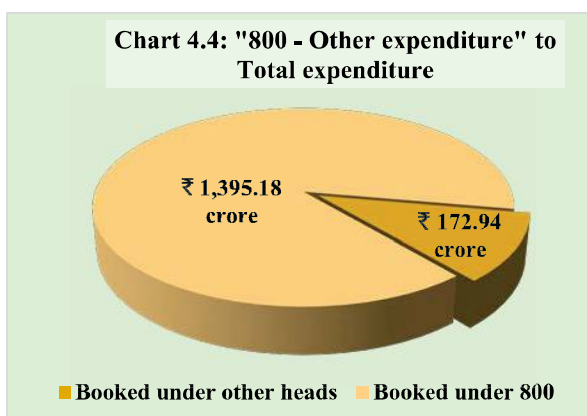
Minor Head 800 - Other Receipts/Other Expenditure are intended to be operated only when the appropriate minor head has not been provided in the

accounts. Routine operation of minor head '800' is to be discouraged since it renders the accounts opaque.

The details of total revenue expenditure/receipts incurred and the expenditure/receipts booked under the Minor Head “800 - Other expenditure/receipts” and its percentage to revenue receipts/expenditure for the years 2015-16 to 2019-20 are given in **Chart 4.3**.



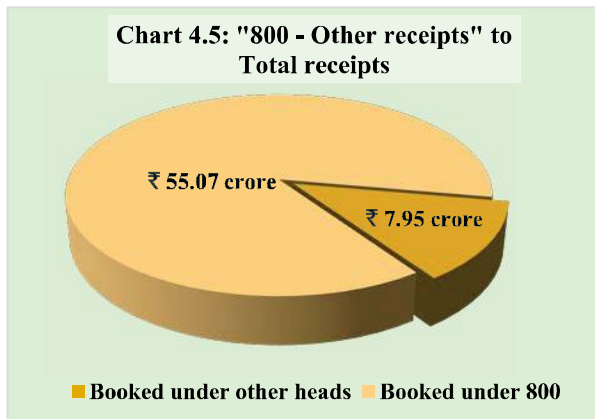
Figures in brackets indicates percentages to Revenue Receipts/Revenue Expenditure  
(Source: Data furnished by the Director of Accounts and Treasuries)



During 2019-20, under six Major Heads, expenditure aggregating to ₹ 1,395.18 crore (88.97 per cent of the total expenditure of ₹ 1,568.12 crore under these heads) were classified under the minor head ‘800 - Other Expenditure’. A major portion of the expenditure under “2216 - Housing”, “2217 - Urban

Development”, and “2801 - Power Projects” were classified under the omnibus minor head ‘800 - Other Expenditure’. Under Electricity Department, the expenditure of ₹ 1,278.80 crore (90 per cent of the total expenditure of ₹ 1,420.39 crore) was classified under the minor head ‘800 - Other

Expenditure’, instead of depicting the same under relevant minor heads below the functional major heads. The details are given in **Appendix 4.1**.



Similarly, under 10 major heads, revenue receipts aggregating ₹ 55.07 crore (87.38 per cent of the total receipt of ₹ 63.02 crore under these heads), were classified under minor head ‘800 - Other Receipts’. The entire receipts under “Public Works”, “Social Security and Welfare”, “Ports and Light

Houses” and “Roads and Bridges” were classified under the omnibus minor head ‘800 - Other Receipts’. The details are given in **Appendix 4.2**.

Classification of an amount of ₹ 1,450.25 crore under the omnibus minor head “800 - Other Expenditure/Receipts” reflected lack of transparency in financial reporting.

#### 4.8 Submission of Accounts/Separate Audit Reports of Autonomous Bodies

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 (DPC Act), the Government/Heads of the Department are required to furnish to the Accountant General every year, detailed information about the financial assistance given to various institutions, the purposes for which the assistance was given and the total expenditure of these institutions. These details were not furnished by the departments to audit as prescribed. However, based on the details collected from DAT, the institutions are identified for the purpose of conducting audit.

The audit of accounts of 71 autonomous bodies is conducted under Section 14 and 15 of the CAG’s DPC Act, 1971. The audit of accounts of two autonomous bodies/authorities in the UT of Puducherry is conducted under Section 19 (2) of the CAG’s DPC Act, 1971.

The details of the accounts which were due and not received are given in **Appendix 4.3** and their age-wise pendency is presented in **Table 4.7**.

**Table 4.7: Age-wise arrears of annual accounts due from Autonomous Bodies/Authorities**

| Sl. No. | Pendency in number of years | Number of Bodies/Authorities |
|---------|-----------------------------|------------------------------|
| 1       | More than 5 years           | 15                           |
| 2       | 5 – 3 years                 | 3                            |
| 3       | 3 – 1 years                 | 35                           |
|         | <b>Total</b>                | <b>53</b>                    |

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

Due to non-furnishing of details by the Departments and non-submission of annual accounts by autonomous bodies/authorities, the utilisation of Government grants for the intended purposes could not be ensured. Non-submission of accounts violates Rule 236 (1) of the GFR, 2017, which contemplate audit of accounts by the CAG. The delay in finalisation and submission of accounts would hamper audit in assuring the legislature that the grants were being utilised for the intended objective.

#### 4.9 Misappropriations, losses, thefts, etc.

Rule 33 and 34 of GFR, 2017 stipulate that Heads of Offices should report any loss or shortage in Public moneys and property due to misappropriation, loss, theft and defalcation to the next higher authority as well as to the Statutory Audit Officer.

The department of UT Government reported 317 cases of misappropriation, loss and defalcation up to March 2020, involving Government money amounting to ₹ 27.88 crore on which final action was pending. The department-wise breakup of the pending cases and the nature of cases is given in **Appendix 4.4**. The Electricity Department accounted for large number of cases (255) involving an amount of ₹ 26.55 crore.

The age-profile of the pending cases of theft and misappropriation/loss are summarised in **Table 4.8**.

**Table 4.8: Age-wise profile of misappropriation/losses and defalcation**

| Range in years | Number of cases | Amount involved (₹ in lakh) |
|----------------|-----------------|-----------------------------|
| More than 25   | 51              | 1.41                        |
| 20-25          | 112             | 11.56                       |
| 15-20          | 72              | 8.17                        |
| 10-15          | 27              | 257.14                      |
| 5 - 10         | 28              | 2,468.54                    |
| 0 - 5          | 27              | 41.40                       |
| <b>Total</b>   | <b>317</b>      | <b>2,788.22</b>             |

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

In respect of all the above 317 cases of misappropriation, theft/loss of materials, FIRs were lodged, but results of the investigations are awaited. The reasons for the pendency in outstanding cases of theft and misappropriation/ losses are given in **Table 4.9**.

**Table 4.9: Reasons for outstanding cases of theft and misappropriation/loss and defalcation**

| Reasons for the pendency |                                                                             | Number of cases | Amount (₹ in lakh) |
|--------------------------|-----------------------------------------------------------------------------|-----------------|--------------------|
| (i)                      | Awaiting departmental and criminal investigation                            | 24              | 6.95               |
| (ii)                     | Departmental actions initiated but not finalised / Pending in Courts of Law | 21              | 2,706.03           |
| (iii)                    | Awaiting orders for recovery or write-off                                   | 272             | 75.24              |
| <b>Total</b>             |                                                                             | <b>317</b>      | <b>2,788.22</b>    |

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

#### 4.10 Follow up action on Union Territory Finances Audit Report

Separate Report on UT Finances is being prepared from the year 2008-09 onwards and presented to UT Legislature. The UT Finances Audit Reports for the year upto 2017-18 have been tabled in the UT Legislature. The Public Accounts Committee had discussed the reports till the year 2013-14.

#### 4.11 Conclusion

**Undischarged liability:** Provision for discharge of clear-cut liabilities to the tune of ₹ 654.37 crore was not made in the Budget Estimates. There was an undischarged liability of ₹ 22.76 crore on interest bearing deposits.

**Direct transfer of funds:** Funds transferred directly to various implementing agencies/Non-Government Organisations by Government of India to the tune of ₹ 172.02 crore was not reflected in the accounts of the UT Government.

**Utilisation Certificates:** There was huge pendency in furnishing of UCs by various grantee institutions in respect of Grant-in-aid of ₹ 449.36 crore and it ranged from one year to more than nine years.

**Temporary Advances:** Temporary Advances aggregating to ₹ 114.62 crore were pending adjustment by Drawing and Disbursing Officers.

**Classification under Minor Head 800-other expenditure:** In respect of six major heads, an amount of ₹ 1,395.18 crore (88.97 per cent) of the Revenue expenditure was classified under the omnibus Minor Head 800-Other Expenditure reflecting lack of transparency in financial reporting.

**Misappropriation and losses:** The Departments of UT Government reported 317 cases of misappropriation, loss, theft upto March 2020 involving Government money of ₹ 27.88 crore.

#### **4.12 Recommendations**

- The Departments should ensure submission of UCs by the grantee before releasing subsequent grant to the grantee institutions.
- Budget provision needs to be made for clearing the long pending dues of the Government to avoid payment of penalty.
- Government/departments should furnish detailed information about financial assistance given to Autonomous Bodies/ authorities.
- Government should expedite completion of departmental action as required and exercise more checks to prevent, reduce recurrence of misappropriation, loss and theft cases.