

CHAPTER II

FINANCIAL MANAGEMENT AND BUDGETARY CONTROL

2.1 Introduction

2.1.1 Appropriation Accounts are accounts of the expenditure, voted and charged, of the Government for each financial year compared with the amounts of voted Grants and Appropriations charged for different purposes, as specified in the schedules appended to the Appropriation Acts. These accounts list the original budget estimates, supplementary grants, surrenders and re-appropriations distinctly and indicate actual capital and revenue expenditure on various specified services *vis-à-vis* those authorised by the Appropriation Act in respect of both charged and voted items of the budget. Appropriation Accounts thus facilitate the management of finances and monitoring of budgetary provisions and are, therefore, complementary to the Finance Accounts.

2.1.2 Audit of appropriations by the Comptroller and Auditor General of India seeks to ascertain whether the expenditure actually incurred under various Grants is within the authorisation given under the Appropriation Act and that the expenditure required to be charged under the provisions of the Constitution is so charged. It also ascertains whether the expenditure incurred is in conformity with the law, relevant rules, regulations and instructions.

2.1.3 As per the Kerala Budget Manual, the Finance Department is responsible for preparation of the annual budget by obtaining estimates from various departments. The departmental estimates of receipts and expenditure are prepared by the Heads of Departments and other Estimating Officers and submitted to the Finance Department on prescribed dates. The Finance Department consolidates the estimates and prepares the Detailed Estimates called 'Demands for Grants'. In the preparation of the budget, the aim should be to achieve as close an approximation to the actuals as possible. This demands the exercise of foresight both in anticipating revenue and estimating expenditure. An avoidable extra provision in an estimate is as much a budgetary irregularity as an excess in the sanctioned expenditure. The budget procedure envisages that the sum provided in an estimate of expenditure on a particular item must be that sum which can be expended in the year and neither in excess nor lesser. A saving in an estimate constitutes as much of a financial irregularity as an excess in it. The budget estimates of receipts should be based on the existing rates of taxes, duties, fees, etc.

Deficiencies in the management of budget and expenditure and violation of the provisions of Budget Manual noticed in audit have been discussed in the subsequent paragraphs.

2.2 Summary of Appropriation Accounts

The summarised position of actual expenditure during 2011-12 against 47 Grants/Appropriations is given in **Table 2.1**.

Table 2.1: Summarised position of actual expenditure vis-à-vis original/supplementary provisions

(₹ in crore)					
Nature of expenditure	Original Grant/ Appropriation	Supplementary Grant/ Appropriation	Total	Actual expenditure ^(*)	Saving
Voted					
I Revenue	38578.19	3381.35	41959.54	40151.10	1808.44
II Capital	3815.82	1256.12	5071.94	3834.87	1237.07
III Loans and Advances	1229.13	52.59	1281.72	998.54	283.18
Total Voted	43623.14	4690.06	48313.20	44984.51	3328.69
Charged					
IV Revenue	6734.04	40.37	6774.41	6501.41	273.00
V Capital	26.98	11.40	38.38	35.65	2.73
VI Public Debt Repayment	9145.37	0	9145.37	2893.06	6252.31
Total Charged	15906.39	51.77	15958.16	9430.12	6528.04
Appropriation to Contingency Fund (if any)	Nil	Nil	Nil	Nil	Nil
Grand Total	59529.53	4741.83	64271.36	54414.63	9856.73

Source: Appropriation Accounts 2011-12 and Appropriation Acts

^(*)Actual expenditure is understated to the extent of un-recouped contingency fund advances amounting to ₹20.80 crore and un-adjusted AC bills amounting to ₹1.35 crore

The overall savings of ₹ 9,856.73 crore was the result of savings of ₹ 10,627.74 crore in 33 Grants and 19 Appropriations under the Revenue Section and 24 Grants and 10 Appropriations under the Capital Section, offset by excess of ₹ 771.01 crore in 11 Grants and two Appropriations under the Revenue Section and four Grants under Capital Section.

The status of savings/excess (as per Appropriation Accounts) was intimated (July 2012) to the Controlling Officers, requesting them to explain the significant variations. Out of 1279 sub-heads in respect of which savings/excess were reported, explanations for variations were not received (August 2012) in respect of 843 sub-heads.

2.3 Financial Accountability and Budget Management

2.3.1 Appropriation vis-à-vis Allocative Priorities

The appropriation audit revealed that in 15 cases, savings exceeded ₹ 10 crore in each case and were also more than 20 per cent of the total provisions (**Appendix 2.1**). Against the savings of ₹ 8,573.27 crore, savings of ₹ 8,398.55 crore (98 per

cent) occurred in eleven cases²³ relating to 10 Grants and one Appropriation as indicated in **Table 2.2**.

Table 2.2: List of Grants/Appropriation with savings of ₹ 50 crore and above
(₹ in crore)

Sl. No.	Number and name of Grant/Appropriation	Original	Supplementary	Total	Expenditure	Savings	Surrender	Net savings(-)/excess(+)
Revenue - Voted								
1.	XX Water Supply and Sanitation	602.83	1.00	603.83	383.04	220.79	220.38	(-)0.41
2.	XXII Urban Development	623.02	22.50	645.52	274.08	371.44	362.50	(-)8.94
3.	XXIV Labour and Labour Welfare	529.44	54.83	584.27	429.26	155.01	111.97	(-)43.04
4.	XXXVI Community Development	350.29	107.32	457.61	270.00	187.61	168.45	(-)19.16
5.	XXXVIII Irrigation	320.27	0.60	320.87	233.57	87.30	85.81	(-)1.49
Capital - Voted								
6.	XVII Education, Sports, Art and Culture	174.45	55.13	229.58	78.57	151.01	38.62	(-)112.39
7.	XX Water Supply and Sanitation	533.64	Nil	533.64	323.14	210.50	212.72	(+) 2.22
8.	XXV Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes	100.51	Nil	100.51	49.09	51.42	43.27	(-)8.15
9.	XXIX Agriculture	154.94	72.36	227.30	92.27	135.03	82.23	(-)52.80
10.	XXXVIII Irrigation	532.87	206.36	739.23	163.10	576.13	536.20	(-)39.93
Capital - Charged								
11.	Public debt repayment	9145.37	Nil	9145.37	2893.06	6252.31	6298.30	(+)45.99
Total		13067.63	520.10	13587.73	5189.18	8398.55	8160.45	(-)238.10

Source: Appropriation Accounts 2011-12

Savings exceeding ₹ 100 crore in each case are discussed below :

i) Grant No. 'XX-Water Supply and Sanitation' (Revenue-Voted)

The Grant closed with a savings of ₹ 220.79 crore which included supplementary provision of ₹ 1.00 crore. Further, augmentation of funds (₹ 1.00 crore) through supplementary grants (March 2012) proved unnecessary as the total expenditure of ₹ 383.04 crore was less than even the original provision of ₹ 602.83 crore. Savings occurred mainly under the heads '2215-Water Supply and Sanitation, 01-Water Supply, 800-Other Expenditure, 67-Add-on project of Jalanidhi' (₹ 87.50 crore) due to slow progress of the scheme and '2215-01-190-Assistance to Public Sector and Other Undertakings, 99-Grant-in-aid to the Kerala Water Authority' (₹ 40.74 crore) due to non-release of Government of India's share through Government of Kerala. Further, savings were noticed under sub heads below '2215-01-800-Other Expenditure, 63-Replacement of old and unusable pipes' (₹ 25.00 crore), '61-New Drinking Water Supply scheme at Kumarakom and

²³ Savings of ₹ 50 crore and above in each case

Parassala' (₹ 20.00 crore), '68-Special Package for completing ongoing urban water supply schemes' (₹ 12.50 crore) and '55-Drinking water supply project for Kilimanoor, Pazhayakunnumel and Madavoor villages' (₹ 6.50 crore). Reasons for savings in these cases have not been intimated by the Government (July 2012).

ii) Grant No. 'XXII-Urban Development' (Revenue – Voted)

Against the original provision of ₹ 623.02 crore, the expenditure was only ₹ 274.08 crore resulting in a savings of ₹ 348.94 crore. Further, augmentation of funds (₹ 22.50 crore) through supplementary grant proved unnecessary as the expenditure was less than even the original provision. Savings occurred mainly under the heads '2217-Urban Development, 05-Other Urban Development Schemes, 800-Other Expenditure, 83-Basic Services to the Urban Poor' (₹ 120.18 crore) and '2217- 03-Integrated Development of Small and Medium Towns, 191-Assistance to Municipal Corporations, 74-Urban Infrastructure Development Scheme for Small and Medium Towns' (₹ 70.24 crore). Reasons for the savings occurred under the above heads of account have not been intimated by the Government (July 2012). Further, savings were noticed under '2217-05-800-89-Jawahar Lal Nehru National Urban Renewal Mission' (₹ 67.42 crore) due to non-completion of tender formalities in time and delay in acquisition of land, '2217-80-General, 800-Other Expenditure, 91-Kerala Sustainable Urban Development Project' (₹ 55.00 crore) due to non-completion of tender formalities and delay in disbursement to Kerala Local Government Development Fund consequent on delay in setting up of the Asset Management Company and '2217-Urban Development, 05-Other Urban Development Schemes, 192-Assistance to Municipalities/Municipal Councils, 81-Integrated Housing and Slum Development Programme' (₹ 31.75 crore).

iii) Grant No. 'XXIV-Labour and Labour Welfare' (Revenue-Voted)

The Grant closed with savings of ₹ 155.01 crore. As total expenditure under the Grant was less than the even original budget, the augmentation by way of the supplementary grant (October 2011: ₹ 29.35 crore and March 2012: ₹ 25.48 crore) could have been avoided or limited to a token amount. Further, out of the available savings of ₹ 155.01 crore only ₹ 111.97 crore (72 per cent) was surrendered. Savings occurred mainly under '2230-Labour and Employment, 01-Labour, 103-General Labour Welfare, 33-Income support to workers in traditional sector activities' (₹ 50.00 crore), '2230-01-103-30 Comprehensive Health Insurance Programme, Kerala' (₹ 49.96 crore), '2230-02-Employment Service, 198-Assistance to Gram Panchayats, 50-Block Grants for Revenue Expenditure' (₹ 16.59 crore) and '2230-03-Training, 101-Industrial Training Institutes, 87-Modernisation of Industrial Training Institutes' (₹ 13.87 crore) due to non-supply of machinery and equipments by the firms.

iv) Grant No. 'XXXVI-Community Development' (Revenue-Voted)

The Grant closed with savings of ₹ 187.61 crore against the budget provision of ₹ 457.61 crore. Considering the final savings, augmentation of funds (₹ 107.32 crore) through supplementary demands could have been avoided. The savings occurred mainly under '2505-Rural Employment, 01-National Programme, 800-

Other Expenditure, 99-National Rural Employment Guarantee Programme' (₹ 130.00 crore) due to reclassification of expenditure on the scheme under the head of account '2505-02-101-99' to adopt correct classification and '2515-Other Rural Development Programme, 102-Community Development, 61-Restructured Central Rural Sanitation Programme' (₹ 39.26 crore) due to limiting the expenditure proportionate to the funds released by Government of India.

v) **Grant No. 'XXXVIII – Irrigation' (Revenue-Voted)**

Against the original provision of ₹ 320.27 crore, the final expenditure was ₹ 233.57 crore, which led to a savings of ₹ 86.70 crore. Savings occurred mainly under '2700-Major Irrigation, 80-General, 800-Other Expenditure, 99-Maintenance of Irrigation scheme under XIII Finance Commission Award' (₹ 39.90 crore) and '2701-Medium Irrigation, 80-General, 800- Other Expenditure, 77- Maintenance of Irrigation scheme under XIII Finance Commission Award' (₹ 9.69 crore) due to non-implementation of the schemes.

vi) **Grant No. 'XVII-Education, Sports, Art and Culture' (Capital -Voted)**

An amount of ₹ 229.58 crore including ₹ 55.13 crore of supplementary grants was available under the Grant. Against this provision, final expenditure was only ₹ 78.57 crore resulting in a savings of ₹ 151.01 crore. Considering the final savings, supplementary grants (₹ 54.23 crore) could have been avoided or limited to token provision. Only ₹ 38.62 crore (26 per cent) was surrendered leaving savings of ₹ 112.39 crore unsurrendered at the close of the year. Savings occurred mainly under '4202-Capital outlay on Education, Sports, Art and Culture, 03-Sports and Youth Services, 800-Other Expenditure, 90-National Games' (₹ 100.00 crore) and '4202-02-Technical Education, 800-Other Expenditure, 95-ITI Building works' (₹ 9.51 crore) due to slow progress of works.

vii) **Grant No. 'XX-Water Supply and Sanitation' (Capital -Voted)**

The Grant closed with a saving of ₹ 210.50 crore against the available provision of ₹ 533.64 crore. The injudicious decision to surrender an amount of ₹ 212.72 crore was without assessing the final savings, which resulted in excess surrender of ₹ 2.22 crore. Savings occurred mainly under '6215-Loans for Water Supply and Sanitation, 01-Water Supply, 190-Loans to Public Sector and Other Undertakings, 98-Loans to the Kerala Water Authority for implementing JBIC Assisted Water Supply Project' (₹ 269.90 crore). This savings was partly offset by the excess under '4215-Capital outlay on Water Supply and Sanitation, 01-Water Supply, 800-Other Expenditure, 99-NABARD assisted Rural Water Supply Scheme (RIDF)' (₹ 57.18 crore).

viii) **Grant No. 'XXXVIII – Irrigation' (Capital-Voted)**

Against the budget allocation of ₹ 739.23 crore, including ₹ 206.36 crore obtained through supplementary grants, the final expenditure was only ₹ 163.10 crore resulting in a savings of ₹ 576.13 crore. Considering the final savings augmentation of provision through supplementary grants proved wholly unnecessary. Savings occurred mainly under '4711-Capital Outlay on Flood Control Projects, 01-Flood Control, 103-Civil Works, 90-Kuttanadu Package'

(₹ 347.22 crore) due to non-release of second instalment of Central Assistance, '4701-Capital Outlay on Medium Irrigation, 80-General, 800-Other Expenditure, 79-AIBP-Support for other need based programme' (₹ 114.50 crore) and '4701-80-800-76-Priority Works' (₹ 50 crore).

ix) Public Debt Repayment (Capital - Charged)

Savings under the Grant were ₹ 6,252.31 crore. Major savings of ₹ 6,525 crore occurred under '6003-Internal Debt of the State Government, 110-Ways and Means advances from the Reserve Bank of India' due to non-availing of Ways and Means Advances in view of the improved liquidity position of the state finances. This was partly offset by the excesses under '6004-Loans and Advances from the Central Government, 04-Loans for Centrally Sponsored Schemes' (₹ 42.96 crore), '6003-111-Special Securities issued to National Small Savings Fund of the Central Government' (₹ 4.65 crore) and '6004-03 Loans for Central Plan Schemes' (₹ 2.84 crore).

2.3.2 Persistent savings

In seven cases, there were persistent savings in excess of ₹ 50 lakh in each case and also 20 per cent or more of the provision for the last three years as shown in **Table 2.3**.

Table 2.3: Persistent savings

(₹ in crore)

Sl. No.	Number and Name of Grant/Appropriation	Amount of saving (percentage)		
		2009-10	2010-11	2011-12
Revenue - Voted				
1.	XXII Urban Development	531.22 (61)	563.04 (60)	371.44 (58)
Capital - Voted				
2.	XVII Education, Sports, Art and Culture	37.71 (43)	22.31 (21)	151.01 (66)
3.	XX Water Supply and Sanitation	545.73 (51)	444.47 (68)	210.50 (39)
4.	XXV Welfare of Scheduled Castes/ Scheduled Tribes and Other Backward Classes	22.31 (37)	37.90 (34)	51.42 (51)
5.	XXIX Agriculture	64.96 (64)	77.29 (61)	135.03 (59)
6.	XXXVIII Irrigation	120.06 (34)	204.65 (44)	576.13 (78)
Capital - Charged				
7.	Public Debt Repayment	9742.10 (80)	10376.07 (84)	6252.31 (68)

Source: Appropriation Accounts 2009-10, 2010-11 and 2011-12.

In 28 subheads, there were persistent savings in excess of ₹ five crore in each case of the provision for the last three years. Details are given in **Appendix 2.2**.

2.3.3 Excess over provision during 2011-12 requiring regularisation

The Appropriation Accounts disclosed excess expenditure of ₹ 760.88 crore under Revenue Section (11 Grants and two Appropriations) and ₹ 10.13 crore under Capital Section (four Grants) requiring regularization during 2011-12. This excess

expenditure of ₹ 771.01 crore requires regularization under Article 205 of the Constitution as summarized in **Table 2.4**.

Table 2.4: Excess over provision requiring regularisation during 2011-12

(₹ in crore)

Sl. No.	Number and title of Grant/Appropriation	Total Grant/Appropriation	Expenditure	Excess
Voted Grants – Revenue				
1.	I State Legislature	50.69	50.93	0.24
2.	V Agricultural Income Tax and Sales Tax	180.87	183.56	2.69
3.	VII Stamps and Registration	145.71	146.31	0.60
4.	VIII Excise	140.02	144.77	4.75
5.	XI District Administration and Miscellaneous	353.07	361.35	8.28
6.	XII Police	1619.54	1724.02	104.48
7.	XIII Jails	63.73	64.76	1.03
8.	XVI Pensions and Miscellaneous	9102.13	9672.30	570.17
9.	XIX Family Welfare	257.54	306.41	48.87
10.	XXVIII Miscellaneous Economic Services	88.24	90.52	2.28
11.	XLI Transport	105.87	120.78	14.91
Total – Voted Grants - Revenue		12107.41	12865.71	758.30
Charged Appropriation-Revenue				
12.	II Heads of States, Ministers and Headquarters Staff	86.98	89.53	2.55
13.	XII Police	0.06	0.09	0.03
Total-Charged Appropriation-Revenue		87.04	89.62	2.58
Voted Grants – Capital				
14.	XII Police	0.91	1.03	0.12
15.	XIV Stationery and Printing and Other Administrative Services	1.70	2.11	0.41
16.	XLII Tourism	111.05	120.64	9.59
17.	XLVI Social Security and Welfare	1.33	1.34	0.01
Total - Voted Grants – Capital		114.99	125.12	10.13
Grand Total		12309.44	13080.45	771.01

Source: Appropriation Accounts 2011-12

2.3.4 Excess over provisions relating to previous years requiring regularisation

As per Article 205 of the Constitution of India, it is mandatory for a State Government to get excesses over Grants/Appropriations regularised by the State Legislature. Although no time limit for regularisation of expenditure has been prescribed under the Article, the regularisation of excess expenditure is done after the completion of discussion of the Appropriation Accounts and the connected Audit Report by the Public Accounts Committee (PAC). Excess expenditure occurred under 26 Grants and six Appropriations amounting to ₹ 333.74 crore for the years 1990-91 to 2010-11, was to be regularised (September 2012) as summarised in **Table 2.5**. The year-wise and Grant-wise amounts of excess

expenditure pending regularisation and the stage of consideration by the PAC are detailed in **Appendix 2.3**.

Table 2.5: Excess over provisions relating to the previous years requiring regularisation
(₹ in crore)

Year	Number of		Amount of excess over provision
	Grant	Appropriation	
1990-91	1		0.36
1992-93	1		0.04
1995-96	1		21.12
1996-97		1	(²⁴)
1997-98	1		3.93
1998-99	1		7.88
2000-01	1		14.65
2001-02	2		29.08
2003-04	3		128.61
2006-07	1		1.28
2008-09	5	1	103.57
2009-10	8	2	23.07
2010-11	1	2	0.15
Total	26	6	333.74

Source: As per records maintained by the Principal Accountant General (SGSA)

2.3.5 Unnecessary/Excessive/Inadequate Supplementary provision

Supplementary provisions aggregating ₹ 793.63 crore, obtained in 22 cases of ₹ 50 lakh or more in each case during the year, proved unnecessary as the expenditure did not come up to the level of the original provisions as detailed in **Appendix 2.4**.

In 23 cases, against the additional requirement of ₹ 1,558.12 crore, supplementary grants of ₹ 2,408.21 crore were obtained, resulting in savings aggregating ₹ 850.09 crore (**Appendix 2.5**).

In 10 cases, supplementary provision of ₹ 1,413.24 crore proved inadequate by more than ₹ one crore in each case, leaving uncovered excess expenditure of ₹ 720.73 crore (**Appendix 2.6**).

2.3.6 Excessive/unnecessary/insufficient re-appropriation of funds

Re-appropriation is transfer of funds within a Grant from one unit of appropriation, where savings are anticipated, to another unit where additional funds are needed. There were excesses/savings of more than ₹ two crore in 127 sub-heads even after re-appropriation as detailed in **Appendix 2.7**. Reasons for the variations were not furnished by the department/Government.

2.3.7 Substantial surrenders

Substantial surrenders (where more than 50 per cent of the total provision²⁵ was surrendered) were made in respect of 494 sub-heads on account of either non-

²⁴ ₹ 32,791 only

²⁵ Total provision refers to Original provision plus Supplementary provision

implementation or slow implementation of plan schemes/programmes. Out of the total provision amounting to ₹ 2,155.49 crore in these 494 sub-heads, ₹ 1,918.20 crore (89 *per cent*) was surrendered which included *cent per cent* surrender in 50 sub-heads amounting to ₹ 308.04 crore as indicated in **Appendix 2.8**.

2.3.8 Surrender in excess of actual saving

In 17 cases (Grants/Appropriations) the amounts surrendered (₹ 50 lakh or more in each case) was in excess of the actual savings indicating lack of or inadequate financial control. As against savings of ₹ 6,910.08 crore, the amount surrendered was ₹ 7,047.23 crore, resulting in excess surrender of ₹ 137.15 crore. Details are given in **Appendix 2.9**.

2.3.9 Injudicious surrender

In Seven Grants/Appropriations, surrender of ₹ 27.01 crore (₹ 10 lakh or more in each case) proved injudicious as there were eventual excesses under these Grants/Appropriations at the close of the financial year. Details are given in **Appendix 2.10**.

2.3.10 Anticipated savings not surrendered

As per Para 91 of the Kerala Budget Manual, spending departments are required to surrender Grants/Appropriations or portions thereof to the Finance Department as and when savings are anticipated. At the close of the year 2011-12, there were, however, 11 Grants/Appropriations in which savings occurred but no part of which had been surrendered by the concerned departments. The amount involved in these cases was ₹ 52.67 crore the details of which are given in **Appendix 2.11**.

Similarly, out of the total savings of ₹ 3,209.49 crore under 26 Grants/Appropriations with savings of ₹ one crore and above in each Grant/Appropriation, 33 *per cent* of savings amounts aggregating ₹ 1,056.14 crore were not surrendered, details of which are given in **Appendix 2.12**. Besides, in 39 major heads under 26 Grants ₹ 3,020.18 crore (**Appendix 2.13**) was surrendered on 31 March 2012 (surrender of funds in excess of ₹ 10 crore in each major head), indicating inadequate financial control and the fact that these funds could not be utilised for other development purposes.

2.3.11 Rush of expenditure at the end of financial year 2011-12

According to Para 91 (2) of the Kerala Budget Manual, rush of expenditure in the closing month of the financial year should be avoided. Contrary to this, in respect of 57 sub-heads listed in **Appendix 2.14**, expenditure of ₹ 10 crore and above and also more than 50 *per cent* of the total expenditure for the year was incurred in March 2012. In 33 Major Heads where more than 50 *per cent* expenditure was incurred during the last month of the financial year, details are given in **Appendix 2.15**.

2.3.12 Unexplained re-appropriations

Para 86 (3) of the Kerala Budget Manual lays down that the authority sanctioning re-appropriations should satisfy himself that the reasons given in the sanctions are

full, frank and forthright and are not in vague terms such as ‘based on actual requirement’, ‘based on trend of expenditure’, ‘expenditure is less than that anticipated’, etc. as they have to be incorporated in the Appropriation Accounts which are examined by the Public Accounts Committee of Legislature. However, a test check of re-appropriation orders relating to 12 Grants issued by the Finance Department revealed that in respect of 747 out of 2129 items (35 per cent), the reasons given for withdrawal of provision/additional provision in re-appropriation orders were of general nature like ‘expenditure is less than anticipated’, ‘reduced provision is sufficient to meet the expenditure’, etc.

2.3.13 Drawal of funds to avoid lapse of budget grant

As per the provision of Article 40 (c) (7) of the Kerala Financial Code Volume I, a Government servant should not, on any account, reserve or appropriate by transfer to a deposit or any other head or draw from the treasury and keep in a cash chest, any portion of an appropriation remaining unexpended during the year in order to prevent it from lapsing and use it for expenditure after the end of the year. Funds provided in the budget are for actual expenditure to be incurred during the year and any unspent provision lapses at the close of the financial year. Audit scrutiny revealed that ₹ 81.25 crore was drawn by the departmental officers and deposited them in the Treasury Savings Banks/Treasury Public Accounts or released them to the implementing agencies towards the close of the financial year 2011-12 to prevent them from lapsing. Of this, ₹ 1.40 crore drawn (December 2011) by the Director of Handloom and Textiles, Thiruvananthapuram for the intensive campaign to popularize the use of Handloom/Khadi products in the State which could not be utilized due to delay in convening the monitoring committee meeting to draw the implementation programme was deposited in a bank account. Keeping the money outside Government account was irregular. This resulted in under-utilisation of 81 per cent (₹ 1.13 crore) of the fund for nine months (August 2012). The details are given in **Appendix 2.16**.

The irregular deposit of funds enabled the departments to avoid lapse of budget provision and to bypass budgetary compulsions to spend the amount before the close of the financial year. Further, utilising funds voted for expenditure during a financial year in the subsequent year amounted to bypassing the control of the Legislature over expenditure out of the Consolidated Fund of the State. Moreover, as the funds drawn were not spent during the financial year, the Government accounts did not reflect the factual position.

2.4 Non-reconciliation of departmental figures

2.4.1 Pendency in submission of Detailed Countersigned Contingent bills against Abstract Contingent bills

According to Rule 187 (d) of the Kerala Treasury Code, all contingent claims that require the countersignature of the controlling authority after payment are to be initially drawn by the Drawing and Disbursing Officer (DDO) from the treasury by presenting Abstract Contingent bills in the prescribed form (Form TR 60). Abstract Contingent (AC) bills can be drawn only by an authorised officer for the

items of expenditure listed in Appendix 5 to the Kerala Financial Code. The DDO should maintain a register of AC bills and monitor submission of detailed bills there against. The Detailed Contingent (DC) bills in respect of such claims should be submitted to the controlling authority for countersignature not later than the 10th of the month succeeding that to which they relate. The detailed bills pertaining to a month's claim should reach the Principal Accountant General (A&E), Kerala not later than the 20th of the succeeding month.

According to the records maintained by the Principal Accountant General (A&E) Kerala, 51 AC bills drawn by 42 DDOs up to March 2012 involving ₹ 3.36 crore were not adjusted as of June 2012 due to non-receipt of DC bills, details of which are enumerated in **Appendix 2.17**. Year-wise details are given in **Table 2.6**. Non-submission of DC bills leads to retention of advance amount drawn with the drawing officer and the advance drawn remains unaccounted under the proper heads of account.

Table 2.6: Pendency in submission of Detailed countersigned Contingent bills against Abstract Contingent bills

(₹ in crore)

Year	AC bills		DC bills		DC bills as percentage of AC bills	Outstanding DC bills	
	Number	Amount	Number	Amount		Number	Amount
2009-10	367	5.98	365	4.58	99	2	1.40
2010-11	395	3.52	388	2.91	98	7	0.61
2011-12	384	4.04	342	2.69	89	42	1.35
Total	1146	13.54	1095	10.18		51	3.36

Source: Information furnished by Principal Accountant General (A&E)

2.4.2 Unreconciled expenditure

To enable the Controlling Officers of the departments to exercise effective control over expenditure, to keep it within the budget grants and to ensure accuracy of their accounts, Paragraph 74 of the Kerala Budget Manual stipulates that the expenditure recorded in their books should be reconciled by them every month during the financial year with that recorded in the books of the Principal Accountant General (A&E), Kerala. Even though non-reconciliation of departmental figures is being pointed out regularly in CAG's Audit Reports, lapses on the part of the Controlling Officers in this regard continued to persist during 2011-12 also. One hundred Controlling Officers did not reconcile expenditure amounting to ₹ 38,009.24 crore as of June 2012. In respect of 70 Controlling Officers, amounts exceeding ₹ 10 crore in each case amounting to ₹ 37,233.16 crore remained un-reconciled during 2011-12. The details are shown in **Appendix 2.18**.

2.5 Advances from Contingency Fund

The Contingency Fund of the State has been established under the Kerala Contingency Fund Act, 1957 in terms of provisions of Article 267 (2) and 283 (2)

of the Constitution of India. Advances from the Fund are to be made only for meeting expenditure of an unforeseen and emergent nature, postponement of which, till its authorisation by the Legislature, would be undesirable. The Fund is in the nature of an imprest and its corpus is ₹ 100 crore. Till the close of the year, a total amount of ₹ 20.80 crore under '6216-Loans for Housing' (₹ 19.79 crore drawn on 30 March 2012) and under '5051-Capital Outlay on Ports and Light Houses' (₹ 1.01 crore drawn on 31 March 2012) was not recouped to the Fund.

2.6 Review of Selected Grants

A review of budgetary procedure and control over expenditure for 2011-12 conducted during July-August 2012 relating to 'Grant No XVIII – Medical and Public Health' and 'Grant No. XXXIII – Fisheries' revealed the following:

2.6.1 XVIII – Medical and Public Health

2.6.1.1 Budget Allocation and Expenditure

There was only two to three *per cent* savings under Revenue Section of the Grant during the period 2009-10 to 2011-12. However, under Capital Section the savings ranged between 15 to 28 *per cent* indicating the deficiency in budgeting process under this section. Though overall Grant did not show substantial savings, persistent savings were noticed under some plan subheads. Details are given in **Table 2.7**.

Table 2.7 : Persistent Savings under plan heads

(₹ in lakh)

Head of account	Year	Budget allocation	Expenditure	Savings	Percentage of Savings
2210-01-110-83-Mental Health Centre, Kozhikode(Plan)	2009-10	15.00	12.12	2.88	19
	2010-11	30.00	13.35	16.65	55
	2011-12	30.00	8.17	21.83	72
2210-06-003-94-Opening school of nursing at Sasthamkotta, Kollam for SC/ST students (100% CSS)(Plan)	2009-10	38.00	22.76	15.24	40
	2010-11	55.20	24.70	30.50	55
	2011-12	24.90	20.65	4.25	17
2210-06-101-99-National Malaria Eradication Programme (50% CSS)(Plan)	2009-10	70.00	51.53	18.47	26
	2010-11	140.00	71.71	68.29	48
	2011-12	140.00	70.62	69.38	49
2210-06-101-97-Filariasis Control (50% CSS)(Plan)	2009-10	70.00	46.99	23.01	32
	2010-11	110.00	63.26	46.74	42
	2011-12	110.00	43.52	66.48	60
2210-05-105-93-Dental College, Kozhikode (Plan)	2009-10	50.00	33.81	16.19	32
	2010-11	60.00	47.72	12.28	20
	2011-12	70.00	26.80	43.20	62
2210-05-001-96-Modernisation and computerization of Directorate of Ayurvedic Education-Publication Division and Continuing Medical Education (Plan)	2009-10	100.00	11.82	88.18	88
	2010-11	85.00	35.29	49.71	58
	2011-12	100.00	12.78	87.22	87

Source: Detailed Appropriation Accounts for 2009-10 to 2011-12

During the year 2011-12 substantial savings were noticed under 18 subheads, details of which are given in **Appendix 2.19**. Persistent occurrence of huge savings indicated deficient control in the budgeting process existed in the department.

2.6.1.2 Unnecessary supplementary grants

As per paragraph 88 of the Kerala Budget Manual supplementary grant is to be obtained only in cases where expenditure cannot be postponed to the next financial year and in cases where expenditure has to be incurred during the year. An analysis of the utilisation of the supplementary grant obtained under Revenue (voted) Section for the last three years (2009-10 to 2011-12) revealed that supplementary grants obtained in March 2012 could have been avoided or limited to token provision as the final saving was more than the supplementary grant obtained.

Table 2.8 : Excessive of Supplementary grants

(₹ in crore)

Year	Original grant	Total supplementary grant	Supplementary grant obtained in March	Final Savings
2009-10	1433.82	69.64	65.14	46.03
2010-11	1730.58	68.24	53.57	37.07
2011-12	2406.39	171.32	32.06	100.66

Source: Detailed Appropriation Accounts for 2009-10 to 2011-12

Instances were also noticed where supplementary grant obtained under certain sub heads remained unutilized during 2011-12 are shown below:

Table 2.9 : Unnecessary Supplementary grants in certain subheads

(₹ in crore)

Head of account	Original provision	Supplementary provision	Total Grant	Expenditure	Saving
2210-05-105-96 (NP)	62.84	2.50	65.34	55.86	9.48
2210-05-105-42 (NP)	4.32	0.20	4.52	4.32	0.20
2210-05-105-20 (NP)	1.68	0.48	2.16	1.62	0.54
4210-02-110-86 (P)	Nil	6.00	6.00	Nil	6.00

Source: Detailed Appropriation Accounts for 2011-12

It is evident from the above table that supplementary grants obtained in the sub heads were without assessing the actual requirement. Final savings in excess of the supplementary grants obtained indicated that demand for supplementary grants was made without assessing actual requirement of additional funds under individual heads and availability of funds in other heads for re-appropriation.

2.6.1.3 Reduction/re-appropriation without ensuring availability

According to paragraph 84 (3) of Kerala Budget Manual, if the appropriation under a unit is reduced by re-appropriation or resumption, the expenditure debitable to the unit should be restricted to the reduced appropriation. However, it

was noticed that allotment under several subheads for the year 2011-12 was reduced and later excess expenditure was incurred as detailed below:

Table 2.10 : Re-appropriation of funds without ensuring availability

(₹ in crore)

Sl. No.	Head of account	Total Grant	Re-appropriation	Total	Expenditure	Excess expenditure
1.	2210-01-102-98 (NP)	100.92	(-)24.54	76.38	77.47	1.09
2.	2210-01-110-98 (NP)	39.80	(-)3.64	36.16	43.73	7.57
3.	2210-05-001-99 (NP)	4.21	(-)0.48	3.73	4.22	0.49
4.	2210-06-800-85 (P)	1.00	(-)0.51	0.49	0.84	0.35
5.	2210-05-105-97 (P)	3.01	(-)0.53	2.48	2.83	0.35
6.	2210-05-105-92 (NP)	9.89	(-)0.30	9.59	10.65	1.06

Source: Detailed Appropriation Accounts for 2011-12

2.6.1.4 Unreconciled expenditure

According to paragraph 74 of Kerala Budget Manual all Controlling Officers should reconcile the departmental figures of expenditure with the books of Principal Accountant General (A&E) and treasury and forward monthly reports regarding reconciliation to Government. Reconciliation of Departmental figures of expenditure with that booked by Principal Accountant General (A&E) is necessary to ensure accuracy of accounts and also to detect misclassification, fraud, defalcation etc. in time. Significant unreconciled variation between departmental figures and accounts figures have been noticed under the following heads.

Table 2.11 : Variations in booked figures

(₹ in lakh)

Head of Account	Departmental figure	Figure booked by AG	Difference
2210-06-101-59 (P)	0.78	2.51	1.73
2210-06-101-68 (P)	0.26	0.31	0.05
2210-06-800-86 (P)	18.93	0	18.93
2210-05-105-74 (P)	1.31	1.25	0.06
2210-02-102-98 (P)	0.28	0.27	0.01

Source: Detailed Appropriation Accounts for 2011-12 and data from department

Non-reconciliation of figures is fraught with risk of misclassification, fraud, defalcation, etc. remaining unnoticed in time.

2.6.1.5 Belated surrender/re-appropriation

According to paragraph 93 (1) of Kerala Budget Manual the proposals for re-appropriation and surrender should reach Finance Department not later than 25 February every year. But the Director of Health Services, Director of Medical Education and Director of Indian Systems of Medicine submitted the proposals for surrender of funds to Government on 31 March which resulted in non-allocation of funds to the needy departments.

2.6.1.6 Overstated expenditure

Financial Rules prohibit drawal of money from treasury unless it is required for immediate disbursement. However, it was noticed that funds were drawn and kept in Treasury Savings Bank account or kept outside the Government without being spent. This has resulted in overstatement of the total expenditure of the Grant as the amount remained unutilized even after the close of financial year. Instances are detailed below:

- The Director of Health Services drew ₹ 6.50 crore towards the implementation of two schemes viz. Special Support Schemes for patients suffering from cancer, heart and kidney diseases (₹ 5 crore) and Grant in aid to society for medical assistance to the Poor (₹ 1.5 crore). No part of the amount was utilized as of August 2012 and the amount remained deposited in the treasury savings bank account. In response to audit remarks it was stated that non-implementation of the scheme was due to the delay in getting confirmation letter of treatment and proper receipts from the patients.

2.6.2 Grant No.XXXIII – Fisheries

Funds required for the development and management of Fisheries Sector is provided under this Grant. Director of Fisheries and Chief Engineer of Harbour Engineering department are the Chief Controlling Officers operating this Grant. Review of budget allocation and expenditure for the last three years (2009-2012) revealed that there was persistent savings ranged between 14 to 19 per cent under Capital Section of the Grant.

2.6.2.1 Reduction/re-appropriation without ensuring availability

According to paragraph 84 (3) of Kerala Budget Manual, if the appropriation under a unit is reduced by re-appropriation or resumption, the expenditure debitable to the unit should be restricted to the reduced appropriation. However it was noticed that allotment under several sub heads for the year 2011-12 was reduced and later excess expenditure was noticed under that unit/head as detailed below :

Table 2.12 : Re-appropriation of funds without ensuring availability

(₹ in lakh)

Sl. No.	Head of account	Original	Re-appropriation	Total	Expenditure	Excess expenditure
1.	2405-00-101-97 (NP)	134.36	(-)6.08	128.28	147.30	19.02
2.	2405-00-101-96 (NP)	17.25	(-)12.61	4.64	8.48	3.84
3.	2405-00-103-99 (NP)	488.06	(-)117.89	370.17	410.70	40.53
4.	2405-00-109-99 (NP)	46.24	(-)16.09	30.15	38.24	8.09
5.	2405-00-800-97 (NP)	54.34	(-)17.82	36.52	42.01	5.49
6.	2405-00-800-98 (NP)	48.91	(-)17.91	31.00	34.50	3.50
7.	2405-00-800-86 (P)	300.00	(-)23.92	276.08	277.58	1.50

Source: Detailed Appropriation Accounts for 2011-12

2.6.2.2 Unreconciled expenditure

According to paragraph 74 (1) of Kerala Budget Manual all Controlling Officers should reconcile the departmental figures of expenditure with the books of Principal Accountant General (A&E)/treasury and forward monthly reports regarding reconciliation to Government. Reconciliation of Departmental figures of expenditure with that booked by Principal Accountant General (A&E) is necessary to ensure accuracy of accounts and also to detect misclassification, fraud, defalcation etc. in time. Significant variation between unreconciled departmental figures and accounts figures has been noticed under the following heads.

Table 2.13 : Variations in booked figures

(₹ in lakh)

Head of Account	Departmental figure	Figure booked by AG	Difference
2405-00-101-66 (P)	400.00	385.00	15.00
2405-00-103-94 (P)	24.79	22.29	2.50
4405-00-104-97 (P)	7.95	11.22	3.27

Source: Detailed Appropriation Accounts for 2011-12 and data from department

Non-reconciliation of figures is fraught with risk of misclassification, fraud, defalcation, etc. remaining unnoticed in time.

2.6.2.3 Overstated expenditure

Financial Rules prohibit drawal of money from treasury unless it is required for immediate disbursement. However, it was noticed that funds disbursed to various agencies during 2011-12 for implementation of various programmes in fisheries sector remained unutilized as of August 2012. Instances of amounts booked as expenditure in accounts, but blocked up with implementing agencies are as follows;

- During the year 2011-12, the Director of Fisheries had drawn and disbursed an amount of ₹1.64 crore to Chief Engineer, Harbour Engineering Department for execution of four²⁶ works. Audit noticed that no amount was incurred so far (August 2012).
- An amount of ₹ 28.94 crore was drawn by the Director of Fisheries during September 2011 to March 2012 and disbursed to Kerala State Coastal Area Development Corporation Limited (KSCADC) for execution of 20 works. KSCADC has utilized ₹ 0.31 crore for these works and balance of ₹ 28.63 crore remained unutilised as of August 2012.
- Thirteenth Finance Commission has awarded an amount of ₹ 200 crore to the State Government for development in fisheries sector to be

²⁶ (i) Construction of fishermen hospital at Udayanapuram, Vaikom, (ii) Construction of compound wall to the Hatchery at Neyyar Dam, (iii) Construction of awareness centre at Pannivelichira and (iv) Construction of building for Fisheries Technical School at Beypore.

implemented during 2011-2015. During 2011-12 ₹ 50 crore was provided in the budget for development of Model Fishing Villages and setting up of Fish Marketing centres. The Director of Fisheries allotted (December 2011) ₹ 45 crore to nine Deputy Directors for implementation of the scheme and disbursed ₹ five crore to KSCADC for implementation of the scheme in Kozhikode district. Audit scrutiny revealed that ₹ 45 crore drawn by nine Deputy Directors were not utilized and kept in Treasury Savings Bank Account. Similarly ₹ five crore released by the Director of Fisheries to KSCADC was also not utilized (July 2012).

2.7 Errors in budgeting

According to provisions of the Kerala Budget Manual (Paragraph 14), the budget estimates should always receive careful personal attention of the officers who submit them and should be as accurate as practicable. The estimates submitted by the Departments are scrutinized by the Administrative and the Finance Departments also to ensure their reasonableness and accuracy before presentation to the Legislature. The instances of omission to provide required funds and wrong classification of expenditure have been noticed during audit. A few significant cases are mentioned below.

- (a) Subventions from Central Road Fund are released by the Government of India as grants to State Governments for incurring expenditure on schemes of road development approved by the Government of India. The amounts so received are to be transferred to the reserve fund 'Subvention from Central Road Fund' by debit to the head of account '3054-05-797-99'. Though provision for the transfer of grant received is to be made every year in the budget, there was omission to make necessary provision in the budget for 2011-12. Consequently, on transfer of ₹ 4.44 crore received from the Government of India to the reserve fund, there was uncovered excess expenditure of an equivalent amount under the head of account '3054-05-797-99' as there was no budget provision to cover the expenditure. No budget provision was made in the year 2010-11 also, to transfer the Government of India grant received resulting in uncovered excess expenditure to the tune of ₹ 81.34 crore.
- (b) Special Development fund for MLAs was constituted in 2001 on the pattern of MP Local Area Development (MPLAD) Scheme for creation of assets for public use at large. Right from the inception of the Scheme, the expenditure was classified under the Revenue Section of the Government Accounts. However, during the current year ₹ 143.50 crore was provided under the Capital Section and an expenditure of ₹ 142.75 crore has been booked as expenditure under the scheme. As the assets created do not wholly belong to Government, there is no justification for capitalizing the expenditure under MLA fund. As the Special Development Fund for MLAs was constituted in line with MPLAD scheme, classification of

expenditure under MLA fund different from MPLAD scheme needs to be reconsidered (expenditure of MPLAD scheme is classified under Revenue Section-Major head 2553-MPs Local Area Development Scheme). Specific reasons changing the accounting classification from the Revenue Section to the Capital Section (2075-800-28 to 4250-800-99) for accounting transactions under Special Development fund for MLAs have not been furnished by Government (September 2012). Consequent on this wrong classification revenue expenditure and revenue deficit of the State Government is understated by ₹ 142.75 crore.

The above mentioned cases indicate that Departmental budget estimates were not prepared by the department with due care and attention and that scrutiny of the departmental proposals by the Administrative and the Finance Departments were inadequate to detect even the errors and omissions involving large amounts in the proposals.

2.8 Outcome of inspection of treasuries

There were 23 District Treasuries, 190 sub-treasuries and 12 Stamp depots in the State as of March 2012. The Principal Accountant General (A&E), Kerala inspected 147 treasuries (District Treasuries: 23; sub-treasuries: 110, Stamp depots-12, Check-post treasury: 1 and One-man treasury: 1). Irregularities and deficiencies noticed during the audit of treasuries are mentioned in the succeeding paragraphs.

2.8.1 Excess payment of pension

There was excess payment of pension/family pension amounting to ₹ 88.15 lakh in 1148 cases in 90 treasuries (including 12 district treasuries) during 2011-12. The main reasons for these excess payments were errors in calculation of revised pension, continuance of family pension after expiry of authorized period, non-deduction of commuted value from basic pension, payment of ineligible festival allowance, medical allowance to family pensioners who are also in receipt of regular pension, and incorrect calculation of dearness relief. Out of the excess payment of ₹ 88.15 lakh, treasuries recovered ₹ 28.23 lakh and the balance amount of ₹ 59.92 lakh remained to be recovered as of March 2012.

2.8.2 Mustering of pensioners

In terms of Rule 280 (a) of the Kerala Treasury Code Vol.I, the Treasury Officer should conduct mustering of pensioners annually in the case of pensioners/family pensioners/Pension Treasury Savings Bank Account holders and once in three years, where payment of pension is made through money orders. These provisions are made to prevent fraudulent payments. However, in 271 cases, in 85 treasuries as listed in **Appendix 2.20**, deficiency in mustering of pensioners was noticed.

2.9 Conclusion

Against the total provision of ₹ 64,271.36 crore the expenditure was ₹ 54,414.63 crore, which led to a saving of ₹ 9,856.73 crore (15 per cent). An excess of ₹ 771.01 crore was also incurred under 17 Grants/Appropriation, requiring regularization under Article 205 of the Constitution. An excess expenditure of ₹ 333.74 crore was not regularized so far. While supplementary provision of ₹ 793.63 crore obtained in 22 cases was unnecessary, re-appropriation of funds in 127 cases was made injudiciously resulting in either unutilized provision or excess over provision. In 39 cases, ₹ 3020.18 crore was surrendered on the last day of the financial year. Even though non-reconciliation of departmental figures is being pointed out regularly in CAG's Audit Reports, during 2011-12 also one hundred Controlling Officers did not reconcile expenditure amounting to ₹ 38,009.24 crore as of June 2012. There was persistent excess under the head of account '3054-05-797-99-Transfer to Deposit Head-Subventions from Central Road Fund' due to non-provision of budget allocation. Expenditure of ₹ 142.75 crore under 'Special Development Fund for MLAs' due to defective provision of funds under Capital Section instead of under Revenue Section of the accounts during 2011-12, resulted in understatement of revenue deficit to that extent.

2.10 Recommendations

Following recommendations are made after analyzing budgetary process and expenditure of the State during 2011-12:

- budgetary control should be exercised in all the departments to avoid cases of budget provision remaining unutilized;
- expenditure in excess of budget allocation should be avoided;
- excessive/unnecessary supplementary grant and injudicious re-appropriation of funds should be avoided; and
- instructions should be issued to all departmental officers to complete the reconciliation of departmental figures with that booked by the Principal Accountant General (A&E), before the close of accounts of each year.