Chapter – II

Financial Management and Budgetary Control

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 regarding authorization to incur expenditure, distribution of grants, watching the progress of actual expenditure and control over it.

2.1.2 Audit of appropriation by the C&AG of India seeks to ascertain whether the 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 and through various legislations of the Legislature 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

2.2.1 The summarized position of actual expenditure during 2014-15 against 29 grants/appropriations is given in **Table 2.1.**

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

(₹ in crore)

Nature of expenditure		Original grant/ appropriation	Supplementary grant/ appropriation	Total	Actual expenditure	Unspent provision	Amount surrendered	Amount surrendered on 31st March	*Per cent* of savings/ surrendered on 31st March
Voted	I Revenue	1,01,995.47	7,868.39	1,09,863.86	94,249.75	15,614.11	2,776.04	2,648.99	95
	II Capital	20,835.56	3,421.75	24,257.31	20,585.26	3,672.05	1,182.04	1,035.18	88
	III Loans and Advances	1,126.60	146.86	1,273.46	822.35	451.11	76.62	76.62	100
Total Voted		**1,23,957.63**	**11,437.00**	**1,35,394.63**	**1,15,657.36**	**19,737.27**	**4,034.70**	**3,760.79**	**93**
Charged	IV Revenue	*10,881.82*	*620.12*	*11,501.94*	*10,618.24*	*883.70*	*45.56*	*45.56*	*100*
	V Public Debt repayment	*6,760.44*	*0*	*6,760.44*	*4,812.23*	*1,948.21*	*0*	*0*	*0*

Nature of expenditure		Original grant/ appropriation	Supplementary grant/ appropriation	Total	Actual expenditure	Unspent provision	Amount surrendered	Amount surrendered on 31st March	*Per cent* of savings/ surrendered on 31st March
	VI Capital	*0*	*279.64*	*279.64*	*277.44*	*2.20*	*0*	*0*	*0*
Total Charged		***17,642.26***	***899.76***	***18,542.02***	***15,707.91***	***2,834.11***	***45.56***	***45.56***	**100**
Grand Total		**1,41,599.89**	**12,336.76**	**1,53,936.65**	**1,31,365.27**	**22,571.38**	**4,080.26**	**3,806.35**	**93**

Source: Appropriation Accounts

2.2.2 The total expenditure stands inflated/without details of expenditure to the extent of the following:

- Non-submission of detailed account in support of advances drawn through Abstract Contingent bills amounting to ₹193.69 crore (net of ₹218.12 crore minus ₹24.43 crore drawn during March 2015) for the year 2014-15 by the Drawing and Disbursing Officers, as required under paragraph 37 (b) (3) of the 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 as on 31 March 2015 was 9,758.

- The capital expenditure for the month of March 2015 was ₹7,660 crore which forms 38 *per cent* of the total expenditure of ₹20,198 crore for 2014-15. A test check of certain transactions revealed that there were instances of amounts drawn in excess of requirement and lying unutilized by certain entities which resulted in reflecting inflated capital expenditure thus giving scope for enhanced borrowings. Credit balances outstanding in the books of accounts at the end of March 2015 (in Public Account) in respect of entities are as shown in **Table 2.2**.

Table 2.2: Capital expenditure outstanding

(₹ in crore)

Sl. No.	Name of the Entity	Net Credit Balance to end of the year	Remarks
1	Krishna Bhagya Jala Nigama Limited	1,145.43	Includes ₹496.92 of previous year
2	Karnataka Neeravari Nigama Limited	1,006.80	Includes ₹699.82 of previous year

Source: DDR Ledger

2.2.3 The total expenditure stood overstated in the following case:

- Non-transfer of expenditure during 2014-15 to an extent of ₹15.52 crore from Consolidated Fund to the Karnataka Silk Worm Cocoon and Silk Yarn Development and Price Stabilization Fund maintained in Public Account which is an accounting adjustment transaction.

2.2.4 The total expenditure stood understated in the following case:

- Non-adjustment of Government's contribution of ₹677 crore to the Consolidated Sinking Fund for which a provision of ₹500 crore was provided in the budget (details are explained in **Para 1.9.3.6**)

2.2.5 The overall unspent provision of ₹22,571.38 crore was the result of unspent provision of ₹22,760.20 crore under 29 grants/ appropriations which was offset by excess expenditure of ₹188.82 crore over provision under demand No.8 and 10 under charged expenditure of the revenue section.

2.2.6 During the year ₹3,022.33 crore covering 25 grants under revenue/capital section, (this is only illustrative), through 112 executive orders (**Appendix 2.1**) for incurring expenditure not covered by the budget initially were released by the FD on the request of the Administrative Department as additionalities without the authorization of the Legislature as these cases did not attract the criteria fixed for attracting cases of New Service/New Instruments of Service as recommended by PAC of the State Legislature. However, provision to cover these additionalities were made through supplementary demands under Article 205(1)(a) of the Constitution.

2.3 Scrutiny of Budget Estimates and Supplementary Estimates for the Year 2014-15

2.3.1 Errors in budgeting

2.3.1.1 Misclassification between 'voted' and 'charged' while budgeting

Budget provisions were made under voted/charged section instead of charged/voted section under Revenue as shown in **Table 2.3.**

Table 2.3: Misclassification transactions

(₹ in crore)

Sl No.	Grant No	Classification	Provision	Remarks
1	08	2406-01-797-01-261 Inter Account Transfer	175.00	Provision for transfer of Forest Development Tax to Karnataka Forest Development Fund provided through supplementary provision under Voted section instead of Charged section.
2	29	2049-01-200-6-05-240 Debt Servicing	0.10	Provision made for compensation bonds erroneously under MH 2049 instead of under MH 2075 contrary to the instructions contained in Note (1) below – 2049 – Interest payments in the List of Major and Minor Heads.

Source: Appropriation Accounts

2.3.1.2 Errors due to incorrect provision under grants

Errors in budgeting of ₹90.72 crore (**Appendix 2.2**) was mainly due to the following reasons:

- Provision of ₹78.63 crore made under Grant No.18 Commerce and Industries instead of under Grant No.1 Agriculture and Horticulture relating to accounting adjustment of Karnataka Silk Worm Cocoon and Silk Yarn Development and Price Stabilization Fund. The activity relating to that of Sericulture department was transferred to the Department of Agriculture and Horticulture under Demand No.1 during 2011-12 itself. Hence provision should have been obtained under the correct demand.
- Provision of ₹8.58 crore made towards debt servicing erroneously under Revenue & Capital sections of the voted grant towards repayment of HUDCO loans for classrooms when there was no loan outstanding against the off-budget borrowing entity i.e, Sarva Shiksha Abhiyan Society.
- Provision of ₹2.50 crore made erroneously under MH 2049 – interest payments for delay in refund of Sales Tax/VAT. The transactions under the major head 2049 are for accommodating expenditure on interest payments of acknowledged debts of the State Government.

2.3.1.3 Errors in Classification

The budget/expenditure suffered on account of operation of incorrect budget lines for release and accounting of ULB grants at the object level of classification. Distinct heads were to be opened for accommodation of budget/expenditure of the ULB sector. Such details which are to be shown distinctly in a separate budget document are discussed below in **Table 2.4.**

Table 2.4: Details of errors in classification

Item of Expenditure	Amount involved (₹ in crore)	Remarks
Pension and retirement benefits	11,203.64	This expenditure included grants released to Urban Local Bodies (ULBs) for payment of pension (₹12.47 crore) which are not in the nature of pensions paid to Government Servants, to be accounted under Consolidated Fund of the State.
Consolidated salaries	644.09	This object head is intended for recording the salary expenditure of only constitutional dignitaries, but has included releases made to ULBs for payment of salary (₹406.36 crore).
Maintenance	2,738.79	This includes releases made to ULBs for maintenance expenditure of ₹727.44 crore in the form of grants.
Subsidy	11,827.23	Includes releases made to ULBs for payment of subsidy (₹668.60 crore).

Source: Finance Accounts.

2.3.1.4 Misclassification under object head level of classification

In accordance with the instructions contained in the Office Memorandum dated 08.10.2013, expenditure needs to be booked under the relevant head of account up to object head level. Hence the object head assumes importance with regard to the nature of provision/ expenditure.

During the year 2014-15, it was observed that in certain cases, as detailed in **Table 2.5,** when there was a specific object head for provision/ expenditure, the same had been made in a different object head which did not give a true and fair picture of accounting transactions of Government expenditure, thus affecting the transparency in accounts.

Table 2.5 Misclassification in object head level classification

Sl No	Grant No	Head of A/c and Description	Amount involved (₹ in crore)	Correct object head	Remarks
1	15– Information Technology	3451-00-090-2-05-101-Grant-in-aid for salaries	25.00	102-Grant-in-aid for asset creation	While there was a specific object head for Grant-in-aid for Asset Creation -102, provision/expenditure was booked under the object head 101-Grant-in-aid for salaries.
2	10- Social Welfare	2225-03-277-2-26-101- Grant in Aid	6.30	106 - Subsidy	During 2014-15, a provision of ₹25.21crore (75 *per cent* towards loan and 25 *per cent* towards subsidy) was made for implementation of Shramashakthi Scheme under 101- GIA. As the budget made for the purpose did not capture the details of amounts of grant and subsidy, a token provision was obtained in the SE-II for transfer from 101-GIA to 106-Subsidy, but both provision/ expenditure, stood accounted under 101-Grant in aid.

2.3.1.5 Error in budgeting due to improper application of provision relating to conversion of Loans into equity – M/s. Mysore Sales International Ltd (M/s. MSIL)

Supplementary Provision of ₹15.09 crore was made during July 2014, stating that the amount was required for converting outstanding loans against M/s. Mysore Sales International Ltd., into Equity through Book Adjustments without cash outflow.

According to provisions contained in General Financial Rules, which the State Government would generally follow in the absence of specific provisions for conversion of Loans into Equity in its rule books, a token provision would suffice for the purpose of such conversion. In such cases the accounting adjustment is made by correcting the balances under loans/equity proforma, without bringing the transactions into the current year's books.

However, full provision was made which inflated the capital outgo during the year which was contrary to the principles of budgeting. Even provision obtained stating that there was an outstanding loan of ₹15.09 crore against the entity in question was also incorrect as the amount of loan outstanding as per the books of the State Government was only ₹5 crore. The balance provision made to the extent of ₹10.09 crore representing interest dues to the end of 2003-04 (₹5.27 crore) and amount payable by M/s. MSIL to Director, SS&ALM (₹4.82 crore) should have been made by bringing the facts before the Legislature correctly instead of indicating that it was on account of conversion of outstanding Loans into Equity.

In reply, the FD stated that the provision was made to avoid violation of new service criteria as contained in OM dated 16.10.1987 and that the provision for adjustment was brought out for transparency in budget formulation. The reply is not tenable as all these facts could have been brought before the Legislature through a token demand, in which case the criteria of new service would be avoided and sufficient savings existed to meet the requirement of funds through re-appropriation.

2.4 Transactions under Fund Account

Infrastructure Cess collected under various tax revenues is assigned to Fund accounts (in Public Account) as per the extant procedure which is transferred to IIF, BMRCL Fund and CMRRD Fund through accounting adjustments by treating the transaction as Consolidated Fund expenditure. Similarly, the expenditure against revenue/capital heads initially accounted under the Consolidated Fund is withdrawn and transferred to the Public Account through accounting adjustments at the end of the year.

During the year 2014-15, a sum of ₹945 crore was anticipated as collection of cess. As against this amount, provisions were made under the Major Heads 3054(CMRRD – ₹296 crore), 5465(IIF – ₹628 crore) and 6217(BMRCL - ₹650 crore) aggregating to ₹1,574 crore in the budget for its transfer to the fund account. It was observed that there was a mis-match between the amount of anticipated collection and the provision made for expenditure transfer, which resulted in the excess provision of funds to the extent of ₹629 crore.

However, proper accounting adjustment at the end of the year have been carried out with reference to receipts/expenditure to the fund account.

2.5 Lack of Transparency in Provisioning - Budget Operation of Omnibus Object Head 059 – 'Other Expenses'

Provision/expenditure in Government Accounts is classified according to Sector/Sub-sector/Function/Sub-function/programme/Detailed/Object head using 15 digit classifications. Expenditure classification as per object head, last tier of classification, exhibits the object/nature of expenditure, required to be prepared by exercising high degree of accuracy/acumen/competency. In order to simplify the classification of expenditure, new object heads were formed during the year 2003-04, by merging certain object heads of account. The Object head ‘059 - Other Expenses’, an omnibus head, was to record such provision/ expenditure which could not be classified under any other object heads devised. According to the Budget Circular, the provision under this head should be the bare minimum.

2.5.1 On a scrutiny of vouchers relating to Agriculture and Horticulture departments during the year 2014-15, it was observed that under the Major Head 2401, an amount of ₹28.31 crore paid as subsidy to farmers by these departments for purchase of seeds, fertilizers, agricultural equipments and subsidy for farmers under the Comprehensive Horticulture Development Programme were classified under the object head ‘059 - Other expenses’ instead of under the object head ‘106-Subsidy’. The department, while accepting the deficiency, replied that from the next financial year (2016-17), the payment of subsidies would be made under the correct object head 106-Subsidies instead of 059-Other Expenses (October 2015).

2.5.2 It was also noticed that during the year 2014-15 in two cases of book adjustments in accounts, an amount of ₹2.49 crore relating to the adjustment of Guarantee commission dues payable by M/s. Karnataka State Khadi and Village Industries Board and M/s. Karnataka Rural Development Corporation Ltd., to GOK, the expenditure was booked under ‘059 –Other expenses’. These adjustments lacked transparency of record of transactions as the object head ‘059’ is meant to book expenditure relating to State Government departments. However, in this case, these adjustments related to expenditure on Board/Corporations of the State Government.

2.6 Financial Accountability and Budget Management

2.6.1 Appropriation vis-à-vis allocative priorities

There were 20 cases of unspent provision, each exceeding ₹100 crore and above under 20 grants/appropriation, which aggregated to ₹21,094.23 crore during 2014-15. Large unspent provisions were in areas of Rural Development and Panchayat Raj, Urban Development, Water Resources, Debt Servicing, Public Works, Education, Agriculture and Horticulture, Food and Civil Supplies, etc., as indicated in **Table 2.6**.

Table 2.6: Grants/appropriations with unspent provision of ₹100 crore and above

(₹ in crore)

Sl. No.	Grant/ Nomenclature	Provision			Expenditure	Unspent provision and its *per cent*
		Original	Supple-mentary	Total		
1	01 - Agriculture and Horticulture					
	Revenue – Voted	5,318.00	835.94	6,153.94	4,573.83	1,580.11(26)
2	02- Animal Husbandry and Fisheries					
	Revenue – Voted	1,753.98	33.95	1,787.93	1,641.48	146.45(8)
3	03 – Finance					
	Revenue - Voted	12,304.21	1,575.21	13,879.42	13,390.08	489.34(4)
4	04 – Department of Personnel and Administrative Reforms					
	Revenue - Voted	1,041.69	44.31	1,086.00	705.63	380.37(35)
	Capital – Voted	459.00	0.00	459.00	227.13	231.87(51)
5	05 – Home and Transport	4,856.35	96.55	4,952.90	4,479.28	473.62(10)
	Revenue – Voted					
6	07 – Rural Development and Panchayat Raj					
	Revenue – Voted	7,656.78	1,312.86	8,969.64	7,455.00	1,514.64(17)
	Capital – Voted	1,689.66	251.53	1,941.19	1,707.31	233.88(12)
7	08 – Forest, Ecology and Environment					
	Revenue – Voted	1,227.16	285.48	1,512.64	1,179.45	333.19(22)
8	10 – Social Welfare					
	Revenue – Voted	4,869.84	419.95	5,289.79	5,054.18	235.61(4)
	Capital- Voted	1,605.49	23.93	1,629.42	1,321.84	307.58(19)
9	Women and Child Development					
	Revenue – Voted	3,571.94	186.83	3,758.77	3,464.08	294.69(8)
10	13 – Food and Civil Supplies					
	Revenue – Voted	4,470.48	0.72	4,471.20	2,616.95	1,854.25(41)
11	14 – Revenue					
	Revenue – Voted	4,160.02	1,089.55	5,249.57	4,711.93	537.64(10)
12	16 – Housing					
	Revenue – Voted	2,390.31	20.01	2,410.32	1,798.10	612.22(25)
13	17 – Education					
	Revenue – Voted	20,628.27	406.61	21,034.88	17,941.80	3,093.08(14)

Sl. No.	Grant/ Nomenclature	Provision			Expenditure	Unspent provision and its *per cent*
		Original	Supple-mentary	Total		
	Capital – Voted	676.35	43.69	720.04	280.08	439.96(61)
14	18 – Commerce and Industries					
	Revenue – Voted	685.00	145.09	830.09	585.98	244.11(29)
	Capital – Voted	290.20	222.19	512.39	293.87	218.52(43)
15	19 – Urban Development					
	Revenue –Voted	7,750.51	254.33	8,004.84	6,761.75	1,243.09(16)
	Capital – Voted	1,244.61	15.00	1,259.61	886.14	373.47(30)
16	20 – Public Works					
	Revenue – Voted	2,589.86	94.60	2,684.46	2,339.39	345.07(13)
	Capital – Voted	4,044.15	2,102.31	6,146.46	5,231.92	914.54(15)
17	21 – Water Resources					
	Revenue – Voted	1,338.17	29.27	1,367.44	665.93	701.51(51)
	Capital - Voted	0.00	436.66	436.66	271.12	165.54(38)
18	22 – Health and Family Welfare					
	Revenue – Voted	5,503.05	375.63	5,878.68	4,909.71	968.97(16)
	Capital – Voted	519.48	430.27	949.75	793.90	155.85(20)
19	23 – Labour					
	Revenue – Voted	741.87	41.72	783.59	522.76	260.83(23)
20	29 – Debt Servicing					
	Revenue - Charged	10,200.00	0.00	10,200.00	9,403.98	796.02(8)
	Capital - Charged	6,760.44	0.00	6,760.44	4,812.23	1,948.21(29)
Total		**1,20,346.87**	**10,774.19**	**1,31,121.06**	**1,10,026.83**	**21,094.23(16)**

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 2.3.**

The reasons furnished by some departments for part of unspent provisions under a few Major Heads of account, as reported in Appropriation Accounts, are given below:

Agriculture and Horticulture

Unspent provision of ₹30.70 crore under the major head 2401 –Commercial Crops – Agriculture Department was due to the non-acceptance of bills on 30 March 2015, owing to absence of facility for uploading the release of funds through Treasury Network Management Centre (TNMC).

Finance

Unspent provision of ₹1,181.28 crore under the Major Head 2070 – Other Administrative Services – Other expenditure – Filling up of vacant posts- was due to non- filling up of vacant posts. However, it was observed that the particular functional head where the provision was made continues to show savings even during previous years.

Unspent provision of ₹34.07 crore under Major Head '2071' – Pensions and Other Retirement Benefits –Civil- Leave Encashment Benefits- General Services was due to inability to correctly estimate the pension liability owing to various factors involved such as number of retirees in a year, their last pay drawn, number of EL at their credit etc.,

Department of Personnel and Administrative Reforms

Unspent provision of ₹97.23 crore under the Major Head '3451' –Secretariat – Economic Services- Information Technology Secretariat–XIII FCG-Incentives for issuing Unique Identifications(UID's) was due to non- release of grants from the Central Government.

Forest, Ecology and Environment

Unspent provision of ₹25.37 crore under the Major Head 2406-Forestry and Wild Life-Forestry-Other Expenditure - Long term measures to address man animal conflict was due to non-availability/supply of railings.

Revenue

Unspent provision of ₹5 crore under the Major Head 2250 Other Social Services-Administration of Religious and Charitable Trust-Other expenditure – Muzrai Department was due to non-release of funds by the Government.

Education

Unspent provision of ₹20.29 crore under the Major Head '2203' – Technical Education –Polytechnics-Government Polytechnic – Up gradation –One Time ACA was due to shortage of time for purchases as per KTPP rules.

Unspent provision under the MH 2203-Technical Education-Other expenditure-Quality Improvement of Technical Education - 'Schedule Caste Sub Plan' (₹13.79 crore) and 'Tribal Sub-plan' (₹489.40 crore) was due to non-release of Central Government share of funds for 2014-15.

Public Works

Unspent provision of ₹9.28 crore under the Major Head '2070'-Other Administrative Services –Purchase and Maintenance of Transport-Operation of Helicopter Services was due to cancellation of lease agreement for Helicopter services and taking the helicopter services on the basis of rent.

Saving of ₹13.00 crore under the Major Head 5051-Capital Outlay on Ports and Light Houses-Minor Ports-Karwar Port Development-Construction of Wharfs, Jetties and other facilities was due to delay in commencement of works and less physical progress achieved.

Health and Family Welfare

Unspent provision of ₹54.92 crore under the Major Head 2210-Medical and Public Health-Public Health-Prevention and Control of Diseases-Other diseases was due to non-issuance of Government Orders for release of balance amount of grants.

Debt Servicing

Unspent provision of funds of ₹1,500.00 crore and ₹500.00 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 RBI respectively during the year. Despite there being persistent savings under the head for the past seven years, provision was enhanced by ₹500 crore under the former head of account without specific justification.

It could be observed that reasons given by the departments in the above cases accounted for only a small fraction of eventual savings.

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 were required to be issued in this regard. However, it was observed in audit that large amounts remained unutilized/un-surrendered, indicating poor quality of control over expenditure.

2.6.2 Persistent Unspent Provision

In three grants, there were persistent unspent provisions of more than ₹100 crore in each case during the last five years, as detailed in **Table 2.7.**

Table 2.7:Persistent unspent provision

(₹ in crore)

Sl. No.	Grant/Nomenclature Major head	Year				
		2010-11	2011-12	2012-13	2013-14	2014-15
1	**03- Finance (Revenue – Voted)**	**2,925.80**	**260.68**	**4,101.04**	**116.64**	**489.34**
	2070-800-11 Filling up of vacant posts	850.00	849.97	999.98	500.00	1,181.28
2	**19 – Urban Development (Revenue – Voted)**	**522.86**	**631.46**	**2,072.54**	**1,768.58**	**1,243.09**
	2217-05-191-1 Bangalore Metropolitan Regional Development Authority	245.00	258.00	359.61	203.23	295.97
3	**29 – Debt Servicing (Capital – Charged)**	**1,005.76**	**1,142.23**	**1,936.98**	**2,016.96**	**1,948.21**
	6003-110-1- Clean and Secured Ways and Means Advances	1,000.00	1,000.00	1,500.00	1,500.00	1,500.00

Source: Appropriation Accounts

2.6.3 Excess Expenditure

In 8 cases, expenditure in excess of ₹25 crore of the budget provision was incurred under four Major Heads of account pertaining to four grants aggregating to ₹1,275.34 crore **(Appendix 2.4)**. Of this, ₹188.79 crore related to Forestry and Wildlife – transfer of Forest Development Tax to Karnataka State Forest Development Fund via an accounting adjustment entry. However, due to erroneous budgeting the provision which was to be taken under charged section was taken under voted section, the details of which are discussed in **para 2.3.1**.**1**

2.6.4 Persistent excess expenditure

There was persistent excess expenditure over provision pertaining to Grant No.8 – Forest, Ecology and Environment during the last three years. It was observed that the excess under Grant No.8, under revenue section was on account of transfer of Forest Development Tax to Karnataka Forest Development Fund, transaction involving the transfer of revenue from Consolidated Fund, into Public Account, as explained in **Para 2.6.3** supra. During the year, the excess of revenue realized over budgeted provision was ₹188.75 crore. It was also observed that the department had consistently understated the revenues that were required to be transferred to the Public Account, thus affecting the indicators of budget. The department could have made the provision in its budget based on the actual realization of past years.

Excess expenditure requiring regularization

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.

Excess expenditure aggregating to ₹869.83 crore for the years 2012-13 and 2013-14 was yet to be regularized as detailed in **Table 2.8.**

Table 2.8 Excess expenditure requiring regularization

(₹ in crore)

Year	Grant No./description	Excess required to be regularized as commented in the AA/AR	Remarks
2012-13	8 – Forest, Ecology and Environment	494.02	Excess of ₹209.51 crore was on account of transfer of Forest Development Tax to Public Fund Account. The receipt was more than anticipated collection. Further, an amount of ₹284.52 crore which had remained as revenue in Commercial Tax Department was transferred to Public Account.
2013-14	8 – Forest, Ecology and Environment	355.39	Excess was on account of transfer of Forest Development Tax to Public Fund account. The receipt was more than anticipated collection.

Year	Grant No./description	Excess required to be regularized as commented in the AA/AR	Remarks
	26 – Planning, Statistics, Science and Technology	20.42	Withdrawal of budget provision in the budget presented in July 2013 in respect of certain heads for which budget was included in the vote on account presented during February 2013
	TOTAL	**869.83**	

Source: Appropriation Accounts

2.6.5 Excess expenditure over provision

Excess expenditure of ₹188.75 crore against Demand No.8 – Forest, Ecology and Environment and ₹0.06 crore against Demand No.10 – Social Welfare during the year 2014-15 are required to be regularized, the details of which are given in **Table 2.9.**

Table 2.9 : Excess expenditure over provision during 2014-15 requiring regularization

(Amount in ₹)

Sl No	Grant	Provision	Expenditure	Excess
1	Grant No.8 – Forest, Ecology and Environment	4,50,17,00,000	6,38,92,14,849	1,88,75,14,849
2	Grant No.10- Social Welfare	47,26,000	53,62,000	6,36,000

Source: Appropriation Accounts

Reasons for excess expenditure under the above demands are discussed below:

- Excess under Demand No.8 was on account of transfer of Forest Development Tax to the Forest Development Fund maintained in Public Account. The receipt was more than anticipated collection and also due to erroneous budgeting.
- No specific reasons for excess under Demand No.10 are furnished.

2.6.6 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 had issued orders in 1987 based on recommendations of the 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 11 cases involving seven grants, excess expenditure totaling to ₹150.79 crore, which should have been treated as 'New Service/New Instrument of Service', was incurred without the approval of the Legislature **(Appendix 2.5)**.

Supplementary Provision

The supplementary budgets are not 'fiscally neutral' as required by KFRA; and commitments of significant amounts are included as a part of the estimates, which affect the budget-execution process. Too many supplementary budgets could affect fiscal discipline as over-reliance is placed on the supplementary budget rather than the original budget. The Government should aim to reduce the number of supplementary estimates passed through the year to ideally one, as recommended by Fiscal Management Review Committee to limit approvals to a minimum of second instalment of Supplementary Estimates.

Supplementary provision (₹12,336.76 crore) made during the year constituted 8.71 *per cent* of the original provision (₹1,41,599.89 crore).

As per Sub-Section (5) of Section (6) of Karnataka Fiscal Responsibility Act, 2002, whenever one or more supplementary estimates are presented to the houses of Legislature, the State Government shall also present an accompanying statement indicating the corresponding curtailment of expenditure and/or augmentation of revenue to fully offset the fiscal impact of the supplementary estimates in relation to the budget targets of the current year and the Medium Term Fiscal Plan objectives and targets for the future year.

During the year 2014-15, three instalments of Supplementary Estimates (SE) were laid before the Legislature. The first instalment of ₹4,326.80 crore included a sum of ₹16.57 crore for charged expenditure and ₹4,310.23 crore for voted expenditure. The second instalment of ₹3,296.46 crore included a sum of ₹744.84 crore for charged expenditure, which mainly related to the compliance to the amended provision of KFRA, to bring all repayments of off-budget borrowings under charged expenditure and ₹2,551.62 crore under voted section. The Third and the final instalment of Supplementary Estimate of ₹4,713.50 crore included a sum of ₹138.35 crore for charged expenditure and ₹4,575.15 crore for voted expenditure. The statement indicating the corresponding curtailment of expenditure and augmentation of revenue are shown in **Table 2.10.**

Table 2.10: Details of curtailment of expenditure, augmentation of revenue, provision for book adjustment in the Supplementary Estimates

(₹ in crore)

	First Supplementary Estimate-₹4,326.80	Second Supplementary Estimate-₹.3,296.46	Third Supplementary Estimate-₹4,713.50
Amount met out of Reserve Funds and PRI Deposits	378.07	1,091.57	123.06
Amount covered by Central Assistance	1,638.62	142.77	894.66
Other receipts	0	0	175.00
Amount covered by adjustments	39.94	760.56	1,283.39
Net Cash outgo	2,270.17	1,301.56	2,237.39

Source: Supplementary Estimates

It can be seen from the table that the entire supplementary provision was not made expenditure neutral to keep in line with the budgeted targets.

2.6.7 Unnecessary Supplementary Provision

Supplementary provision of ₹687.73 crore made under 12 out of 16[8] test checked grants proved unnecessary **(Appendix 2.6).**

2.6.8 Excessive Supplementary Provision

Supplementary grant of ₹1,858.98 crore obtained under 17 detailed/object heads relating to 12 out of 16 test checked grants proved excessive. The resultant unutilized provision in these cases was ₹366.68 crore **(Appendix 2.7).**

2.6.9 Inadequate Supplementary Provision

Supplementary provision of ₹212.38 crore obtained under seven detailed heads relating to five out of 16 test-checked grants proved inadequate. The uncovered excess expenditure in these cases was ₹290.78 crore **(Appendix 2.8).**

Re-appropriation of Funds

A grant or appropriation for disbursements is distributed by functional head/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 means the transfer, by a competent authority, of saving from one unit of grant/appropriation to meet excess expenditure under another unit within the same voted grant or charged appropriation**.** 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 utilized in full or will result in unspent provision in the unit of appropriation.

2.6.10 Injudicious Re-appropriation of Funds

In 2014-15, 35 cases of re-appropriation of funds was made injudiciously resulting either in un-utilized provision or excess over provision in each case (**Appendix 2.9**), as summarized below:

- In one case, additional fund of ₹10 crore, provided through re-appropriation, proved insufficient as the final expenditure exceeded the provision by ₹3.72 crore.
- In one case, withdrawal of ₹0.35 crore resulted in excess expenditure of ₹0.35 crore.

[8] Out of 29 grants, 16 grants were selected for detailed check during the year 2014-15. The grants are 1-Agriculture and Horticulture, 2-Animal Husbandry and Veterinary Services, 3-Finance, 6-Information Technology, 8-Forest, Ecology and Environment, 11- Women and Child Development, 13 Food and Civil Supplies, 14-Revenue, 17-Education, 18-Commerce and Industries, 21-Water Resources, 22-Health and Family Welfare, 24-Energy, 25-Kannada and Culture, 26-Planning, Statistics-Science and Technology, 29-Debt Servicing.

- In 19 cases, the un-utilized provision was not properly assessed as, even after the withdrawal of ₹1,628.11 crore through re-appropriation, ₹906.74 crore remained un-utilized.
- In 14 cases, additional funds of ₹262.48 crore, provided by re-appropriation, resulted in overall un-utilized provision of ₹466.48 crore.

2.6.11 Defective Re-appropriation

During 2014-15, 331 re-appropriation orders for an amount of ₹3,916.37 crore were issued of which 33 re-appropriation orders for ₹169.10 crore were not acted upon as they violated the provisions of Article 309, 312 and 315(a) of the Karnataka Financial Code which *inter alia* stipulated that no re-appropriation should be made from one grant voted by the Legislature to another such grant, from voted items of expenditure to charged items of expenditure, from capital to revenue and *vice versa*. (**Appendix 2.10).**

Surrender of unspent provision

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

2.6.12 Unspent provision not surrendered

In the case of 17 grants/appropriations, the entire unspent provision, aggregating ₹3,680.27 crore, was not surrendered **(Appendix 2.11).**

Further, in the case of 29 grants/appropriations, there was only partial surrender and around 82 *per cent* (₹18,679.92 crore) of the total unspent provision (₹22,760.18 crore) was not surrendered (**Appendix 2.12).** Besides, in 15 grants where surrender of funds was in excess of ₹ five crore, ₹3,313.26 crore were surrendered on the last two working days of the financial year, indicating inadequate financial control (**Appendix 2.13).**

2.6.13 Substantial surrenders

Out of the total provision of ₹643.42 crore in 21 cases, ₹571.20 crore (89 *per cent*) were surrendered, which included cent *per cent* surrenders in nine cases (₹217.95 crore) (**Appendix 2.14).** These surrenders were stated to be due to denial of execution of NABARD works by RDPR, late/non-receipt of grants, shortage of time for purchases, non-issuance of Government Orders for release of funds, non-finalization of tenders/ contracts, etc.

2.7 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 2014-15, an amount of ₹16.95 crore was released from Contingency Fund to two co-operative sugar mills namely, M/s Markandeya Co-op Sugar Mills Ltd, Belagavi (₹14.95 crore) and to M/s. Sri Bhimashankara SSK Ltd., Vijayapura (₹2 crore) which were recouped to the Fund Account in the Second Supplementary Estimate placed in December 2014. The audit observations of these two transactions are detailed below:

(i) The National Co-operative Development Corporation (NCDC) sanctioned term loan assistance of ₹22.43 crore to Government of Karnataka towards establishment of new co-operative sugar mill of 2500 TCD capacity by M/s. Markandeya SSK, Kakati, Belagavi. The first installment of ₹7.48 crore (January 2011) was released by GOK to the Sugar Mill with a condition that the balance amount of ₹14.95 crore would be released only after raising the required additional share capital of ₹8.49 crore from the shareholders. NCDC released balance of Rs.14.95 crore to the State Government during October 2014, which was further released to the sugar mill. However, the Government modified the condition (August 2014) so as to collect the share capital at the earliest and within three months from the date of release of balance loan of NCDC loan (October 2014) without assigning the reasons.

The Commissioner of Cane Development and Director of Sugars (September 2015), stated that out of the additional share capital of ₹8.49 crore to be collected from the shareholders, only ₹0.23 crore was collected and that the collection of share capital from the shareholders would be taken up in a speedy manner. He also stated that the factory will start functioning by December 2015.

NCDC loans are considered as internal debt of the State, wherein the Government takes it in its books and does debt servicing through budget allocation made year after year. Non realization of operational revenues by the sugar factory and their financial dependence on Government in spite of availing loan from NCDC, increased the burden on the Government.

Further, the release of ₹14.95 crore from the Contingency Fund to M/s. Markandeya SSK, Belagavi for payment of NCDC loan for meeting expenditure of an unforeseen and emergent character is not justifiable since it could have been made after the authorization of the Legislature in December 2014.

(ii) On scrutiny of records in respect of amount released to M/s. Sri Bhimashankara SSK Ltd, Vijayapura, it was observed that the society had requested (September 2014) the Government to release ₹1.05 crore towards furnishing Performance Guarantee and to meet other administrative expenses for obtaining Industrial Entrepreneur Memorandum(IEM) from Ministry of Commerce and Industries, New Delhi which had directed the society to file the IEM within 30 days, for manufacture of sugar, molasses etc., The Government, as against the requirement of ₹1.05 crore, had released ₹ two crore to the society from the Contingency Fund to meet the above expenditure, without assigning any reasons for release of excess funds of ₹0.95 crore. This release from the Contingency Fund is not prudent fiscal management.

2.8 Outcome of Review of Selected Grants

A review of budgetary procedures followed and expenditure control exercised in respect of two selected grants over a three year period 2012-2015 showed the following:

2.8.1 Grant No.17 – Education

2.8.1.1 Introduction

Grant 17 of the Appropriation Accounts, apart from covering the budget and expenditure on functional Major Heads on Education, also covers the other the functional heads as detailed below:

1. Stationery and Printing
2. Technical Education
3. Sports and Youth Services
4. Art and Culture
5. Industries

During the year 2012-15, more than 90 *per cent* of the budget allocation and expenditure was under Major Heads 2202-General Education and 4202- Capital outlay on Education (transactions relating to General Education). Owing to the vastness of transactions, the scope of the grant review was restricted to the above two Major Heads.

The scrutiny of budgetary procedures followed and the expenditure controls exercised during the period 2012-15 under these two Major heads revealed the following:

2.8.1.2 Budget and Expenditure

The overall position of budget provisions, actual disbursements and savings under the functional Heads of the grant for the last three years (2012-15) is given in **Table 2.11.**

Table 2.11 Budget and Expenditure

(₹ in Crore)

Year	Sections	Budget Provision	Total	Expenditure	Un-utilised provision and its percentage
2012-13	Revenue -Original	14,181.76	15,461.11	13,706.07	2,375.04 (15)
	Supplementary	1,279.35			
	Capital -Original	293.87	499.87	254.58	245.29 (49)
	Supplementary	206.00			

2013-14	Revenue- Original	17,583.61	18,123.46	15,509.32	26,14.14
	Supplementary	539.85			(14)
	Capital –Original	377.49	377.49	268.03	109.46
	Supplementary	0.00			(29)
2014-15	Revenue- Original	19,529.29	19,897.43	16,911.08	2,986.35
	Supplementary	368.14			(15)
	Capital -Original	599.11	642.80	203.47	439.33
	Supplementary	43.69			(68)

Source: Grant Register

During 2012-15 unutilized provision under Revenue Section ranged between 14 to 15 *per cent* and under Capital Section between 29 to 68 percentages respectively.

Savings of ₹3.66 crore (2014-15) in the Capital Section was due to the fact that the provision for this amount was made in the third and the final Supplementary Estimate which was approved on 30.03.2015, leaving no scope for drawal of this amount.

2.8.1.3 Budget- Revenue and Capital

The budget is further bifurcated into plan and non-plan in the detailed demand for grants under revenue/capital section respectively. The bifurcation of provision/ expenditure during 2012-15 under revenue / capital is given in **Table 2.12 and Table 2.13.**

Table 2.12 - REVENUE

(₹ in crore)

Year	Budget including Supplementary		Expenditure		Deviation in percentage	
	Non Plan	Plan	Non Plan	Plan	Non Plan	Plan
2012-13	10,708.99	4,752.12	10,327.28	3,378.79	(-)4	(-)29
2013-14	11,928.46	6,195.00	11,189.89	4,319.43	(-)6	(-)30
2014-15	13,141.60	6,755.83	11,866.80	5,044.28	(-)10	(-)25

Source: Grant Register

As evident from the table above, the deviation percentage was insignificant during 2012-15 under non-plan expenditure. In respect of plan expenditure the deviation was markedly high in all the three years thus indicating shortfall in plan achievements.

Table 2.13 - CAPITAL

(₹ in crore)

Year	Budget including Supplementary		Expenditure		Deviation in Percentage	
	Non Plan	Plan	Non Plan	Plan	Non Plan	Plan
2012-13	2.85	497.02	0	254.58	100	(-)49
2013-14	2.85	374.64	0	268.03	100	(-)28
2014-15	2.96	639.84	0	203.47	100	(-) 68

Source: Grant Register

The deviation under non plan was 100 *per cent* during the period 2012-15, indicating that the provision was unnecessary and under plan it ranged between 28 to 68 *per cent*.

2.8.1.4 Excess release of fund resulting in blocking up of Government Funds

Funds to the extent of ₹425 crore during 2013-14 were released to the Sarva Shikhsha Abhiyan towards the State share of 35 *per cent* under XIII Finance Commission grants for payment of salaries to the staff, officers and teachers of the Taluk Panchayats. However, it is seen that from 2012-13 onwards, the State Government is providing the total salary amount in its budget and made the payments through the treasury (HRMS). Hence, release of ₹425 crore to the society, when the Government had included the salaries in the budget, has resulted not only in funds being provided in excess to the society, but also in locking up of Government funds.

2.8.1.5 Drawal of funds to avoid lapse of budgetary grants

As per Article 2(15) of the Karnataka Financial Code, "Lapse of Grant" means the expiry at the close of the financial year of the sanctioned grant not utilized or the unexpended portion of the sanctioned grant, except grants which are specially exempted from the rule of lapse. Funds provided in the budget are for actual expenditure to be incurred during the year, and any unspent provisions lapses at the close of the financial year.

Scrutiny of records at the Commissionerate of Public Instructions revealed that during 2013-14, the Department had drawn ₹13.75 crore under the head of account 4202-01-201-1-01-133/ 422/423 released towards construction of teachers' quarters at various locations across the State. The said amount was transferred to the Rajiv Gandhi Rural Housing Corporation Limited (June 2014) for implementation of the work. However, as the revised estimates were required to be submitted, the work was not commenced and the Commissioner of Public Instructions had instructed (July 2014) the corporation to deposit the amount in the bank till the approval/sanction from the Government is accorded.

Irregular deposit of funds enabled the Department to avoid lapse of budgetary provisions and to by-pass budgetary requirements to spend the amount before the close of the financial year.

2.8.1.6 Lapse of budget /surrender of unutilized provision

Rule 264 of the Karnataka Budget Manual (KBM) and Article 314 of the Karnataka Financial Code (KFC) provide that all savings anticipated by the Controlling Officers should be reported by them with full details and reasons to the Finance Department immediately after these are foreseen. No amounts out of the savings should be held in reserve for meeting additional expenditure not definitely foreseen or not already approved by the competent authority. This rule was violated as the amount surrendered was an insignificant portion of the total unutilized provision. Thus the instructions contained in the manual have not been scrupulously followed by the controlling officers. The position of surrender of unutilized provision is brought out in **Table 2.14.**

Table 2.14 – Lapse of budget/surrender of savings

(₹ in crore)

Year	Savings		Amount Surrendered	
	Revenue	**Capital**	**Revenue**	**Capital**
2012-13	1,755.04	245.29	13.91	27.34
2013-14	2,614.14	109.46	181.27	28.65
2014-15	2,986.35	439.33	6.11	12.36

Source: Grant Register

During the year 2014-15, as against unutilized provision of ₹2,986.35 crore, only ₹6.11 crore was surrendered in the Revenue section, and out of savings of ₹439.33 crore, an amount of ₹12.36 crore was surrendered in the Capital section.

2.8.1.7 Persistent savings

It was observed that a substantial portion of the budget allocation remained unutilized every year under certain heads of accounts during 2013-15, indicating non-achievement of the projected financial outlays in the respective years. This indicates that the budget allocations were made without considering the previous years' expenditure as required under Rule 110 of the KBM, which resulted in persistent savings under the heads of accounts as shown in **Table 2.15.**

Table 2.15 - Persistent savings

(₹ in crore)

Sl No	Head of Account	2012-13	2013-14	2014-15
1	2202-01-101-10 EDUSAT	0.70	0.58	0.33
2	2202-01-115-01 Sarvashiksha Abhiyan	1,127.10	1,331.81	960.75
3	2202-02-053-01 Improvement of Secondary School building constructions	1.31	4.48	0.95
4	4202-02-108-02 Vocationalization of Higher Secondary Education (Examination Charges)	0.70	0.94	0.45
5	2202-03-103-2 Other Government Colleges	149.01	247.50	207.38
6	2202-03-800-5 Acquisition of land on behalf of educational institution	3.36	2.54	2.63
7	2202-03-800-9 Karnataka Knowledge Commission	7.91	0.71	0.50
8	2202-80-003-05 Computer literacy Awareness in Secondary schools	100.94	178.12	85.29
9	2202-80-004-01 Committees and Boards of General Education	0.52	0.33	0.43
10	2202-80-196-6 ZP –CSS/CPS	8.05	8.27	5.47
11	2202-80-800-35 GIA in education	69.00	214.99	150.00
12	2202-80-800-43 Scheme for providing Quality Education in Madrasas(SPQEM)-GIA	0.82	7.00	5.28
13	4202-01-203-1 Buildings	28.33	93.22	387.42

Source: Appropriation Accounts

2.8.1.8 Rush of Expenditure

As per paragraph 6 of instructions issued by the Department of Finance, GOK dated 09 September 2004, regarding releases, drawal and accounting of funds, 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 33 to 100 *per cent* during the year 2014-15. The sub-head wise details of expenditure are detailed in **Appendix 2.15(a).**

2.8.2 Grant No.21 - Water Resources

A review of budgetary procedures followed and expenditure controls exercised in respect of Grant No 21 – Water Resources, showed the following:

2.8.2.1 Introduction

Grant No.21 of the Appropriation Accounts covers the budget and expenditure against the provisions pertaining to the Water Resources Department including that of Minor Irrigation Department responsible for providing drinking water and irrigation facilities to the farmers in the State of Karnataka. The scrutiny of budgetary procedures followed and the expenditure controls exercised during the period 2012-15 by these departments revealed the following.

2.8.2.2 Budget and Expenditure

The overall position of budget provisions, actual disbursements and savings under the grant for the last three years is as given in T**able 2.16**.

Table 2.16 – Budget and Expenditure under Grant No.21 – Water Resources

(₹ in crore)

Year	Section	Budget Provision	Total	Expenditure	Unutilized Provision and its % in ( )
2012-13	Revenue-Original(v)	982.43	1,119.90	748.04	371.86 (33)
	Supplementary(v)	137.47			
	Capital-Original(v)	6,388.57	6,661.90	5,145.50	1,516.40 (23)
	Supplementary(v)	273.33			
2013-14	Revenue-Original(v)	1,033.77	1,033.79	739.07	294.72 (28)
	Supplementary(v)	0.02			
	Capital-Original(v)	7,576.65	7,576.65	6,316.03	1,260.62 (17)
	Supplementary(v)	0			
2014-15	Revenue-Original(v)	1,338.17	1,367.44	665.93	701.51 (51)
	Supplementary(v)	29.27			
	Revenue-Original(c)	0	436.66	271.12	165.54

Year	Section	Budget Provision	Total	Expenditure	Unutilized Provision and its % in ( )
	Supplementary(c)	436.66			(38)
	Capital-Original(v)	8,011.06	8,208.30	7,619.50	588.81
	Supplementary(v)	197.24			(7)
	Capital-Original(c)	0	98.84	98.84	0
	Supplementary(c)	98.84			(0)

Source: Appropriation Accounts

During the period 2012-15, un-utilized provision under Revenue Voted Section ranged between 28 to 51 *per cent* and that under Capital Section, between 7 to 23 *per cent*. On account of amendment brought out to the Karnataka Fiscal Responsibility Act 2002, enlarging the scope of liabilities to include the borrowings of Special Purpose Vehicles (SPV) as the liabilities of the State Government itself, which came into effect during 2013-14, the provision for debt servicing which was made under voted section of Revenue/Capital was changed to Charged section through Supplementary Demand during 2014-15, to account for the expenditure under Charged section. This act of the Government resulted in savings under Voted section (Revenue - ₹436.66 crore and Capital ₹ 98.84 crore) which was surrendered eventually on account of the above at the end of the year.

It was also observed in audit that comments on several heads of accounts in the Appropriation Accounts over the years, which exhibited savings persistently, appears to have not been taken into account before formulating the budget for the ensuing year, contributing to unutilized provision.

2.8.2.3 Delay in submission of Budget Proposal

The budget circular issued for preparation of the budget, clearly indicates that estimates should be formulated with greatest care and accuracy and also with due regard to sanctions and actual requirements. Estimates under expenditure heads should provide for minimum requirements of the departments, keeping in view economy measures from time to time. The circular *inter-alia*, also prescribed the due dates for submission of proposals by estimating officers.

For the period 2012-15, it was observed that the concerned departments did not adhere to the due dates prescribed in the budget circular for submission of budget estimates to the Finance Department. The details of budget proposals submitted by the concerned department are as shown in **Table 2.17.**

Table 2.17- Delay in submission of budget proposal

Year	Due Date for submission of budget proposals	Budget proposals submitted	
		Water Resources Department	Minor Irrigation Department
2012-13	30 November 2011	10.02.2012	09.02.2012
2013-14	30 November 2012	18.01.2013	18.01.2013
2014-15	30 November 2013	31.01.2014	01.02.2014

As seen from the table, there is substantial delay in sending proposals to the Finance department in violation of the budget circular provision. It was also not clear how the budget of the department found its place in the detailed volumes of estimates, in the absence of proposal from the department within the stipulated time.

2.8.2.4 Budget- Revenue and Capital

The budget is further bifurcated into plan and non-plan in the detailed demand for grants under Revenue/Capital section respectively. The bifurcation of provision/expenditure during 2012-15 under Revenue and Capital is given below in **Table 2.18** and **Table 2.19**.

Table 2.18 - Revenue

(₹ in crore)

Year	Budget including Supplementary		Expenditure		Deviation in percentage	
	Non-plan	Plan	Non-plan	Plan	Non-plan	Plan
2012-13	512.17	607.73	471.68	276.36	-8	-55
2013-14	651.35	382.44	508.71	230.36	-22	-40
2014-15 (Voted)	942.77	424.66	421.29	244.63	-55	-42
(Charged)	436.66	0	271.12	0	-38	0

Source: Grant Register

As evident from the above table, the percentage of budget non-utilization showed an increasing trend under non-plan head for the years 2012-15, and under the plan head, the percentage remained high for all the three years. For the year 2014-15, the percentage of non-utilization under non-plan was high due to the reasons stated at **Para 2.8.2.2** above.

Table 2.19 - Capital

(₹ in crore)

Year	Budget including Supplementary		Expenditure		Deviation in percentage	
	Non-plan	Plan	Non-plan	Plan	Non-plan	Plan
2012-13 (Voted)	293.37	6,368.53	280.31	4,865.19	4	24
2013-14 (Voted)	269.76	7,306.89	267.67	6,048.36	1	17
2014-15 (Voted)	7.78	8,200.52	5.99	7,613.51	23	7
(Charged)	98.84	0	98.84	0	0	0

Source: Grant Register

As evident from the above table, percentage of non-utilization was high under the plan expenditure during 2012-14. The percentage of non-utilization under non-plan was not so significant during the above period and was 23 *per cent* during 2014-15. No specific reasons for non-utilization of the budget provision under plan were furnished by the department.

2.8.2.5 Lapse of budget/surrender of savings

According to paragraph 264 of the Karnataka Budget Manual, 1975, all savings anticipated by the controlling officer should be reported by them with full details and reasons to the Finance Department as soon as they are foreseen. However, it was observed that the amount surrendered was an insignificant portion of the total unutilized provision. The instructions contained in the manual have not been followed by the controlling officers. The position of surrender of unutilized provision is brought out in **Table 2.20.**

Table 2.20 – Lapse / surrender of unutilized provision

(₹ in crore)

Year	Savings		Amount surrendered	
	Revenue	Capital	Revenue	Capital
2012-13(Voted)	371.86	1,516.40	9.14	1,143.84
2013-14(Voted)	294.73	1,260.62	0.94	132.94
2014-15(Voted)	701.51	588.80	471.00	297.01
(Charged)	165.54	0	0	0

Source: Grant register

During the year 2014-15, unutilized provision of ₹768.01 crore was surrendered on the last day of the financial year, of which ₹471.00 crore was under Revenue Section and ₹297.01 crore under Capital Section.

2.8.2.6 Persistent savings

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 important, the quantum of Government assistance lying with the recipients un-utilized/unaccounted for etc., with a view to minimizing the surrender of funds available at a later stage. Persistent savings during 2012-15, as detailed below indicate that the provisions of para 110 of the Karnataka Budget Manual were not being observed.

The Head-wise details regarding persistent savings are shown in **Table 2.21.**

Table 2.21 – Persistent Savings

(₹ in crore)

Sl No	Head of Account/ Nomenclature	2012-13	2013-14	2014-15
1	2700-03-001-01 -Tungabhadra Project,	4.41	2.15	13.12
2	2701-80-001-19-Interstate Water Disputes, Technical Cell, WRDO	5.63	10.50	11.34
3	2702-02-005-80- National Hydrology Project-Phase-II-EAP	7.48	3.24	1.00
4	2705-202-0-01- CADA for Malaprabha and Ghataprabha Projects	64.45	14.23	28.81
5	2705-00-204-0-01 CADA for Upper Krishna Project	53.77	21.72	24.60
6	2705-00-205-0-01 CADA for Bhadra Project	11.59	7.92	13.62
7	2705-00-206-0-01 CADA, Gulbarga	36.39	8.99	20.42
8	4700-04-800-02 Tungabhadra Project	1.91	2.00	2.46
9	4701-73-800-0-01 UKP Zone AIBP	305.53	164.30	214.65
10	4701-80-190-3-Investments in KBJNL	884.14	898.75	58.27
11	4702-00-101-1 Surface Water-Construction of new tanks	151.70	87.83	182.24
12	4705-800-0-01- CADA -SDP	44.37	103.77	122.37

Source: Appropriation Accounts

Read with the averments made in **para 2.8.2.3** supra, it is clear that there was no co-ordination between the departments when it came to inclusion of provision for approval of the Legislature.

2.8.2.7 Rush of Expenditure

As per paragraph 6 of instruction issued by FD dated 09 September 2004, regarding releases, drawal and accounting of funds, the Administrative Departments and the heads of Departments were to plan the expenditure 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. It was observed that there is rush of expenditure in the last quarter especially in the month of March and the object-head wise details of expenditure where the percentage of expenditure during last quarter and March is huge compared to the total expenditure incurred during 2014-15 are detailed in **Appendix 2.15(b).** Bunching of expenditure in the last quarter of the financial year is not prudent fiscal management and is against the manual provision to control expenditure.

2.8.2.8 Release of fund for debt servicing to Cauvery Neeravari Nigam Ltd., (CNNL) under the Head of account pertaining to Krishna Bhagya Jala Nigam Ltd. (KBJNL)

The budget requirement of the department consists of provision for three major corporations viz. Krishna Bhagya Jala Nigam Limited (KBJNL), Karnataka Neeravari Nigam Limited (KNNL) and Cauvery Neeravari Nigam Limited (CNNL). These were established in 1994, 1998 and 2003 respectively to implement projects under the irrigation sector. These companies/corporations borrow funds from the market/financial institutions outside the State Budget. Though the funds for implementation of the State plan programme were to be mobilized by these companies outside the State budget, the borrowings of these companies are the liabilities of the State Government which stood as guarantor for loans availed. The State Government has been repaying the off-budget borrowings of these corporations including interest, through regular budget (Revenue and Capital) on approval by the Legislature. These companies/corporations have been shown in the overview of budget regularly under off-budget borrowings.

On scrutiny of budget documents for the years 2012-15, it was noticed in audit that the Government had been releasing the funds towards debt servicing of M/s. CNNL under the head of account 2701-80-190-0-01-240 which pertains to M/s.KBJNL, though the beneficiary entities had been submitting their requirement of funds separately to the Finance Department. This indicates that the debt servicing in respect of M/s CNNL was bunched with M/s. KBJNL, thus lacking in transparency in preparation of budget. No reply was forthcoming for the clubbing of the budget of the entities.

2.8.2.9 Mis-classification of establishment expenditure under Capital Heads (Plan and Non-plan)

Appendix 1 of Finance Accounts details the expenditure accounted under the functional major heads under salaries**.** The expenditure on salaries is booked to revenue head of account. However, it was observed that the budget provisions were obtained under capital section for incurring expenditure on salaries under plan and non-plan. Booking of expenditure to capital account on salaries for the period 2012-15 amounting to ₹53.20 crore not only inflated the capital expenditure but also suppressed the expenditure of salaries on revenue account as detailed in **Table 2.22.** Further, comments are included in the Statement-2 of Finance Accounts relating to booking of expenditure to capital account on salaries year after year. However, no efforts have been made to rectify the mis-classification and obtaining budget under proper heads of accounts.

Table 2.22 – Misclassification of salary expenditure under capital head

(₹ in crore)

Sl No	Major head	2012-13	2013-14	2014-15
1	4700	15.72	16.50	10.13
2	4701	2.41	2.49	1.99
3	4711	1.16	1.41	1.39
Total		**19.29**	**20.40**	**13.51**

2.9 Parking of Public Money in Banks - Department of Social Welfare

2.9.1 Release and Expenditure Pattern of Funds

Social Welfare/Tribal Welfare Departments are implementing various Centrally Sponsored Schemes, State Sector Schemes and Central Plan Schemes for the development of Scheduled Castes /Scheduled Tribes for educational, social and economic advancements namely, providing basic facilities like drainages, CC roads at SC & ST Colonies, self-employment schemes, Ganga Kalyana Yojane, Land Purchase scheme and various training programmes. These schemes are implemented at the State Levels by the Commissioner of Social Welfare/Director of Tribal Welfare and through implementing agencies like Corporations/Societies. At District Levels these scheme are implemented by Chief Executive Officers of Zilla Panchayats through District Social/Tribal Welfare Officers. The DSWOs/DTWOs receive funds from Commissioner of Social Welfare/Director of Tribal Welfare and Zilla Panchayats. The funds so received are deposited in Savings bank accounts in Nationalized Banks.

A study of management of unspent amounts in eight test checked DSWOs/Project Coordinators/ DTWOs and 12 implementing agencies (**Appendix 2.16**) for the period from 2012-15 was made during April-August 2015.

The audit checks mainly included:

- The details of unspent amount and parked in Nationalized banks
- Amount parked other than in Nationalized Banks
- The details of closed schemes where unspent amounts are lying in banks without being deposited back to Government Account.

2.9.1.1 Budget and Expenditure

The overall position of budget provision, actual disbursement and savings during the period 2012-15 in respect of Commissioner of Social Welfare (2225-01 and 4225-01) and Director Tribal Welfare (2225-02 and 4225-02) are shown in **Table 2.23 and 2.24.**

REVENUE

Table 2.23- Budget and Expenditure

(₹ in crore)

Year	Budget provision including Supplementary	Expenditure	Savings(-) and its percentage in( )
2012-13	2,681.20	2,468.43	212.77(8)
2013-14	2,924.67	2,015.00	909.67(31)
2014-15	2,999.90	2,833.44	166.46(6)

During the period 2012-15, unutilized provision ranged between 6 to 31 *per cent*. Compared to the previous year, there was better utilization of funds. It was also observed in audit that funds were being released routinely without ascertaining utilization of the funds previously released.

CAPITAL

Table 2.24- Budget and Expenditure

(₹ in crore)

Year	Budget provision including Supplementary	Expenditure	Savings(-) and its percentage in( )
2012-13	112.48	61.68	50.80(45)
2013-14	1,037.69	650.21	387.48(37)
2014-15	1,364.73	1,060.41	304.32(22)

During the period 2012-15, unutilized provision ranged from 45 to 22 *per cent* showing a decreasing trend.

As releases of funds to the implementing agencies are accounted as expenditure on the Consolidated Fund of the relevant years, the funds remaining unutilized distorted the fiscal indicators of the Government of those years and helped the Government to justify borrowings. The release of money by the Government without ascertaining the exact utilization is against the principles of prudent fiscal management.

2.9.1.2 Retention of balances by implementing agencies/District offices

The Government, in order to uplift the SC and ST community and for implementation of other social and tribal welfare schemes, releases funds to implementing agencies/District Social/Tribal Welfare Offices. Funds so released are deposited in the savings bank accounts in nationalized banks. The tendency to draw funds and to keep the same either in deposit accounts or bank accounts to avoid lapse of budgetary provisions at the end of the financial year is against the cannons of financial propriety. A test check of bank accounts of implementing agencies/DSWO/DTWO revealed that there were huge balances lying in the bank accounts (₹ 2,188.04 crore) as detailed in **Appendix 2.17**. This indicates that the schemes were incomplete which was mainly due to delay in selection of beneficiaries, non-availability of land and delay in finalization of tenders etc., resulting in non-achievement of goals and objectives of the scheme.

In reply, DSWO/DTWO stated that action would be taken to utilize the funds and unspent amount would be returned to Government. The reply is not satisfactory as the department had not analyzed the reasons for savings and its impact on beneficiaries due to non-implementation of the scheme.

2.9.1.3 Non-remittance of Interest earned on bank balances.

As per GO No. FD 53:BG2003 dated 03.07.2003 issued by the Finance Department, the interest earned in bank accounts shall be remitted to the head 0049-04-110-0-01. It was also observed in audit that the Minor Head indicated to account for interest on deposits was also not in order as this particular head records receipt of interest on cash balance investments made by Reserve Bank of India in Treasury Bills. The interest earned on the amount kept in bank accounts amounting to ₹266.44 crore for the period from 2012-13 to 2014-15 was not remitted to Government account by the department/implementing agencies as detailed in **Appendix 2.18.**

In reply the DSWO/DTWO stated (August 2015) that the interest earned would be remitted to Government Account. However, the implementing agencies viz. Karnataka Residential Education Institute Society (KREIS) stated that as no separate funds were provided to meet the corporation's administrative expenses including salaries of the employees, the interest amount is being utilized to meet these expenditure. The action of the implementing agencies is not in order, since the guidelines contained in letter dated 22.06.2004 of the Ministry of Rural Development, GOI stipulates that interest earned should be taken as part of additional fund to the scheme fund. Utilization of interest earned on scheme funds for other purposes goes against the instructions of the Ministry of Rural Development.

2.9.1.4 Savings/Unspent amount under the in-operative/closed schemes not returned to the Government

A scrutiny of welfare schemes, in test-checked districts, indicated that the unspent amount/savings of in-operative/closed schemes amounting to ₹8.70 crore as detailed in **Appendix 2.19,** were not remitted to Government account. Such retention of Government money may lead to a situation where the money could be diverted/mis-appropriated and may remain undetected. It was replied by DSWO/DTWO that the schemes were in-operative/discontinued; hence balances have remained un-utilized and that the un-utilized amount of in-operative schemes would be remitted back to Government account.

2.9.1.5 Operation of Government transactions in Private Banks

The guidelines contained in letter dated 22.06.2004 of the Ministry of Rural Development, GOI stated that scheme funds should be deposited and operated in nationalized banks.

The funds received by DTWO, Chitradurga for implementation of tribal welfare scheme were operated through a private bank viz., Kotak Mahindra Bank during 2012-15. The balance remaining in the bank as of March 2015 is ₹9.20 crore.

In reply, the DTWO, Chitradurga stated that the Savings Bank Accounts in the private bank would be closed.

2.9.1.6 Maintenance of multiple bank accounts by District Offices

As per the circular of the Social Welfare department dated 05.05.2011, all the bank accounts held in the names of DSWOs/DTWOs/ITDPs on the date of issue of the circular shall be closed and balances should be operated through only two joint accounts opened in the names of Deputy Commissioner and DSWOs/DTWOs/ITDPs and CEO, ZP and DSWOs/DTWOs/ITDPs respectively.

However, it was noticed that four drawing officers continued to operate multiple bank accounts (more than two) as detailed in **Appendix 2.20.**

It was replied that action would be taken to maintain only two joint accounts and other accounts would be closed.

2.9.1.7 Parking of Fund in Current Account

As per the guidelines contained in the letter dated 22.06.2004 by the Ministry of Rural Development, GOI, the scheme funds are not to be kept in the current account of banks. A scrutiny of records revealed that one District Tribal Welfare Officer and two implementing agencies have kept the funds received from the Government for implementation of welfare schemes in the current account of various banks which is in contravention to the guidelines issued.

It was replied by the DTWO that action would be taken to close these current accounts.

2.10 Excess Payment of Family Pension

The Karnataka Government Servants (Family Pension) Rules, 2002 provide that when a Government servant dies while in service, his/her family is entitled to Family Pension at double the normal rate or 50 *per cent* of the last pay drawn by the deceased Government servant, whichever is less, for a period of seven years from the date following the date of death or till the date on which the Government servant would have attained the age of sixty five years had he/she remained alive, whichever is earlier. Majority of the pension payments are made through Banks. After crediting the Family Pension amounts to the SB accounts concerned, the Banks forward the claim through the link branch and the claim is settled by the Treasury.

During 2014-15, in 187 cases relating to 32 district treasuries, Public Sector Banks made payment of Family Pension at enhanced rates beyond the period mentioned in the Pension Payment Orders, resulting in excess payment of ₹ 1.42 crore (**Appendix 2.21**). Further, in respect of 20 treasuries, excess payment of ₹ 66.07 lakh was noticed during 2014-15 in 106 cases, despite the excess payment in these cases have been pointed out in earlier years, resulting in cumulative continued excess payment of ₹ 1.43 crore (**Appendix 2.22**).

The Banks continued to make payments at the enhanced rates beyond the period mentioned in the Pension Payment Orders although we had highlighted instances of such excess payments on a number of occasions in the past.

Failure on the part of the Banks to monitor/incorporate a validation check to facilitate adherance to the cutoff date as per rules for payment of Family Pension at enhanced rates resulted in the excess payments.

To a similar observation brought out in the Report of the State Finances 2012-13 the Government replied (June-2014) that measures were taken to recover the excess payment from the Public Sector Banks and banks had repeatedly stated that steps had been taken to prevent excess payment in future. It further stated that the matter regarding the need for establishing Centralized Pension Processing Centers (CPPC) by banks to ensure correctness as well as efficiency of Pension payments was taken up with RBI and a circular was also issued by the Director of Treasuries to banks as to the procedure to be followed for recovery of excess payment paid.

However, the fact remained that excess payment of family pension continued even during the year 2014-15, though CPPCs have been established by many banks. The reply, though detailed the procedure to be followed for recovery after the excess payment was made, was however silent about the action taken to prevent such excess payment. Hence due to inadequate steps taken to prevent excess payment of pension, excess of ₹1.42 crore was made during 2014-15.

Finance Department replied (January 2016) that Public Sector Banks have been asked to send alert letters a month in advance to the concerned branch in respect of family pensions for which rate is to be reduced by verifying the register which is maintained at all treasuries to avoid future excess payments.

2.11 Conclusion

As brought out in earlier paragraphs, State Government should exercise tighter control over budgetary exercise/expenditure control for prudent financial management as the following irregularities took place due to inadequate controls:

- Against the total provision of ₹1,53,936.65 crore during 2014-15 an expenditure of ₹1,31,365.27 crore was incurred. This resulted in an unspent provision of ₹22,571.38 crore (15 *per cent*).

- Executive orders for expenditure, prior to approval of the Legislature, were issued.

- Expenditure aggregating ₹150.79 crore in 11 cases, which should have been treated as 'New Service/New Instrument of Service', was incurred without the approval of the Legislature.

- Supplementary Provision was not completely supported by the saving under other demands to make the transactions neutral. Supplementary provision of ₹687.73 crore in 25 cases was unnecessary.

- Re-appropriation of funds in 35 cases was made injudiciously resulting in either un-utilized provision or excess over provision.

- In 15 grants, ₹3,313.26 crore was surrendered in the last two working days of the financial year.

- Excess payment of Family Pension was noticed.

- Withdrawal of funds from Contingency Fund was not justifiable as in one case ₹ 0.95 crore was drawn in excess of requirement and in another case the purpose for which it was drawn was not fruitful.