

Chapter 2

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 the voted grants and appropriations charged for different purposes as specified in the schedules appended to the Appropriation Acts, passed by the Legislature. 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 authorized by the Appropriation Act in respect of both charged and voted items of budget. The Karnataka Budget Manual contains the procedures for preparation of the estimates of budget, subsequent action in respect of the budget communication, distribution of grants, watching the progress of revenue and actuals and control over expenditure.

2.1.2 Audit of appropriation by the Comptroller and Auditor General (CAG) of India seeks to ascertain whether expenditure actually incurred under various grants is within the authorization 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 so incurred is in conformity with law, relevant rules, regulations and instructions.

2.2 Summary of Appropriation Accounts

The summarized position of actual expenditure during 2011-12 against 29 grants/appropriations is given in **Table 2.1**.

Table 2.1: Summarized position of actual expenditure *vis-à-vis* original/supplementary provision

Nature of expenditure		Original grant/ appropriation	Supplementary grant/ appropriation	Total	Actual expenditure	Unspent provision
Voted	I Revenue	58,610.88	6,858.20	65,469.08	59,056.25	6,412.83
	II Capital	15,026.74	4,642.36	19,669.10	16,013.85	3,655.25
	III Loans and advances	2,067.87	486.41	2,554.28	1,986.15	568.13
Total Voted		75,705.49	11,986.97	87,692.46	77,056.25	10,636.21
Charged	IV Revenue	7,569.84	9.40	7,579.24	6,453.49	1,125.75
	V Public debt- repayment	4,462.11	-	4,462.11	3,319.88	1,142.23
	VI Capital	-	10.85	10.85	-	10.85
Total Charged		12,031.95	20.25	12,052.20	9,773.37	2,278.83
Grand Total		87,737.44	12,007.22	99,744.66	86,829.62**	12,915.04

Source: Appropriation Accounts.

**The total expenditure (test checked cases) stands inflated/unaccounted for at least to the extent of the following:

- a. (i) ₹ 30 crore parked with the Karnataka State Tourism Development Corporation drawn on payee's receipts in March 2012 to defray expenses relating to capital expenses and other expenses of the Department.
 - (ii) Non-submission of Non –Payable Detailed Contingent (NDC) bills in support of bills amounting to ₹.78.65 crore for the year 2011-12 drawn on abstract contingent bills by the drawing and disbursing officers, as required under paragraph 37 of Manual of Contingent Expenditure, 1958. In the absence of detailed contingent bills, the genuineness of the expenditure could not be vouchsafed. The total number of outstanding bills was 5701.
 - (iii) ₹ 4.23 crore parked in State Bank of Mysore in respect of Karnataka Evaluation Authority, a society formed with the object of evaluation studies of plan and non plan items of expenditure.
 - (iv) ₹ two crore relating to energy conservation fund released during the year was parked in a Nationalized Bank.
- b. (i) The total expenditure stands under-stated at least to the extent of ₹ 0.51 crore drawn from the Contingency Fund during the year which had remained un-recouped to the fund.

The overall unspent provision of ₹ 12,915.04 crore was under both revenue/capital section, covering 29 grants/appropriations.

Article 266 (3) of the Constitution of India prohibits withdrawal of money from out of the Consolidated Fund of the State unless relevant Appropriation Acts under Articles 204 and 205 of the Constitution are passed by the Legislature. However, ₹ 148.68 crore were released by Finance Department as additionalities during the year, in eight grants under revenue/capital section, without the authorization of the Legislature. A scrutiny of the executive orders authorizing the withdrawal from the Consolidated Fund revealed that the payments were towards purchase of cars, conduct of examination by the KPSC/preparation of question papers, payment of various allowances to the Members of the Legislature on account of the amendment to their salary and the emoluments, Act, Grants-in-Aid/ Contributions to temples/other religious institutions, printing and distribution of text books and payment of difference of salary on account of implementation of UGC pay scales etc. According to Article 205(b) of the Constitution, if any money has been spent on any service during a financial year in excess of the amount granted for that service for that year, a demand in respect of such excess showing the estimated amount of that expenditure is to be presented. However, in the above cases no such statements were placed before the Legislature. The expenditure in these cases was incurred first without the authority of the Legislature and then only brought before the Legislature through supplementary demands.

2.3 Financial accountability and budget management

2.3.1 Appropriation vis-à-vis allocative priorities

There were 28 cases of unspent provision, each exceeding ₹ 100 crore and above under 20 grants/appropriation, which aggregated to ₹ 11,884.90 crore during 2011-12. Large unspent provisions were in areas of urban development, water resources, debt servicing, public works, education, agriculture and horticulture, energy, etc., as indicated in **Table 2.2**.

Table 2.2: Grants/appropriations with unspent provision of ₹ 100 crore and above
(₹ in crore)

Sl. No	Grant	Provision			Expenditure	Unspent provision
		Original	Supple-mentary	Total		
1	01 – Agriculture and Horticulture Revenue-Voted	3,074.18	442.18	3,516.36	2,313.80	1,202.56
2	02 – Animal Husbandry and Fisheries Revenue-Voted	1,008.32	142.98	1,151.30	978.48	172.82
3	03 – Finance Revenue-Voted	7,167.13	1,072.40	8,239.53	7,978.86	260.67
4	05-Home and Transport Revenue-Voted	2,876.67	138.81	3,015.48	2,802.76	212.72
		387.35	37.50	424.85	293.56	131.29
5	06 – Infrastructure Development Capital-Voted	758.25	19.00	777.25	511.79	265.46
6	07 – Rural Development and Panchayat Raj Revenue-Voted	2,576.94	236.83	2,813.77	2,553.27	260.50
		1,910.50	1,500.74	3,411.24	2,833.30	577.94
7	08 – Forest, Ecology and Environment Revenue – Charged	450.15	-	450.15	238.72	211.43
8	09 – Co-operation Revenue – Voted	524.78	358.40	883.18	665.86	217.32
9	10-Social Welfare Revenue-Voted	2,943.36	168.14	3,111.50	2,944.72	166.78
10	11-Women and Child Development Revenue-Voted	2,300.90	744.23	3,045.13	2,486.86	558.27
11	16-Housing Revenue –Voted	1,233.70	66.94	1,300.64	1,124.60	176.04
12	17 - Education Revenue-Voted	12,060.70	654.94	12,715.64	12,119.47	596.17
		325.22	56.45	381.67	278.09	103.58
13	18 – Commerce and Industries Revenue – Voted	1,269.68	275.71	1,545.39	1,374.38	171.01
		221.80	199.68	421.48	319.35	102.13
14	19 – Urban Development Revenue-Voted	5,168.50	433.83	5,602.33	4,970.88	631.45
		1,898.85	395.72	2,294.57	1,779.81	514.76
15	20 – Public Works Revenue-Voted	1,566.07	179.31	1,745.38	1,520.77	224.61
		2,702.10	1,703.14	4,405.24	3,595.88	809.36
16	21 – Water Resources Revenue – Voted	1,124.89	56.11	1,181.00	609.55	571.45
		5,857.18	383.92	6,241.10	5,461.19	779.91
17	22 – Health and Family Welfare Services Revenue-Voted	2,892.64	147.82	3,040.46	2,878.20	162.26
18	23 – Labour Revenue-Voted	536.10	30.76	566.86	340.19	226.67
19	24 – Energy Capital-Voted	1,166.65	515.00	1,681.65	1,134.29	547.36
20	29 – Debt Servicing Revenue-Charged	6,950.00	---	6,950.00	6,061.85	888.15
		4,462.11	---	4,462.11	3,319.88	1,142.23
	Total	75,414.72	9,960.54	85,375.26	73,490.36	11,884.90

Source: Appropriation Accounts.

Major heads of accounts, under which the unspent provision including re-appropriation amount was more than ₹ 25 crore, are detailed in **Appendix 2.1**. The PAC in its 13th report submitted to the Legislature (December 2011), had observed that in order to have control over provision/expenditure, unutilized provision should be surrendered as and when it came to the notice of the grant controlling authority and that specific instructions was required to be issued in this direction.

The reasons furnished by 18 departments for unspent provisions under a few major heads of account, as reported in Appropriation Accounts, are given below:

Agriculture and Horticulture

- Unspent provision of ₹ 62.82 crore under major head '2401' – Crop Husbandry – Horticulture Department – Development of Oilseeds - ISOPOM, was due to non-receipt of credit slips from Central Government in time.
- Unspent provision under the major head '2401' - Crop Husbandry – Other expenditure – Agriculture Development – Organic farming – Subsidies (₹ 83.19 crore), Special Component Plan (₹ 44.92 crore) and Tribal Sub Plan (₹ 27.27 crore) was due to the release of final installment of grants at the end of the financial year and delay in identification of beneficiaries.
- Unspent provision under the major head '2401' - Crop Husbandry – Agriculture Department – Agri Business Investment Fund – Other Expenses (₹ 427.00 crore), Special Component Plan (₹ 35.00 crore) and Tribal Sub-plan (₹ 15.00 crore) was due to non-receipt of sanction to implement the Scheme in 2011-12.

Animal Husbandry and Fisheries

- Unspent provision of ₹ 43.40 crore under major head '2405' – Fisheries – Other Expenditure – New Initiative for Fisheries Development – Other expenses was due to non availability of beneficiaries.

Finance

- Unspent provision of ₹ 35.40 crore under major head '2054' – Treasury and Accounts Administration – Directorate of Accounts and Treasuries – Director of Treasuries – Modernisation was due to 'Khajane – Package II being in its initial stage of implementation.
- Unspent provision of ₹ 849.97 crore under major head '2070 – Other Administrative Services – Other expenditure – Filling up of vacant posts – Other Allowances was due to making provision for salary for the filled up posts through supplementary provision under respective functional major heads. There has been persistent savings under the head for the past seven years.
- Unspent provision of ₹ 138.64 crore under major head '2071' –Pensions and Other Retirement Benefits –Civil–Commutated value of Pensions–Other payments – Payments to Karnataka Pensioners – Pension and Retirement Benefits was due to less retirements than anticipated.

- Unspent provision of ₹ 91.76 crore under the major head '2701'- Pension and Other Retirement Benefits – Civil – Gratuities – Other Gratuities – Karnataka – DCRG under Revised Pension Rules – Pension and Retirement Benefits was due to less retirements than anticipated.
- Unspent provision of ₹ 152.34 crore under the major head '2071'- Pension and Other Retirement Benefits – Civil – Family Pensions – Other Family Pension – Karnataka – Pension and Retirement Benefits was due to less retirements than anticipated.
- Unspent provision of ₹ 30.39 crore under the major head '2071'- Pension and Other Retirement Benefits – Civil – Pensions of Employees of Local Bodies – Pension to Municipal Employees – Superannuation and Retirement Benefits – Pension and Retirement Benefits was due to less retirements than anticipated.
- Unspent provision of ₹ 100.00 crore under the major head '3475' – Other General Economic Services – Transfer to Reserve Funds and Deposit Accounts – Fiscal Management Fund – Contributions was on account of providing a sum of ₹150.00 crore for transfer to the fund and issuing a modified order on the same day to transfer only ₹50.00 crore citing availability of sufficient balances under fiscal management fund.

Department of Personal and Administrative Reforms

- Unspent provision of ₹ 27.78 crore under the major head '3451' – Secretariat Economic Services – Other expenditure – XIII FCG – Incentives for issuing Unique Identification (UIDs) – Grants-in-Aid was due to low response from the beneficiaries of UID and closure of registration process.

Infrastructure Development

- Unspent provision of ₹ 65.24 crore under the major head '5465' – Investments in General Financial Institutions – Investments in Public Sector and Other Undertakings, Banks etc., - Investments in Infrastructure – Development of Minor Airports – Investments – Special Development Plan was due to non receipt of Utilization Certificate for earlier release and non receipt of proposals for release of funds within the period.
- Unspent provision of ₹ 75.70 crore under the major head '5465' – Investment in General Financial and Trading Institutions – Investments in General Financial Institutions – Investments in Public Sector and Other Undertakings, Banks etc., - Investments in Rail Infrastructure Development Corporation (Karnataka) Limited (K – RIDE) – Rail link to New Airport – Investments was due to diversion of the fund for Hassan Sakleshpur Rail Link Project.
- Unspent provision of ₹ 40.00 crore under the major head '5465' – Investment in General Financial and Trading Institutions – Investments in General Financial Institutions – Investments in Public Sector and Other Undertakings, Banks etc., - Investments in Rail Infrastructure Development Corporation (Karnataka) Limited (K – RIDE) – Cost sharing

for New Projects – Special Development Plan was due to non-receipt of proposal for release of funds from Railways.

- Unspent provision of ₹ 18.10 crore under the major head ‘5465’ – Investment in General Financial and Trading Institutions – Investments in General Financial Institutions – Investments in Public Sector and Other Undertakings, Banks etc., - Investments in Rail Infrastructure Development Corporation (Karnataka) Limited (K – RIDE) – Cost sharing – Bidar – Gulbarga New Railway Line – SDP – Special Development Plan was due to non-receipt of proposal for release of funds from Railways.

Forest, Ecology and Environment

- Unspent provision of ₹ 211.41 crore under the major head ‘2406’ – Forestry and Wild Life – Forestry – Transfer to Reserve Funds/Deposit Account – Transfer of Forest Development Tax to Karnataka Forest Development Fund – Inter Account Transfers was on account of more provision of fund than tax collected and transferred to the fund head.

Social Welfare

- Unspent provision of ₹ 28.67 crore under the major head ‘2225’ – Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes – Welfare of Scheduled Tribes – Assistance to Block Panchayats / Intermediate Level Panchayats – Taluk Panchayats – Post Matric Scholarships to Scheduled Tribes was due to non implementation of scheme in full.

Women and Child Development

- Unspent provision of ₹ 60.34 crore under the major head ‘2235’ – Social Security and Welfare – Welfare of Handicapped – Monthly Financial Assistance to the Physically Handicapped and the Disabled Poor – Financial Assistance /Relief was due to cancellation of pension to ineligible pensioners.

Education

- Unspent provision of ₹ 25 crore under the major head ‘2202’- General Education – Secondary Education – Government Secondary Schools – High Schools (District Sector Schemes) was due to provision of funds both under State and Districts Sectors (PRIs).
- Unspent provision of ₹ 40.04 crore under the major head ‘2202’ – General Education – Other expenditure – GIA Education – Grants-in-Aid was due to delay in receipt of proposals for grant and drawal of salary grant for private primary and secondary schools, newly included under GIA schools under District Sectors.
- Unspent provision of ₹ 10.00 crore under the major head ‘4202’ – Capital outlay on Education, Sports, Art and Culture – General Education – University and Higher Education – First Grade College Buildings – NABARD works was due to postponement of ongoing building construction works.

Commerce and Industries

- Unspent provision of ₹ 36.44 crore under the major head '2851' – Village and Small Industries – Sericulture Industries – State Sericulture Industries – New Initiative for Sericulture Development – Other expenses was due to lack of beneficiaries under the programme.
- Unspent provision of ₹ 25.00 crore under the major head '6852' – Loans for Iron and Steel Industries – Manufacture – Other Loans – Loans against VAT payment to Industrial units – Loans was due to less number of claims received.

Urban Development

- Unspent provision of ₹ 50.00 crore under the major head '2217' – Urban Development – General – Assistance to Local Bodies, Corporations, Urban Development Authorities, Town Improvement Board, etc., Bangalore Metro Rail Corporation Limited – Reimbursement of Taxes and Duties to BMRCL – Other Expenses was due to making provision under the capital head – Capital Outlay on Urban Development – Other Urban Development Schemes – Other Expenditure – Equity in BMRCL.
- Unspent provision of ₹ 100.00 crore under the major head '3604' – Compensation and Assignments to Local Bodies and Panchayat Raj Institutions – Assistance to Municipal Corporations – Rajiv Awas Yojana was due to non-implementation of the project in full.
- Unspent provision of ₹ 132.28 crore under the major head '4217' – Capital Outlay on Urban Development – Other Urban Development Schemes – Other Expenditure – Equity in BMRCL – Investments was due to less requirement of equity in BMRCL during the year.

Public Works

- Unspent provision of ₹ 125.00 crore under major head '5054' – Capital Outlay on Roads and Bridges – State Highways – Roads Works – Other Road Formation – Roads was due to non-achievement of required progress in works.
- Unspent provision of ₹ 100.00 crore under major head '5054' – Capital Outlay on Roads and Bridges – State Highways – Road Works – Core Road Network Development Programme – Strengthening – Roads was due to non-commencement of works.
- Unspent provision of ₹ 350.00 crore under major head '5054' – Capital Outlay on Roads and Bridges – State Highways – Road Works – Karnataka State Highway Improvement Project (KSHIP) – EAP was due to non-achievement of expected progress in KSHIP- II works and World Bank Schemes.

Water Resources

- Unspent provision of ₹ 503.00 crore under major head '4701' – Capital outlay on Medium Irrigation – Karnataka Neeravari Nigam Limited –

Other expenditure – Accelerated Irrigation Benefit Programme (AIBP) was due to lack of expected progress in works.

- Unspent provision of ₹ 14.51 crore under major head ‘4701’ – Capital outlay on Medium Irrigation – General – Investments in Public Sector and Other Undertakings – Krishna Bhagya Jala Nigam Limited – Capital expenses was due to lack of expected progress in works.
- Unspent provision of ₹ 52.72 crore under major head ‘4711’ – Capital outlay on Flood Control Project – Flood Control – Civil Works – Civil for Flood Control – River Management and Flood Control – Major Works was due to non-receipt of technical approval for the work estimate.

Health and Family Welfare Services

- Unspent provision of ₹ 16.86 crore under major head ‘2210’ –Medical and Public Health –Urban Health Services –Allopathy –Hospitals and Dispensaries – Hospitals Attached to Teaching Institutions – Psychiatric Clinics, Hospitals for ED and TB Sanatorium Major and District Hospitals and Blood Banks – Salaries was due to vacant posts.
- Unspent provision of ₹ 18.79 crore under major head ‘4210’ –Capital outlay on Medical and Public Health –Urban Health Services –Hospitals and Dispensaries – Buildings – Machinery and Equipment was due to non-purchase of equipment owing to non-completion of hospital building.

Labour

- There was a mis-match between the budget provision and the requirement of funds for disbursement in respect of beneficiaries covered under the scheme - Rashtriya Swasthya Bhima Yojana, resulting in unspent provision of ₹31.85 crore under major head ‘2230’ – Labour and Employment – Labour – Other Expenditure.

Kannada and Culture

- Unspent provision of ₹ 25.00 crore under major head ‘2205’ – Art and Culture – Archaeology – XII Finance Commission Grants for Heritage Protection – Other expenses due to non-release of grants in time by Central Government.

Law

- Unspent provision of ₹ 37.44 crore under the major head ‘2014’ – Administration of Justice – Other expenditure – EFC Grants for up gradation of Judicial Administration – XIII FCG – Improvement of Delivery of Justice – Other expenses was due to non-commencement of morning and evening courts and recruitment process of Court Managers being incomplete.

Debt Servicing

- Unspent provision of ₹ 777.49 crore under the major head ‘2049’ – Interest Payments – Interest on Internal Debt – Interest on Market Loans – Interest on Current Loans – New Market Loans of 2010-11 – Debt Servicing was due to erroneous provision of funds.

- Unspent provision of ₹ 202.57 crore under the major head '2049' – Interest Payments – Interest on Small Savings, Provident Funds – General Provident Fund – Debt Servicing due to flow of funds being less than anticipated.
- Unspent provision of funds of ₹ 1,000.00 crore and ₹ 350.00 crore under the major head '6003' – Internal Debt of the State Government was due to non-availing of Ways and Means Advances and Overdraft from the Reserve Bank of India (RBI) during the year. There has been persistent saving under the head for the past seven years. It was stated by the Finance Department (November 2011) that Ways and Means Advance and Over Draft facility were available for overcoming the temporary mismatch, if any, in managing finances in the course of the year. The provisions under these heads were made taking into consideration the cash balance position. Government could not anticipate the number of days on which Government needed Ways and Means Advance or Overdraft. Considering the overall size of the budget, Government needed to provide for any eventuality that might arise during the course of the year. There was no need to make a token provision as the repayment of Ways and Means or Overdraft did not attract New Service Criteria as per Order FD 10 BUD 84, dated 16th October 1987. A matching amount was also provided under receipt side thus making it a budget neutral provision. The reply of State Government is not acceptable for the reason that the provision of fund should be made as accurately as possible and that in the present case, the State Government had not availed of any Ways and Means Advances/Overdraft facility from RBI for the past four years. The contention that it did not attract the criteria of new service was not relevant. The position of cash balance at the end of each day including the transactions under WMA/OD is intimated to the Government by the RBI. If there were cases of availing of Ways and Means Advance/Overdraft on any particular day/days, the same could be brought before the Legislature through supplementary grant for their approval to bring the transactions to the relevant heads of account.

2.3.2 Persistent unspent provision

In three grants there was persistent unspent provision of more than ₹ 100 crore in each case during the last five years, as detailed in **Table 2.3**.

Table 2.3: Persistent unspent provision

(₹ in crore)

Sl. No	Major head	Year				
		2007-08	2008-09	2009-10	2010-11	2011-12
1	03 –Finance (Revenue-Voted)	228.53	854.49	1,731.17	2,925.79	260.68
	2070-800-11					
	Filling up of vacant posts (District Sector)	110.73	450.00	400.00	850.00	849.97
2	19 –Urban development (Revenue-Voted)	1,194.95	1,608.50	1,248.07	522.86	631.46
	2217-05-191-1					
	Bangalore Metropolitan Regional Development Authority	319.24	503.45	577.40	245.00	258.00
3	29 –Debt servicing (Capital-Charged)	1,320.70	1,379.28	1,374.74	1,005.76	1,142.23
	6003-110-1					
	Clean and Secured Ways and Means Advances	921.87	1,000.00	1,000.00	1,000.00	1,000.00
	6003-110-2					
	Overdraft with Reserve Bank of India	350.00	350.00	350.00	350.00	350.00

Source: Appropriation Accounts.

2.3.3 Excess expenditure

In four cases, expenditure in excess of ₹ 25 crore of the budget provision was incurred under four major heads of account pertaining to four grants (**Appendix 2.2**). With regard to excess expenditure under the grant-Revenue, it was stated by the FD (August 2012) that the receipt from National Disaster Response Fund (₹ 70.23 crore) was during the last week of March 2012 and by that time third installment of supplementary provision for the year had already been placed before the Legislature. Provision for transfer of the amount from GOI was made in the first supplementary installment of Budget 2012-13. It may be pointed out that the adjustment relating to the SDRF was carried out in the accounts of 2011-12 itself, even though provision did not exist for such transfer, in order to exhibit the transactions relating to the fund head through book adjustment for the year correctly.

2.3.4 Persistent excess expenditure

Persistent excess expenditure over provision was incurred under two major heads of account pertaining to two grants during the last five years (**Appendix 2.3**).

2.3.5 Expenditure without provision

An expenditure of ₹ 205.74 crore was incurred in 29 cases under 13 grants without provision (**Appendix 2.4**).

Excess expenditure requiring regularisation

As per Article 205 of the Constitution of India, it is mandatory for a State Government to get the excess over a grant/appropriation regularized by the State Legislature. Although no time limit for regularization of expenditure has been prescribed under the Article, the regularization of excess expenditure is done after the completion of discussion of the Appropriation Accounts by the Public Accounts Committee.

2.3.6 Excess over provision relating to previous years

It is heartening to note that during the year there were no cases of grants/appropriations where expenditure exceeded the provision and required regularization. This was on account of sufficient provision being made under the relevant heads of accounts to take care of the expenditure required for the year. However, the excess expenditure aggregating ₹ 4,793.28 crore for the years 1989-90 to 2010-11 was yet to be regularized (**Appendix 2.5**).

2.3.7 New service/New instrument of service

Article 205 of the Constitution provides that expenditure on a 'New Service' not contemplated in the Annual Financial Statement (Budget) can be incurred only after its specific authorization by the Legislature. The Government has issued orders based on recommendations of Public Accounts Committee, laying down various criteria for determining items of 'New Service/New Instrument of Service'. These, *inter alia*, stipulate that the expenditure over the grant/appropriation exceeding twice the provision or ₹ one crore, whichever is more, should be treated as an item of 'New Service'.

In 43 cases involving 15 grants, expenditure totaling ₹ 430.13 crore, which should have been treated as 'New Service/New Instrument of Service, was incurred without the approval of the Legislature (**Appendix 2.6**).

Supplementary Provision

Supplementary provision (₹ 12,007.22 crore) made during the year constituted 14 *per cent* of the original provision (₹ 87,737.44 crore) which was nine *per cent* less than the previous year.

2.3.8 Unnecessary supplementary provision

Supplementary provision of ₹ 165.79 crore made under 23 detailed / object heads relating to seven out of 16 test checked grants proved unnecessary (**Appendix 2.7**).

2.3.9 Excessive supplementary provision

Supplementary grant of ₹ 4,766.66 crore obtained under 47 detailed heads relating to 13 out of 16 test checked grants proved excessive resulting in unutilised provision of ₹ 1,615.27 crore (**Appendix 2.8**).

2.3.10 Inadequate supplementary provision

Supplementary provision of ₹ 481.00 crore obtained under four detailed heads relating to two out of 16 test checked grants proved inadequate, leaving uncovered excess expenditure of ₹ 387.55 crore (**Appendix 2.9**).

Re-appropriation of funds

A grant or appropriation for disbursements is distributed by sub-head / detailed head / object head under which it is accounted for. The competent executive authority may approve re-appropriation of funds between the primary units of appropriation within a grant or appropriation before the close of the financial year to which such grant or appropriation relates. Re-appropriation of funds should be made only when it is known or anticipated that the appropriation for the unit from which funds are to be transferred will not be utilised in full or will result in unspent provision in the unit of appropriation.

2.3.11 Injudicious re-appropriation of funds

In 60 cases re-appropriation of funds was made injudiciously resulting either in un-utilised provision or excess over provision of more than ₹ 25 lakh in each case (**Appendix 2.10**), as detailed below:

- In three cases additional funds of ₹ 7.52 crore, provided through re-appropriation, proved insufficient as the final expenditure exceeded the provision by ₹ seven crore.
- In 43 cases the un-utilised provision was not properly assessed as, even after the withdrawal of ₹ 1,131.13 crore through re-appropriation, ₹ 1,150.21 crore remained un-utilised.
- In 14 cases additional funds of ₹ 830.91 crore, provided by re-appropriation, resulted in overall un-utilised provision of ₹ 421.95 crore and the re-appropriation made was unnecessary.

2.3.12 Defective re-appropriation

During 2011-12 476 re-appropriation orders for an amount of ₹ 5,277.32 crore were issued of which 35 re-appropriation orders for ₹ 204.66 crore were not acted upon as they violated the provisions of Article 309, 312 and 315(a) of the Karnataka Financial Code which stipulated the conditions under which the re-appropriation cannot be done (**Appendix 2.11**).

Surrender of unspent provision

Spending departments are required to surrender the grants/appropriations or a portion thereof to the Finance Department as and when the unspent provision is anticipated.

2.3.13 Unspent provision not surrendered

In the case of nine grants/appropriations the entire unspent provision, aggregating ₹ 1,815.65 crore, was not surrendered (**Appendix 2.12**).

Further, in the case of 28 grants/appropriations there was only partial surrender and around 71 *per cent* (₹ 7,720.41 crore) of the total unspent provision (₹ 10,857.38 crore) was not surrendered (**Appendix 2.13**). Besides, in 25 grants where surrender of funds was in excess of ₹ five crore, ₹ 4,830.68 crore were surrendered on the last two working days of the financial year, indicating inadequate financial control (**Appendix 2.14**).

2.3.14 Substantial surrenders

Out of the total provision of ₹ 2,560.26 crore in 22 cases, ₹ 2,442.57 crore (95 *per cent*) were surrendered, which included *per cent* surrenders in six cases (₹ 476.69 crore). Illustrative cases are given in **Appendix 2.15**. These surrenders were stated to be due to non-receipt or late receipt of sanctions from Government, non-receipt of grants, non-receipt of claims/bills, non-finalization of contracts, economy measures etc.

2.4 Contingency Fund

The Contingency Fund of the State has been established under the Contingency Fund Act, 1957 in terms of provisions of Articles 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 character, postponement of which till its authorization by the Legislature would be undesirable. The fund is in the nature of an imprest and its corpus is ₹ 80 crore. Funds drawn out of Contingency Fund are subsequently recouped to the fund through supplementary provisions.

During 2011-12 15 sanctions aggregating ₹ 46.61 crore were issued. A review of the operations of the Contingency Fund disclosed the following:

- ❖ Out of ₹ 4.50 crore sanctioned under '2515' only ₹ 1.33 crore was utilised (30 *per cent*).
- ❖ Out of ₹ 3.00 crore sanctioned under '2015' only ₹ 2.86 crore was utilised (95 *per cent*).
- ❖ In one case it was observed that the money sanctioned for withdrawal from the fund (₹ 0.51 crore) during January 2012 was not brought before the

Legislature for regularization during March 2012 when the third installment of supplementary demand was placed. This was in contravention of the rules governing the withdrawal from the Contingency Fund.

- ❖ A sum of ₹ five crore was included in the second supplementary demand towards investment in M/s MPM Limited as share capital investment of the Government. Before the demands for grants could be passed, in view of urgency, the amount was released by the Finance Department through Contingency Fund. However, the amount stood accounted against Consolidated Fund.

2.5 Errors in budgeting

Errors in budgeting of ₹ 805.16 crore due to provision made under Revenue Charged instead of Revenue Voted, Revenue Voted of plan instead of non-plan, Revenue Voted instead of Revenue Charged, Loan account instead of Revenue Voted, provision/ expenditure on modernization under minor head subsidy (₹ 20.00 crore) provision and expenditure made under different grants (₹ 777.78 crore), unnecessary provision made on Loans and provision made on Loans and outstanding were noticed (**Appendix 2.16**).

2.5.1 Errors in Classification

Expenditures are classified according to the function, programme and their economic nature, using a fifteen digit numerical code with the last three digits of classification at the object head level, assuming importance with regard to the nature of the expenditure. In respect of certain transactions (Illustrative cases listed in the **Table 2.4** below), it was seen that there were overlapping of provision /expenditure indicating thereby the budget was not transparent to that extent. Action is required to be initiated to avoid overlapping of expenses, by opening separate object heads to record provision/expenditure.

Table 2.4: Details of errors in classification

(₹ in crore)		
Item of Expenditure	Amount involved	Remarks
Pension and Other Retirement Benefits	6,526.20	Expenditure shown in accounts includes pension under Social Security Scheme, Grants released to ULBs for payment of pension (₹ 1,090 crore), which are not in the nature of pensions paid to government servants.
Consolidated Salaries	646.75	This object head is intended for recording the salary expenditure of constitutional dignitaries, but includes releases made to ULBs for payment of salary (₹ 629 crore).
Maintenance	1,232.78	Includes releases made to ULBs for maintenance (₹ 421 crore). This expenditure out of the Consolidated Fund was not for maintenance but was only a release to ULBs for maintenance.
Subsidy	7,389.72	Includes releases made to ULBs for payment of subsidy (₹ 94 crore).

2.6 Outcome of review of selected grants

A review of budgetary procedures followed and expenditure controls exercised in respect of three selected grants showed the following:

2.6.1 Grant 10 – Social Welfare Department

Scrutiny of the budgetary procedures employed/ followed and the expenditure controls exercised during the years 2009-12 in respect of the Social Welfare Department, responsible for the implementation of several multi-faceted and multi-pronged programmes for welfare of Scheduled Castes (SCs), Scheduled Tribes (STs), Backward Classes (BCs), minorities, disabled and senior citizens, and thereby placing them on the path of mainstream development, showed the following.

Table 2.5: Budget and Expenditure

Year	Section	Budget Provision	Expenditure	(₹ in crore)
				Unutilised provision and its percentage
2009-10	Revenue - Original	1983.36	1703.10	348.63 (17)
	- Supplementary	68.37		
	Capital – Original /P	244.77		
	- Supplementary /P	20.71		
2010-11	Revenue - Original	2391.73	2504.40	117.00 (4)
	- Supplementary	229.67		
	Capital – Original/P	279.18		
2011-12	Revenue - Original	2943.36	2944.72	166.79 (5)
	- Supplementary	168.15		
	Capital – Original /P	320.95		
			278.82	42.13 (13)

The un-utilised provision under Revenue Section has come down from 17 per cent in 2009-10 to 5 per cent during 2011-12, while it went up from 10 per cent to 13 per cent under Capital Section during the same period. As reported in Appropriation Accounts for the years 2009-12, the reasons for non- utilization of provision were either not forthcoming or were rather general.

The provision under Revenue Section comprises plan and non plan components. The non-plan components mainly comprise the salary and administrative expenditure of the department. The plan component comprises expenditure on implementation of various programmes.

The breakup of provision/ expenditure against plan / non plan during the years 2009-12 are given below.

Revenue

Year	HOA 2225/2250					
	Budget (including supplementary)		Expenditure		Deviation percentage	
	Non Plan	Plan	Non Plan	Plan	Non Plan	Plan
2009-10	477.66	1574.07	476.64	1226.46	- 0.21	- 22.08
2010-11	516.11	2105.29	514.83	1989.57	- 0.25	- 5.50
2011-12	609.16	2502.35	606.13	2338.59	- 0.50	- 6.54

The percentage of deviation (unutilized provision) has come down considerably from 22 in 2009-10 to 7 in 2011-12.

Capital

(₹ in crore)

Year	HOA 4225		
	Budget	Expenditure	Deviation in percentage
	Plan	Plan	Plan
2009-10	265.48	237.94	- 10.37
2010-11	279.18	211.50	- 24.24
2011-12	320.95	278.82	- 13.13

The percentage deviation (unutilized provision) varied between 10 and 24 *per cent* during 2009-12.

2.6.1.1 The Budget Process

The process of budget compilation starts every year during October with the Finance Department issuing instructions to all the Estimating Officers to route their requirement of funds, duly scrutinized by the Internal Financial Advisors. The IFAs are required to scrutinize the salary expenditure pertaining to the departments which get reflected in Appendix B, a document providing details of estimates of expenditure on pay of officers, staff under state sector, meant for the purpose. In respect of expenditure other than salary the Secretariat in the department is required to process the estimates. As could be seen from the table above there had been no appreciable deviation between the estimates and the actual expenditure in respect of non-plan component, indicating thereby that the budget preparation process was in conformity with the guidelines issued for its preparation.

The Estimates of Plan expenditure is prepared in consultation with Planning Department. As could be seen from the table there had been considerable variation between the actuals and the estimates for the year. The deviation was the least during 2010-11. Several Plan scheme expenditure under State, Central and Centrally Sponsored Schemes, implemented by the department/through agencies, have suffered on account of non/partial utilization of funds. The illustrative cases of Heads of Account affected during 2011-12 are given below. No specific reasons were forthcoming for non utilization of provision. It was also observed that saving was a regular feature under certain heads.

Table 2.6: Unutilized Provision

(₹ in crore)

Sl. No.	Head of Account and nomenclature of the Scheme	Budget provision	Expenditure	Unutilised provision (<i>per cent</i>)	Purpose for which the amount is required to be utilised
1	2225-03-277-2-48 Construction of community hall/ Shadi Mahal for minorities	19.70	13.84	5.86 (30)	Assisting and promoting the social and cultural activities and performance of marriages of minorities.
2	2225-03-800-0-24 Development of Christian community	50.00	27.34	22.66 (45)	To improve the socio-economic status of religious minorities of the State.
3	2225-03-190-0-03/ Assistance to artisans and occupational groups – Backward Classes Corporation	50.00	40.00	10.00 (20)	Assistance to traditional artisans of BC engaged in traditional occupations.
4	2225-03-800-0-19 Model Hostels	20.00	12.28	7.72 (39)	Hostels, pre-metric and post-metric hostel buildings for students.
5	2225-02-794-0-01 Administration	162.00	97.41	64.59 (40)	Programme towards Tribal Sub-Plan etc.

6	2225-03-277-2-67 Multi Sectoral Development Plan for Minorities	25.00	20.00	5.00 (20)	Financial assistance to eligible students belonging to religious minorities who seek admission to the skill development courses such as Nurse Training, Commercial Pilot Training, Air Hostess and advanced computer training.
7	2225-01-793-0-00 Special Central assistance for Special Component Plan	35.00	19.20	15.80 (45)	Self employment skill development training schemes like Nursing Course, Para Medical Course, NIFT, SIFT, AT & DC and Other Trainings.

Source: Appropriation Accounts.

According to the instructions of FD for preparation of Budget Estimates the CEOs act as the estimating officers in respect of Panchayat Raj Institutions who are required to send the detailed estimates to the concerned head in the administrative department for scrutiny. No records were made available for scrutiny in audit to ascertain whether the instructions of FD were adhered to.

2.6.1.2 Supplementary Provision.

The supplementary provision, obtained during the year (₹ 168.15 crore) under Revenue Section, constituted around 6 per cent of the original provision. Some of the cases where the procedure to be followed in connection with demands for supplementary grants were not followed, are detailed below:

- Provision of ₹ 23.28 crore obtained towards meeting maintenance of hostels in the Backward Classes Department could have been anticipated and provision obtained at the time of placing budget estimates for the year 2011-12 as the department was aware of the enhanced student strength, additional hostels sanctioned in 5 district of Gulbarga division and enhanced food charges from 2009-11 itself.
- Provision of ₹ 62.00 crore obtained towards TSP in anticipation of Special Central Assistance from Government of India proved un-necessary as the expenditure under the head was less than the original provision (₹ 100.00 crore).
- Provision of ₹ 29.38 crore obtained towards post-metric scholarship to Scheduled Tribes proved excessive as ₹ 26.91 crore were re-appropriated to Special Component Plan Pooled Fund, due to non implementation of the scheme in full

2.6.1.3 Persistent Non-utilisation of provision

As per Para 110 of the Karnataka Budget Manual due notice was to be taken of the past performance, the stage of formulation/ implementation of various schemes, the institutional capacity of the implementing agencies to implement the scheme as scheduled, the constraints on spending by the spending agencies and, most importantly, the quantum of government assistance lying with the recipients un-utilised/ unaccounted for etc., with a view to minimizing the scope for funds available for surrender at a later stage. However, provisions had remained un-utilised under the following programmes during 2009-12; no specific reasons for the same were forthcoming.

Table 2.7: Persistent Savings

Sl. No.	Head of Account/ nomenclature	Unspent provision		
		2009-10	2010-11	2011-12
1	2225-01-102-09 Dr. Ambedkar Birthday Celebration	0.38	0.39	0.39
2	2225-01-800-13 Compensation to Scheduled Castes /Scheduled Tribes victims	1.13	1.05	2.00
3	2225-03-190-03 Assistance to Artisans and Occupational groups – BC corporation	35.00	10.00	10.00
4	2225-03-277-2 Welfare of Other Backward Classes	14.65	14.59	34.64
5	2225-03-277-57 Stipend to Backward Classes Nursing Students	0.47	0.44	1.16
6	2225-03-800-03 Community Irrigation/ Individual Irrigation scheme (Backward Classes)	15.00	10.00	10.00
7	4225-01-190-01 Dr. B.R. Ambedkar Development Corporation Limited	4.90	4.90	5.39
8	4225-02-190-1 Karnataka ST Development Corporation	1.59	1.93	1.93

2.6.2 Public Works, Minor Irrigation and Forest

2.6.2.1 Rush of expenditure for the year 2011-12

In terms of existing principles governing financial propriety, rush of disbursements, particularly in the closing month of the financial year, is to be avoided. Contrary to this, disbursements of more than ₹ 10 crore and 50 per cent of the total annual disbursements were made during January – March 2012. Fifty to 100 per cent of total annual disbursements were made during the month of March under various object heads.. Test check of the records in the Offices of Chief Engineer, Communication and Building (South), Bangalore, Chief Engineer, Communication and Building (North), Dharwad, Chief Engineer, Minor Irrigation (South), Bangalore and Chief Engineer, Minor Irrigation (North), Bijapur showed cases of rush of expenditure as detailed in **Appendix 2.17**.

2.6.2.2 Impact of savings on various schemes/projects - Shortfall in financial progress under XIII Finance Commission grants:

A scrutiny of the Grant and Outlay and Physical and Financial Progress Reports of works during 2012, in the office of the Chief Engineer, Minor Irrigation (North Division), Bijapur showed that there were huge savings under the heads of accounts XIII Finance Commission Grants, XIII Finance Commission Grants (Special Component Plan) and XIII Finance Commission Grants – Tribal Sub-Plan as detailed **Table 2.8**.

Table 2.8: Savings under XIII FC Grants

Sl. No	Head of account	Budget Provision	Total Expenditure During the year	Unspent Provision/ Savings	
				Unspent Provision/ Savings	Percentage
1.	4702-00-101-1-12-059-Restoration of Tank Water Bodies-Other Expenses	37.38	7.63	29.75	80
2.	4702-00-101-1-12-422-Restoration of Tank Water Bodies-Special Component Plan	3.67	-	3.67	100
3.	4702-00-101-1-12-423 – Restoration of Tank Water Bodies – Tribal Area Sub Plan	1.71	-	1.71	100
	Total	42.76	7.63	35.13	82

The XIII Finance Commission was constituted by Government of India on 13th November 2007 to make recommendations for various sectors for implementation during 2011-15. In Chapter 12 Grant-in-aid of its report with regard to Karnataka under the caption “Restoration of tanks and Traditional Water Bodies” (Para 12.196) the Commission has mentioned that “State Government has sought assistance to rehabilitate more than 30,000 minor irrigation tanks which are not covered under the existing rehabilitation projects. This initiative was to support irrigation and drinking water while also improving ground water levels”. An amount of ₹ 350 crore was earmarked for this purpose.

As per the approved Action Plan for improvement and rehabilitation of existing minor irrigation tanks/schemes under the XIII FC grants the following proposals were prepared for improvement/restoration of Minor Irrigation Scheme.

- Improvement of bund, waste weir and slick.
- Desilting of tank bed.
- Improvements to distribution networks.
- Improvement of feeder channel, catchment area treatment etc.

These improvement works had been proposed in respect of minor irrigation tanks having designed atchkat of more than 40 hectares. The proposal related to 631 works in 30 districts covering 87,887.25 hectares in atchkat at an estimated cost of ₹ 349.99 crore. As seen from the table above, out of total Budget provision of ₹ 42.76 crore under this head of account only an expenditure of ₹ 7.63 crore (18 *per cent*) had been incurred, resulting in huge savings of ₹ 35.13 crore constituting 82 *per cent*. Thus, the poor financial progress had resulted in shortfall in achievements of the objectives of the scheme due to non-utilization of the funds.

The department attributed (July 2012) the savings mainly due to delay in preparation of estimates and clearance/approval by the competent authority. It was further stated that as the programme was to be implemented in a four year period from 2011-12 to 2014-15 the allocated amount would be fully utilized in the remaining three years. The reply is not acceptable as Finance Commission’s recommendations for release of grants over a period of five years from 2010-11 to 2014-15 and the yearly allocations for this scheme during 2011-12 to 2014-15 were within the knowledge of the department/ government. Thus, the department had sufficient time at its disposal to complete the preliminary activities before the government gave the approval in September 2011. Failure to do so led to poor financial progress during 2011-12 and the consequent burden on the government to increase the budget provision in the successive years to meet the time frame fixed for completion of the scheme by 2014-15.

2.6.2.3 Other schemes affected by unspent provisions

A scrutiny of the physical and financial progress reports of the schemes in the departments/ Appropriation Accounts for the year 2011-12 showed that the Government ended with large unspent provisions, indicative of poor budgetary control in implementing the schemes/activities of the Government. Schemes/object heads under which large unspent provisions occurred are shown below. It would be seen that the percentage of unspent provisions ranged between 10 and 100 *per cent*.

Table 2.9: Unspent provision under other schemes

(₹ in crore)

Sl. No	Head of account	Total Provision	Actual Disbursement	Unspent Provision	Reasons advanced by the department.
Chief Engineer, Communications and Buildings, (North), Dharwad					
1.	4059-80-051-0-42-386 (Plan) Construction of District Office Building-Construction	44.45	36.62	7.83 (18)	Approval for the estimate for the work of construction of District Office Building at Bellary was awaited from the Government; the site for the building (Mini Vidhana Soudha) at Kudligi was yet to be finalized by the Revenue Department and buildings at Hagarigbommanahalli and Lingasguru (Construction of Mini Vidhana Soudha) had been withdrawn.
2.	5054-03-337-0-13-172 (Plan) Renewal of State Highways-Road	205.00	169.84	35.16 (17)	Due to shortfall in the release of funds by the government and pending bills at the end of the financial year.
Chief Engineer, Communication and Buildings (South), Bangalore					
3.	3054-04-337-1-09-172 Chief Ministers Grameena Rasthe Yojane	185.50	166.90	18.60 (10)	No reasons furnished
Chief Engineer, Minor Irrigation (South), Bangalore.					
4.	4711-01-103-2-02-139 River Management and Flood Control – Major works	59.46	6.74	52.72 (89)	Due to delay in approval of schemes and administrative approval / technical sanctions. As a result the works could not be taken up in time.
5.	4702-00-101—1-13-132 Repairs and Rejuvenation of Tanks MI –Capital expenses	280.00	94.52	185.48 (66)	
Forest and Wild Life					
6.	2406-01-101-2-26-139 Development and preservation of Devara Kadu – Major works	27.20	19.45	7.75 (28)	No reasons furnished
7.	2406-01-102-2-18-139 Road side plantation (State Sector)-Major works	11.05	6.41	4.64 (42)	No reasons furnished
8.	2406-01-800-0-05-422 Special Component Plan for SCs - SCP	13.27	6.45	6.82 (51)	No reasons furnished
9.	2406-02-110-0-20-139 Nilgiris Biosphere Reserve –Major works	2.00	-	2.00 (100)	No reasons furnished

Note: Figures in brackets denote percentage.

The non-achievement of the targeted financial progress had resulted in huge savings, affecting the implementation of the schemes.

2.6.3 Thematic Review Report on Expenditure and Budgetary Control of Tourism Department.

Karnataka, with its great heritage and cultural background, has vast potential for sustainable development of tourism industry. The Directorate of tourism administers the tourism-related activities along with promotional and developmental activities. It is supported by two other government undertakings viz., Karnataka State Tourism Development Corporation Limited (KSTDC) and Jungle Lodges and Resorts Limited (JLRL). The department has brought out a series of tourism policies with a package of incentives, concessions and subsidies for development of tourist infrastructure in the State.

Audit Objectives

Audit Objectives were to:

- Assess/Examine the Quality/Efficiency in the budgetary procedures and practices.
- Examine the efficiency and effectiveness of the resources management in the department.
- Examine the efficiency and effectiveness of the expenditure control systems and safeguard against unauthorized expenditure.
- Examine the efficiency and adequacy in maintenance of departmental accounts.

2.6.3.1 Scope of Audit and Methodology

Records maintained at the Department of Tourism and two zones i.e, Bangalore and Gulbarga out of four zones and five districts i.e., Chitradurga, Tumkur and Kolar of Bangalore Zone and Bidar and Raichur of Gulbarga Zone i.e., out of 12 districts in the selected zones, for the period from 2009-10 to 2011-12 were test-checked during May to August 2012. The Audit Process included discussions with officials of the Department, Office of the Deputy Commissioners of the five selected districts, collection of data through examination of records and their analysis and joint inspection.

2.6.3.2 Budget Monitoring and Control - Formulation of Budget.

Para 88 of Karnataka Budget Manual (KBM) provides that the Heads of Department should prepare the estimates separately for each head of account on the basis of the estimates from their subordinate officers and forward these to the Finance Department (FD) by the prescribed date. The department sent budget proposals in respect of non-plan expenditure within the due date (18 November) each year. However, the Budget Estimate prepared Scheme-wise under Plan head is based on allotment made to the department every year by Planning and Finance Department. On allocation of funds from the Finance Department, Action Plan for the works undertaken during the year is prepared (April/May) by the department. When additional grants are required, the department submits proposal to the Finance Department, which is provided in the form of supplementary demands, after scrutiny.

The position of budget, expenditure and excess/ unutilized provision under Revenue/Capital during the year 2009-12 are brought out in **Table 2.10**.

Table 2.10: Budget and expenditure

Year	Section	₹ in crore)		
		Budget Provision	Expenditure	Excess (+) Unutilized provision (-)
2009-10	Revenue – Original	87.47	96.07	(+) 2.19
	Supplementary	6.41		
	Capital (P) – Original	100.00	94.73	(-)5.27
	Supplementary	-		
2010-11	Revenue – Original	104.18	103.12	(-) 2.06
	Supplementary	1.00		
	Capital (P) – Original	100.00	105.98	(-) 18.32
	Supplementary	24.30		
2011-12	Revenue – Original	103.67	107.08	(-) 10.67
	Supplementary	14.08		
	Capital (P) – Original	144.60	175.33	(+) 9.90
	Supplementary	20.83		

The excess expenditure under Revenue Section (2009-10) was not covered by sufficient supplementary provision, obtained for the purpose. However, Finance Department included ₹ 2.00 crore in the revised estimates for the year and allowed the department to withdraw the money from the treasury, without the authorization of the Legislature, in violation of provisions contained in the Karnataka Budget Manual, 1975. The expenditure related to the publicity expenses of the department (₹ 2.50 crore). The excess expenditure under capital section (2011-12) were covered by re-appropriation (₹ 23.00 crore) from out of saving under other capital heads of account. The saving under revenue section (2011-12) was due to inclusion of pooled fund upfront for implementation of programmes under SCP/TSP in the budget allotment of the department, allocated to Social Welfare Department for implementation of SCP/TSP Schemes. The departmental expenditure related to subsidy to SC/ST youth for purchase of taxis, conduct of short term courses etc.

The Budget placed before the Legislature (Revenue/Capital Section) is further bifurcated into plan/ non-plan in the detailed demands for grants. The bifurcation of provision/ expenditure during the years 2009-12 under revenue/ capital is given below:

(₹ in crore)

HOA 3452						
Year	Budget (including supplementary)		Expenditure		Deviation in percentage	
	Non-plan	Plan	Non-plan	Plan	Non-plan	Plan
2009-10	2.67	91.21	2.54	93.53	4.90	(+) 2.5
2010-11	2.89	102.29	2.82	100.30	2.40	1.9
2011-12	3.27	114.48	3.04	104.04	7	9.1

There had been no significant unspent provisions under non-plan during 2009-12. In respect of plan allocation, provisions remained unutilized mainly under SCP/TSP.

(₹ in crore)

HOA 5452 (Plan)			
Year	Budget	Expenditure	Deviation in percentage
2009-10	100.00	94.73	5.3
2010-11	124.30	105.98	14.7
2011-12	165.43	175.33	(+) 6

As could be seen from the table, the deviation percentage increased from 5.3 per cent in 2009-10 to 14.7 per cent in 2010-11, while the expenditure exceeded the provision during 2011-12 by 6 per cent.

2.6.3.3 Diversion of funds - from Direction and Administration to implementation of Schemes

The release of fund through the budget differed with those sought by the department under certain heads as indicated below for the year 2010-11, which contributed to diversion of funds.

(₹ in crore)

Head of Account	Budget Estimate of the Department	Releases made by Finance Department
3452-80-001-0-01 (all object heads)	1.62 (included requirement under 059 also)	20.22 (under 059) 0.78 (under other object heads)
3452-80-001-0-01-422 (SCP)	20.11	6.00
3452-80-001-0-01-423 (TSP)	8.13	3.00

As per paragraph 7 of General Instructions issued by the Finance Department for preparation of budget estimates, the provision of funds under the object head 059 – other expenses should be as minimum as possible. However, due to excess release by the Finance Department, the Department included various items of expenditure like purchase of vehicles, computers etc., and payment of agency fee for publicity which did not form part of expenditure under this object head. Apart from the items included in the action plan of 2010-11, the Department diverted ₹ 8.01 crore towards payment to architects (₹ 2.78 crore), payment of haulage charges for running the Golden Chariot train (₹ 3.50 crore – not a departmental expenditure), execution of works (₹ 1.55 crore), procurement of various items in respect of JLRL (₹ 0.18 crore) without any re-appropriation and without the approval of Planning Department/ Finance Department.

2.6.3.4 Parking of Departmental funds with the corporation

The unspent balance of ₹ 0.31 crore (₹ 0.18 crore pertaining to building expenses and ₹ 0.13 crore pertaining to promotion and publicity) were parked with KSTDC account (2010-11), to avoid lapse of budget grants. Subsequently the same was utilized during June 2011.

2.6.3.5 Payment of Haulage charges from other heads of account

“The Golden Chariot”, one of the prestigious projects for promotion of tourism, is run by KSTDC. Since the project has been running under loss, KSTDC requested the Department for financial assistance for payment of haulage charges to Railways. Total haulage charges payable during the year 2009-10 to 2011-12 were ₹ 7.87 crore, ₹ 6.24 crore and ₹ 7.20 crore, respectively. The department met the revenue expenses of the corporation out of the savings under different heads of account, as detailed below.

Year	Head of Account	(₹ in crore)
		Amount
2009-10	3452-80-104-0-01-059	1.00
	Promotion and Publicity	
2011-12	3452-80-104-0-01-059	1.47
	Promotion and Publicity	
	5452-01-800-0-12-211	3.00
	Investments	

Further, Finance Department released ₹ 3.00 crore under the Head of Account 5452-01-800-0-12-211 (Investment) during 2011-12 even though the funds released did not form part of investment activity (share capital investment) of the Government and was for meeting the revenue expenditure of the corporation. The said release was accounted as investment in the corporation in the finance accounts of the Government. Finance Department replied that the release to the Corporation was accounted under capital expenses (Object Head 132) and was covered under Rule 30 of Government Accounting Rules, 1990. The reply is not acceptable as the classification/release of amount were shown as investments (object head 211).

2.6.3.6 Accounting of Revenue Expenditure under capital head of account.

Under the Capital head of account 5452-01-800-0-11-422 and 5452-01-800-0-11-423, ₹ 22.19 crore and ₹ 7.32 crore respectively were allotted during 2011-12 for incurring expenditure relating to SCP/TSP. The allocation/expenditure revealed

that it was for purchase of taxis by the selected beneficiaries, Educational Tours, short term course on hospitality and short term training for SC/ST beneficiaries. The very nature of expenditure revealed that it was current expenditure and not an expenditure on capital account aimed at creation of concrete assets of material character. Thus the change of categorization of expenditure led to over statement of Government's capital expenditure.

2.6.3.7 Release of funds without the approval of Government

The Government had clearly stated (29 November 2011) that no additional funds would be released for the work of Construction of VVIP Guest House at Yedyur. In spite of this the Director, Department of Tourism, released (26 May 2010) an amount of ₹ 1.00 crore for the said work citing the G.O. dated 30 April 2010 (i.e., delegation of Financial powers). According to Sl. No. 1 of said G.O. dated 30 April 2010, the Director is empowered to accord administrative approval for the works up to ₹ 1.00 crore subject to availability of grants. As the Government had specifically stated that no additional funds would be released for the work, the action of the Director, Department of Tourism in releasing the funds for the same work in his order dated 23 February 2012, just by changing the name of the work, is in violation of Government Order dated 30 April 2010, since no grants had been allotted by the Government for the said project.

2.6.3.8 Irregular re-appropriation

The Government in its order dated 30 March 2012 re-appropriated ₹ 23.00 crore to the Head of Account 5452-01-800-0-12-132 from various other capital heads for incurring expenditure under Capital expenses-Tourist Infrastructure at various places. The above said amount was drawn on 31 March 2012 through a payee's receipt and transferred to KSTDC account. No expenditure has been incurred. As the amount re-appropriated had not been utilized, the proposal for re-appropriation of ₹ 23.00 crore from others heads to a capital head for incurring expenditure under capital expenses was irregular. Also, the Finance Department re-appropriated (March 2012) ₹ 7 crore to the Head of Account 3452-01-800-0-03-059 (Centrally Assisted Schemes) and transferred the amount (March 2012) to KSTDC account. No expenditure was incurred (August 2012). This has resulted in irregular re-appropriation of grants when funds were not needed and was a case of withdrawal of funds to avoid lapse of budget grants, against canons of financial propriety.

2.6.3.9 Rush of Expenditure

As per paragraph 6 of instructions issued by Finance Department regarding releases, drawal and accounting of funds in order dated 09 September 2004, the Administrative Department and the Heads of Department were to plan the expenditure for the remaining part of the financial year with due diligence and within the available grants. Bunching of bills and rush of expenditure in the month of March was to be avoided. Administrative orders were to be issued well in advance after obtaining necessary approvals at the required levels for expenditure likely to be incurred in February and March. However, it was noticed that the percentage of expenditure during March ranged from 15 to 92 and expenditure during last quarter ranged from 27 to 100 during the year 2011-12. The subhead-wise details of expenditure are detailed below.

(₹ in crore)

Sl. No	Head of Account	Total Expenditure	Expenditure incurred during		% of total expenditure incurred during	
			January to March 2012	March 2012	January to March 2012	March 2012
1	3452-01-101-0-01	1.50	0.93	0.58	62	39
2	3452-01-800-0-03	32.00	15.76	8.84	49	28
3	3452-01-800-0-05	4.00	2.00	1.60	50	40
4	3452-80-001-0-01	8.34	2.29	1.24	27	15
5	3452-80-104-0-01	49.48	26.21	20.21	53	41
6	3452-80-104-0-04	5.00	2.81	1.32	56	26
7	3452-80-104-0-05	4.26	3.93	3.93	92	92
8	3452-80-104-0-11	2.50	2.50	0.00	100	-
9	5452-01-800-0-10	24.40	19.63	15.32	80	63
10	5452-01-800-0-12	133.44	98.16	63.83	74	48
11	5452-01-800-0-13	7.50	2.50	2.50	33	33

The department stated (August 2012) that in every financial year, most of the bills were received in the last quarter for payment. Further re-appropriation orders were issued in March and usually more expenditure was incurred in the month of March. Reply of the department was contrary to the instructions issued by the FD. Failure on the part of FD was also observed with regard to the approval accorded for re-appropriation of funds having a bearing on rush of expenditure.

In addition to the above, during the period of second half of March, the department had drawn and released amounts to various agencies like KRIDL, KARNIK, KSTDC, JLRL to avoid lapse of grants, which were 8 per cent, 9 per cent and 21 per cent respectively for the years 2009-10 to 2011-12 compared to the total budget allotment under plan as detailed below.

(₹ in crore)

Year	Budget Allotment under plan	Amount released during second half of March	Percentage of releases
2009-10	191.21	14.46	8
2010-11	226.59	19.89	9
2011-12	279.91	58.75	21

2.6.3.10 Parking of funds outside Government Accounts.

As per the conditions laid by GOI for release of funds for sanctioned work, the department has to utilize the funds released within six months and any unutilized amount has to be refunded to them. Similarly, state funds not required for immediate disbursement should be surrendered to FD so that the savings can be utilized by other needy departments, as per Para 264 of KBM.

The Department receives funds from GOI for implementation of various Centrally Sponsored Schemes. These funds along with State funds were being parked with Karnataka State Tourism Development Corporation (KSTDC) to avoid lapse of grants. Parking of savings out of Government account was against the canons of Financial Propriety. The details of parking of funds during the period 2009-12 were as follows:

(₹ in crore)

Sl. No.	Year	Balance (as on 31 st March) in KSTDC account against the DoT
1	2009-10	11.67
2	2010-11	8.88
3	2011-12	3.72

Test check of the transactions accounted against the capital works showed that by submitting a payee's receipt to the treasury the department transferred the money to the KSTDC for holding the same temporarily in its accounts. After the work was executed by the implementing agencies, the payment was made through the KSTDC, the vouchers were retained by the department for record. Thus, the expenditure booked to the Consolidated Fund lacked transparency as no vouchers were submitted in support of the claim.

2.7 Conclusion

Against total provision of ₹ 99,744.66 crore during 2011-12 an expenditure of ₹ 86,829.62 crore was incurred. This resulted in an unspent provision of ₹ 12,915.04 crore (13 *per cent*). Excess expenditure of ₹ 4,793.28 crore relating to the period 1989-90 to 2010-11 required regularization under Article 205 of the Constitution. Expenditure aggregating ₹ 430.13 crore in 43 cases, which should have been treated as 'New Service/New instrument of service', was incurred without the approval of the Legislature. While, supplementary provision of ₹ 165.79 crore in 23 cases was unnecessary re-appropriation of funds in 60 cases was made injudiciously resulting in either un-utilised provision or excess over provision. In 25 grants, ₹ 4,830.68 crore was surrendered in the last two working days of the financial year. Out of ₹ 4.50 crore sanctioned under Contingency Fund in one case, only 30 *per cent* was utilised. Amount sanctioned against Contingency Fund (₹ 0.51 crore) in January 2012 was not brought before the legislature for regularization. Also, ₹ 5.00 crore drawn against Contingency Fund were accounted against the concerned service head in the Consolidated Fund.

Provisions had remained unutilized in the Social Welfare and Tourism Departments indicating lack of proper planning in utilization of funds placed before the departments. In contravention of instructions of Finance Department to avoid bunching of expenditure during the month of March, rush of expenditure was noticed in the departments of Tourism, Public Works and Minor Irrigation.

2.8 Recommendations

Budgetary control should be strengthened in all departments to avoid cases of provision remaining unutilized. Excessive /unnecessary supplementary provision and re-appropriation of funds injudiciously should be avoided. Budget should be prepared keeping in view the actual requirement of funds and it should neither be under/over pitched as observed by the PAC of the Legislature. The re-appropriation of funds at the close of the financial year is also required to be avoided. The departmental budgets should be more realistic and cases of persistent non-utilization of funds, excessive provision of funds should be avoided. The departments are required to forecast the actual budget requirement as laid down in the provisions of Budget Manual. Rush of expenditure during the last quarter of the financial year particularly in the month of March should be avoided.