

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 2015-16 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		(₹ in crore)							
		Original grant/ Appropriation	Supplement ary grant/appro priation	Total	Actual expenditure	Unspent provision	Amount surrender ed	Amount surrender ed on 31st March	Per cent of savings urrende red on 31 March
Voted	I Revenue	1,00,420.26	13,870.43	1,14,290.69	1,07,198.92	7,091.77	1,923.61	1,923.61	100
	II Capital	23,151.62	3,356.86	26,508.48	23,570.70	2,937.78	223.09	223.09	100
	III Loans and Advances	1,533.23	239.05	1,772.28	937.91	834.37	0.00	0.00	0.00
Total Voted		1,25,105.11	17,466.34	1,42,571.45	1,31,707.53	10,863.92	2,146.70	2,146.70	100
Charged	IV Revenue	16,657.06	1,241.68	17,898.74	13,031.13	4,867.61	4,033.44	4,033.44	100
	V Public Debt Repayment	5,787.90	0.00	5,787.90	4,110.20	1,677.70	1,677.70	1,677.70	100
	VI Capital	413.77	0.00	413.77	400.97	12.80	25.64	25.64	100
Total Charged		22,858.73	1,241.68	24,100.41	17,542.30	6,558.11	5,736.78	5,736.78	100
Grand Total		1,47,963.84	18,708.02	1,66,671.86	1,49,249.83	17,422.03	7,883.48	7,883.48	100

Source: Appropriation Accounts

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

Detailed accounts in support of advances drawn through Abstract Contingent bills amounting to ₹90.99 crore were not submitted 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 2016 was 1,736.

2.2.3 The total expenditure stood overstated in the following cases:

- Non-provision of ₹99.67 crore for incurring expenditure out of revenue realized from Karnataka Forest Development Fund, Protected Area Management Fund and Afforestation Fund (Grant No.8).
- Out of the funds released to Zilla Panchayat/ Taluk Panchayat, an amount of ₹523.70 crore under the ZP Fund and ₹789.04 crore under the TP fund under category II (in Public Account) remained unutilized.

2.2.4 The total expenditure stood understated in the following cases:

Short transfer of ₹27.39 crore out of revenue collected in respect of Environment Protection Fees to Fund Account (Details vide **paragraph 1.9.4**).

Non- transfer of Green Tax Cess of ₹45.90 crore collected to the Public Fund Account (Details vide **paragraph 1.3.1.1**).

2.2.5 The overall unspent provision of ₹17,422.03 crore (2015-16) was the result of unspent provision of ₹17,355.99 crore under 29 grants/ appropriations which was offset by excess expenditure of ₹66.04 crore under Demand No.1, 5, 6 and 19 under voted/charged expenditure of the revenue/capital sections.

2.2.6 During 2015-16, ₹5,065.69 crore covering 25 grants under revenue/capital section, (this is only illustrative), through 190 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 Departments as additionalities without the authorization of the Legislature. These cases did not attract the criteria fixed (₹5.00 crore) for New Service/New Instruments of Service as recommended by PAC of the State Legislature. However, provision to cover these additionalities was made through supplementary demands under Article 205(1) (a) of the Constitution.

Details of such additionalities for the period 2013-14 to 2015-16 are shown in **Table 2.2**.

Table 2.2: No. of additionality orders issued during 2013-14 to 2015-16

(₹ in crore)			
Year	No. of Grants	Supplementary Demand	Additionality Amount
2013-14	04	12,198.48	186.58
2014-15	25	12,336.76	3,022.33
2015-16	25	18,708.02	5,065.69

Source: Appropriation Accounts

The practice of release of funds initially through executive orders and getting it ratified later by seeking approval of the Legislature through supplementary demands shows an increasing trend. It is suggested that such a procedure should be confined to the barest minimum and resorted to only in exceptional circumstances as recommended by the PAC vide Para 5 of GO dated 6 August 2016.

2.3 Excess Expenditure

In 11 cases, expenditure in excess of ₹25 crore of the budget provision was incurred under seven Major Heads of account pertaining to six grants aggregating to ₹1,042.24 crore (**Appendix 2.2**).

2.3.1 Excess expenditure requiring regularization in the previous years

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 ₹1,058.64 crore for the years 2012-13, 2013-14 and 2014-15 is yet to be regularized as detailed in **Table 2.3**.

Table 2.3 Excess expenditure requiring regularization

(₹ in crore)

Year	Grant No./ Description	Excess required to be regularized as commented in the AA/AR	Remarks
2012-13	08 – Forest, Ecology and Environment	494.02	Excess expenditure 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 ₹284.51 crore which had remained as revenue in Commercial Tax Department was transferred to Public Account.
2013-14	08 – Forest, Ecology and Environment	355.39	Excess expenditure was on account of transfer of Forest Development Tax to Public Fund account. The receipt was more than the anticipated collection and also due to erroneous budgeting.
	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.
2014-15	08 – Forest, Ecology and Environment	188.75	Excess expenditure was on account of transfer of Forest Development Tax to Public Fund account. The receipt was more than the anticipated collection and also due to erroneous budgeting.

Year	Grant No./ Description	Excess required to be regularized as commented in the AA/AR	Remarks
	10 – Social Welfare	0.06	No specific reasons furnished for the excess
	Total	1,058.64	

2.3.2 Excess expenditure over provision during 2015-16

Excess expenditure of ₹66.04 crore against Demand No.1 - Agriculture and Horticulture, 05 - Home and Transport, 06 – Infrastructure Development and 19 – Urban Development during 2015-16 are required to be regularized, the details of which are given in **Table 2.4**.

Table 2.4: Excess expenditure over provision during 2015-16 requiring regularization

(Amount in ₹)				
Sl. No	Grant	Provision	Expenditure	Excess
1	01 – Agriculture and Horticulture Capital Voted	71,97,00,000	79,90,05,365	7,93,05,365
2	05 – Home and Transport Revenue Voted	47,21,80,78,000	47,66,75,12,163	44,94,34,163
3	06 – Infrastructure Development <i>Revenue Charged</i>	0	17,08,292	17,08,292
	<i>Capital Charged</i>	0	4,94,81,312	4,94,81,312
4	19 – Urban Development <i>Capital Charged</i>	0.00	8,04,77,000	8,04,77,000
	Total	47,93,77,78,000	48,59,81,84,132	66,04,06,132

Source: Appropriation Accounts

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

- Excess under Demand No.1 was on account of error in budgeting. Provision was made under Grant No. 18- Commerce and Industries instead of Grant No.1 – Agriculture and Horticulture. However, the expenditure was accounted for rightly under Grant No.1.
- Excess under Grant No.06 – Infrastructure Development and Grant No.19 –Urban Development were due to an error in the budget wherein the funds were provided under Voted category instead of under *Charged* category. However, the expenditure was accounted for rightly under the *charged* section as required under the amended provision Section 2 of KFRA, 2002 made during 2014.

2.4 Scrutiny of Budget Estimates and Supplementary Estimates for the Year 2015-16

2.4.1 Errors in budgeting

2.4.1.1 Misclassification between 'Capital' and 'Revenue' sections

During 2015-16, an expenditure of ₹175.50 crore was classified under the Revenue Section instead of Capital Section and *vice versa*, the details of which are given in **Table 2.5**.

Table 2.5: Misclassification between 'Revenue' and 'Capital'

(₹ in crore)				
Sl. No	Head of Account	Provision	Expenditure	Remarks
1	2055-00-109-1-04-132 – Capital Expenses	22.89	22.81	Acquisition of Land for construction of Training College at Kalaburagi and Yelahanka which is capital in nature.
2	2202-03-800-5-00-132 – Capital Expenses	3.00	2.89	Funds provided for acquisition of land for Educational Institutions under Revenue Section instead of Capital Section.
3	2415-80-004-2-01-103 – GIA Asset Creation	24.52	24.52	Fund provided under Revenue Section for construction of Hostel buildings to UAS for Dharwad Research Station which is Capital in nature.
4	2202-03-103-2-01-422&423 SCSP & TSP	51.99	19.28*	Provision/expenditure under revenue section is erroneous as the amount was spent on Construction of Hostel buildings which is capital in nature.
5	4225-01-800-0-22-132- Capital Expenses	106.00	106.00	Write-off of loans sanctioned to beneficiaries of SC/ST communities by Dr. B.R.Ambedkar Development Corporation Limited which should have been classified under Revenue, by treating the expenditure as subsidy to the Corporation. While accepting the error, the Government in its order dated October 17, 2016 has stated that for the year 2016-17, the provision under Capital head would be surrendered and the same would be provided under Revenue section.
Total		208.40	175.50	

*Expenditure upto December 2015.

- A mention was made in **paragraph 2.8.2.9** of the report on State Finances for the year ending 31-03-2015 that budget provisions were made under capital section for incurring expenditure on salaries instead of revenue HOA. In the year 2015-16 also, salaries amounting to ₹6.73 crore were booked under the capital account (Major Head 4700 and 4711). This inflated the capital expenditure and suppressed revenue expenditure.

2.4.1.2 Misclassification between 'voted' and 'charged' sections while budgeting.

Budget provisions were made under voted section instead of charged section under Revenue/Capital and *vice versa*. These cases of misclassification amounted to ₹3,825.41 crore. The details of such transaction are shown in **Appendix 2.3**. As seen from the **Appendix 2.3**, major misclassification occurred under Demand No.3 – Finance. This was on account of obtaining the provision relating to payment of pensions under the charged section of revenue instead of the voted section. It was replied (July 2016) that this was due to a technical snag which was rectified in Supplementary Estimate II of 2015-16.

2.4.1.3 Errors due to incorrect provisions made under grants

Errors in budgeting of ₹81.51 crore arose due to provision being made in Grant No.18 – Commerce and Industries instead of Grant No.1 – Agriculture and Horticulture as shown below:

- Provision of ₹71.24 crore made under MH 2851 – Village and Small Industries- Transfer Market fees and License Fee to Karnataka Silk Worm Cocoon and Silk Yarn Development and Price Stabilization Fund,
- Provision of ₹0.27 crore made under MH 2852-Industries-General-Direction and Administration – Director, Government Silk Industries,
- Provision of ₹10.00 crore made under 6860-Loans for Consumer Industries-Textiles-Loans to Public Sector and other undertakings-Silk Yarn Price Stabilization Scheme-Karnataka Silk Marketing Board – Loans.

All the activity relating to Sericulture department was transferred to the Department of Agriculture and Horticulture during 2011-12 itself. Hence provision should have been made under the correct demand.

2.4.1.4 Incorrect provision made under Major Heads of Account

- A provision of ₹10.00 crore was erroneously made in Grant No.9 under the Major Head 4860 – Capital Outlay on Consumer Industries – Investment of Government in the Share Capital to Karnataka State Industrial Commercial Co-operative Bank Limited instead of Major Head 4425 – Capital Outlay on Co-operatives.
- A provision of ₹0.10 crore was provided in Grant No.29 under 2049 - Interest payments for payment of interest on compensation bonds instead of under 2075 – Miscellaneous General Services contrary to the instruction contained in note (1) below 2049 in the LMMH.
- In the Supplementary Estimate-I (Grant No.3), a provision of ₹2 crore was made under 2020-Collection of Taxes on Income and Expenditure being the interest on delayed refunds of Sales Tax/VAT by Commercial Tax Department. The provision made under the functional major head was incorrect as it relates to the sub sector (a)

below Sector A-Taxes on Income and Expenditure and not sub-sector (c) – Taxes on Commodities and Services from where interest on delayed refunds was proposed to be made. However, no expenditure has been booked and the entire provision was surrendered.

2.4.1.5 Misclassification under Minor head level:

A provision of ₹27.69 crore was made erroneously under Grant No.18 under the HOA 4860 – Capital outlay on Consumer Industries 04- Sugar 190- Investment in Public Sector and Other Undertakings- Co-operative Sugar Mills- Share Capital to Sri Bhimashankar Sahakari Sakkare Kharkahne Niyamit, Indi – Investment. However, both the provision and the expenditure were classified under ‘4860-04-195’ Assistance to Co-operatives – Supply of Plant and Machinery – Investment by the AG (A&E) in accordance with the instructions contained in Paragraph 3.1(b) of LMMH (Demand No.18).

2.4.1.6 Error due to provision made under non-existent sub major head

A provision of ₹0.96 crore was made in Grant No. 20 under Major Head – 2216, sub-major head (01) and Minor Head (700). These heads were deleted by the Correction Slip 535 to the LMMH. However, they continued to be incorporated in the Budget Estimates and the expenditure has been accounted under the heads shown in the Budget Estimates.

2.4.1.7 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 2.6**.

Table 2.6: Details of errors in object level of classification

Item of Expenditure	Amount involved (₹ in crore)	Remarks
Pension and Other Retirement Benefits	12,351.13	This expenditure included grants released to Urban Local Bodies (ULBs) for payment of pension (₹49.17 crore) which are not in the nature of pensions paid to Government Servants, to be accounted under Consolidated Fund of the State.
Consolidated Salaries	794.56	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 (₹751.55 crore).
Maintenance	1,714.21	This includes releases made to ULBs for maintenance expenditure of ₹1,019.85 crore in the form of grants.
Subsidy	14,040.90	Includes releases made to ULBs for payment of Subsidy (₹20.21 crore)

Source: Finance Accounts

Though this was pointed out in earlier Audit Reports, corrective action has not been initiated.

2.4.1.8 Incorrect budgeting

The Finance department maintains the maturity profile of loans accounted for under the internal debt of the State Government and furnishes the details every year to the AG (A&E) for inclusion in the Finance Accounts of the Government. Further, in respect of the borrowings under internal debt, AG (A&E) does not maintain detailed accounts of loans.

The GOI, in the notification issued on 2 May 2014, revised the terms and conditions for NSSF loans sanctioned and stated that there is no moratorium on loans sanctioned under NSSF scheme from 1 April 2014. Further, the loans are repayable in ten years along with interest on half yearly basis.

As seen from the maturity profile of 2014-15, in respect of borrowings under 'special securities issued to NSSF of Central Government', the requirement of funds for the year 2015-16 was indicated as ₹1,031.95 crore and the provision for the same was made in the budget. However, the actual repayment to the end of March 2016 was ₹1,175.55 crore resulting in excess payment of ₹143.59 crore which was due to non-reckoning of GOI Notification *ibid* while working out the budget provision/maturity profile.

Finance Department replied (August 2016) that due to non-receipt of revised terms and conditions well in time, the complete liability could not be provided in the budget. Further, re-appropriation orders were issued on 31.3.2016 to cover the excess of ₹143.59 crore. Thus, though the notification was issued in May 2014, revised maturity profile was issued (August 2016) only after it was pointed out by audit.

2.5 Transactions under the Fund Account

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

During 2015-16, a sum of ₹963.25 crore was anticipated as collection of cess. As against this amount, provisions were made under the Major Heads 3054 (CMRRD ₹295.49 crore), 5465 (IIF ₹549.05 crore) and 6217 (BMRCL ₹800.00 crore) aggregating to ₹1,644.54 crore in the budget for its transfer to the fund account. It was observed that there was a mismatch between the anticipated collection and the provision made for expenditure by transfer, which resulted in the excess provision of funds to the extent of ₹681.29 crore.

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

2.6 Lack of Transparency in Provisioning - Budget Operation of Omnibus Object Head 059 – ‘Other Expenses’

Provision/expenditure in Government Accounts are 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.

During 2015-16, on a scrutiny of vouchers relating to six departments it was noticed that an expenditure of ₹329.42 crore was wrongly classified under the object head ‘059 – Other Expenses’ instead of under the relevant object heads, viz., 015- Subsidiary Expenses, 051- General Expenses 106- Subsidy, *etc.* The details of such misclassifications are detailed in **Appendix 2.4**. In reply, Departments of Agriculture and Health and Family Welfare stated that as the provision in the Budget was made under the object head ‘059 – Other Expenses’ by the Finance Department, the expenditure had been incurred under the same head and from 2016-17 onwards the expenditure would be made under the correct object heads.

2.7 Financial Accountability and Budget Management

2.7.1 Appropriation vis-à-vis allocative priorities

There were 16 cases of unspent provision, each exceeding ₹100 crore and above under 16 grants/appropriation, which aggregated to ₹16,259.17 crore during 2015-16. Large unspent provisions were in areas of Rural Development and Panchayat Raj, Finance, Water Resources, Debt Servicing, Education, Agriculture and Horticulture, Health and Family Welfare as indicated in **Table 2.7**.

Table 2.7: Grants/appropriations with unspent provision of ₹100 crore and above

Sl. No	Grant/ Nomenclature	Provision			Expenditure	Unspent provision and it's percent
		Original	Supplementary	Total		
1	01- Agriculture and Horticulture Revenue – Voted	4,790.91	770.53	5,561.44	4,758.26	803.18(14)
2	03– Finance Revenue - Charged Revenue -Voted	3,774.41	0.00	3,774.41	0.00	3,774.41(100)
		9,784.86	4,221.53	14006.39	12,790.95	1,215.44(9)
3	06-Infrastructure Development Capital - Voted	754.73	10.00	764.73	588.68	176.05(23)
4	07–Rural Development and Panchayat Raj					

Sl. No	Grant/ Nomenclature	Provision			Expenditure	Unspent provision and it's percent
		Original	Supplementary	Total		
	Revenue – Voted	8,553.46	1,487.91	10,041.37	9,581.96	459.41(5)
	Capital – Voted	1,165.07	17.41	1,182.48	864.24	318.24(27)
5	08-Forest, Ecology and Environment Revenue - Charged	600.18	0.00	600.18	400.77	199.41(33)
6	11-Women and Child Development Revenue - Voted	4,164.32	48.88	4,213.20	4,007.50	205.70(5)
7	14- Revenue Revenue -Voted	4,753.23	3,563.89	8,317.12	7,838.71	478.41(6)
8	17 – Education Revenue –Voted	19,434.02	194.74	19,628.76	18,762.72	866.04(4)
	Capital- Voted	666.65	159.67	826.32	679.84	146.48(18)
9	18 – Commerce and Industries Revenue-Voted	793.50	316.24	1,109.74	926.23	183.51(17)
	Capital- Voted	317.60	464.71	782.31	678.04	104.27(13)
10	19 – Urban Development Revenue - Voted	7,428.48	311.01	7,739.49	7,076.30	663.19(9)
11	20 – Public Works Revenue – Voted	2,425.60	46.17	2,471.77	2,189.10	282.67(11)
	Capital - Voted	4,966.26	2,044.87	7,011.13	6,779.76	231.37(3)
12	21 - Water Resources Revenue – Voted	1,000.78	8.63	1,009.41	810.79	198.62(20)
	Revenue – Charged	600.34	0.00	600.34	442.36	157.98(26)
	Capital - Voted	8,940.76	107.07	9,047.83	6,816.18	2,231.65(25)
13	22 – Health and Family Welfare Revenue - Voted	5,523.58	508.20	6,031.78	5,127.28	904.50(15)
14	23 – Labour Revenue - Voted	905.24	97.10	1,002.34	875.63	126.71(13)
15	26 – Planning, Statistics, Science and Technology Revenue – Voted	757.53	2.86	760.39	603.39	157.00(21)
	Capital - Voted	1,003.01	7.00	1,010.01	909.19	100.82(10)
16	29 – Debt Servicing Revenue – Charged	11,202.67	1,210.11	12,412.78	11,816.37	596.41(5)
	Capital - Charged	5,787.90	0.00	5,787.90	4,110.20	1,677.70(29)
	Total	1,10,095.09	15,598.53	1,25,693.62	1,09,434.45	16,259.17

Major Heads of accounts, under which the unspent provision including re-appropriation amount was more than ₹25 crore, are detailed in **Appendix 2.5**.

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

Finance

Unspent provision of ₹3,773.56 crore under the Major Head 2071– Pension and Other Retirement Benefits was due to funds being provided erroneously under ‘charged’ category instead of ‘voted’ category under 77 schemes in the Budget Estimates 2015-16 due to a technical snag. The same was later corrected by providing an equal amount as additionality under ‘voted’

category in Supplementary Estimate – II. The amount provided under the ‘charged’ category was surrendered in March 2016.

Unspent provision of ₹39.73 crore under the Major Head 2054-Treasury and Accounts Administration-Directorate of Accounts and Treasuries-Director of Treasuries-Modernization was due to ‘Khajane-II’ being still under implementation.

Infrastructure Development

Unspent provision of ₹14.98 crore under the Major Head 5465-Investment in General Financial and Trading Institutions-Investment in General Financial Institutions-Investments in Public Sector and Other Undertakings-Banks-Investment in Rail Infrastructure Development Corporation (K-RIDE) was due to delay in land acquisition process.

Education

Unspent provision of ₹2.50 crore under the MH 2203-Technical Education-Quality Improvement of Technical Education-Other Expenses was due to insufficient time to incur expenditure, as the additional funds were provided on 26 March 2016.

Unspent provision of ₹22.50 crore under MH - 4202 Capital Outlay on Education, Sports, Art and Culture-General Education-University and Higher Education-Buildings – NABARD Works was due to insufficient time in uploading the third quarterly allotment of funds released by Government at Treasury Network Management Centre.

Unspent provision of ₹18.37 crore under Major Head 4202 - Capital Outlay on Education, Sports, Art and Culture-General Education-University and Higher Education-Buildings –Rasthriya Uchchar Shiksha Abhiyana – Other Expenses was due to insufficient time in incurring expenditure after completion of purchase procedures prescribed under KTPP Rules.

Public Works

Unspent provision of ₹25 crore under the Major Head ‘2059’-Public Works-General –Other Expenditure-Administration of Sand Mining –General Expenses was due to delay in calling tenders for Sand Block.

Unspent provision of ₹11 crore under the Major Head ‘3051’- Ports and Light Houses-Minor Ports- Port Management-Dredging Activities was due to the decision to carry out maintenance of dredging in alternate years, after completion of northern breakwater.

Unspent provision of ₹72.83 crore under the Major Head 5054-Capital Outlay on Roads and Bridges-State Highways-Road Works-MOR Works financed from NABARD was due to delay in progress of work and due to non-receipt of bills.

Water Resources

Unspent provision of ₹42 crore under the Major Head 4702-Capital Outlay on Minor Irrigation – Other Expenditure–Lump sum for new works was due to slow progress in works and delay in approval of New Projects.

Unspent provision of ₹18.55 crore under the Major Head 4702-Capital Outlay on Minor Irrigation – Surface water - Lift Irrigation Schemes was due to delay in land acquisition proceedings and Acquisition of Forest Land.

Health and Family Welfare

Unspent provision of ₹471.15 crore under the Major Head 2210-Medical and Public Health-Rural Health Services–Allopathy-Other Expenditure- Other Expenses (₹321 crore), SCSP (₹107.87 crore), and TSP (₹42.28 crore) was due to non-receipt of Government Orders for release of funds and non-honouring of bills submitted at the fag end of the financial year at the Treasuries.

Labour

Unspent provision of ₹23.10 crore under the Major Head 2230 – Labour and Employment-Employment Service-Direction and Administration-Directorate of Employment and Training was for want of clarification with regard to payment of daily allowance to CTI and for want of sufficient time to call for the tender to purchase machineries for 100 new ITIs.

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 2015-16.

It was observed that reasons given by the departments in the above cases accounted for only a small fraction of the 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. Finance department in its circular dated December 19, 2013 had directed all the Administrative department and the Heads of Department to take appropriate action to surrender the full unspent provisions to Finance Department as soon as it was anticipated without waiting for the year end. However, it was observed in audit that large amounts remained unutilized/ un-surrendered, indicating poor quality of control over expenditure, despite PAC recommendations. As the compliance of the executive to the recommendation of the PAC were poor, strict action is required against officers who are not adhering to the above instructions in the Finance Department's circular.

2.7.2 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 2.8**.

Table 2.8: Persistent unspent provision

Sl. No.	Grant/Nomenclature Major head	Year				
		2011-12	2012-13	2013-14	2014-15	2015-16
1	03-Finance (Revenue – Voted)	260.68	4,101.04	116.64	489.34	1,215.44
	2070-00-800-11 Filling up of vacant posts	849.97	999.98	500.00	1,181.28	1,250.03
2	19–Urban Development (Revenue Voted)	631.46	2,072.54	1768.58	1,243.08	663.19
	2217-05-191-1 BMRDA	258.00	359.61	203.23	295.97	96.33
3	29 – Debt Servicing (Capital –Charged)	1,142.23	1,936.98	2,016.96	1,948.21	1,677.70
	6003-00-110-1 Clean and Secured Ways and Means Advances	1,000.00	1,500.00	1,500.00	1,500.00	1,500.00*
	6003-00-110-2 Overdraft with RBI	350.00	500.00	500.00	500.00	500.00*

(* the amount has been withdrawn in Revised Estimate for the year 2015-16 Budget Document 2016-17 Vol I)

Reasons for persistent savings in two demands revealed the following:

- Grant No.3 – Finance, under the HOA‘2070-800-11’ – Filling up of vacant posts, provisions made remained unutilized. The Finance department stated (July 2016) that though the provision remained unspent under this demand, the additionalities on filling up of vacant posts in other demands would be taken care of by the provision so that there would be no fresh cash outgo. The reply of the department is not satisfactory, as supplementary provision may be made under concerned demands whenever necessary during the course of the year.
- Grant No.29 – Debt Servicing, despite there being persistent savings under the head 6003-110-1 - Clean and Secured Ways and Means Advances and 6003-110-2- Overdraft with RBI, for past eight years, huge provisions were made which remained un-utilized. Instead, token provisions could have been made in these cases in the Budget Estimate and if necessity arose, the same could be included in the Supplementary Estimates.

2.7.3 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 supplementary 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 and limit approvals to a minimum of second installment of Supplementary Estimates.

Supplementary provision (₹18,708.03 crore) made during 2015-16 constituted 13 per cent of the original provision (₹1,47,963.84 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 2015-16, three installments of Supplementary Estimates (SE) were laid before the Legislature. The statement indicating the supplementary estimates, corresponding curtailment of expenditure and augmentation of revenue are shown in **Table 2.9**.

Table 2.9: Details of curtailment of expenditure, augmentation of revenue, provision for book adjustment in the Supplementary Estimates

	(₹ in crore)		
	First Supplementary Estimate- ₹3,946.03	Second Supplementary Estimate- ₹6,783.51	Third Supplementary Estimate- ₹7,978.49
Amount met out of Reserve Funds	1,891.02	272.83	4,772.90
Amount covered by Central Assistance	22.87	191.39	2,063.80
Other receipts	6.00	0.00	1.94
Amount covered by adjustments	0.54	157.90	130.45
Incorrect booking of Pension expenditure as charged in BE 2015, which is now being corrected as voted.	0.00	3,811.17	0.00
Net Cash outgo	2,025.60	2,350.22	1,009.40

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.

2.7.4 Unnecessary Supplementary Provision

Supplementary provision of ₹936.68 crore made under 12 grants in 36 cases proved unnecessary (**Appendix 2.6**).

- With effect from 01 August 1989, the grant of advances to Government Servants for House Building Advance/House Purchase

Advance from out of Consolidated Fund of the State was dispensed with. However, Finance Department took a decision to re-introduce the scheme during 2015-16 and it was decided to make provision for House Building Advance/House Purchase Advance for officers and employees of the State Civil Services. Though a supplementary provision of ₹55 crore was provided for this purpose, the same remained un-utilised as the modalities for maintaining the accounts for the above advances were not in place.

- Supplementary provision for ₹7,978.49 crore was made in the third installment of supplementary demands for the year. Of these, ₹55.64 crore under nine demands could not be utilized as the supplementary estimates were approved by the Legislature only on 30 March 2016 giving little room for the spending department to complete transactions through the treasury.
- Supplementary demand for ₹11.42 crore was made (SE III) under Capital Section below Demand No.7, being the amount to be refunded to Government of India, Department of Economic Affairs, in respect of Gram Swaraj Project. The demand was unnecessary, as the amount in question had already been recovered from the loans released by GOI to the State Government during 2015-16.
- Supplementary provision of ₹15.00 crore was made under Major Head 2851-00-102-0-69-106(NP) – Subsidy, stating that the programme of self-employment was proposed to be implemented under ‘assistance to institutions for technology training’. Further it was mentioned that the original budget for the above scheme which was included under the HOA ‘2851-00-102-0-74-106(P)’, would be surrendered.

As the budget had already been made under the above demand, a token provision of ₹1,000 was sufficient and re-appropriation could have been made from the former HOA to the latter head. It was replied (July 2016) that since the shifting of provision was from ‘Plan’ to ‘Non-plan’, appropriation was not given effect to and instead additional budget was given under non-plan with a decision to surrender the same amount under plan. The reply is not satisfactory as the re-appropriation between Plan and Non-plan can be made with the concurrence of the Government as per Paragraph 277 of the Budget Manual 1975.

2.7.5 Excessive Supplementary Provision

Supplementary grant of ₹906.32 crore made under 24 detailed/object heads relating to 11 grants proved excessive. The resultant unutilized provision in these cases was ₹203.85 crore (**Appendix 2.7**).

2.7.6 Inadequate Supplementary Provision

Supplementary provision of ₹24.49 crore made under three detailed heads relating to three grants proved inadequate. The uncovered excess expenditure in these cases was ₹29.11 crore (**Appendix 2.8**).

2.7.7 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.

2.7.8 Injudicious Re-appropriation of Funds

In 2015-16, 73 cases of re-appropriation of funds was made injudiciously as compared to 35 cases in 2014-15, resulting either in un-utilized provision or excess over provision in each case (**Appendix 2.9**), as summarized below:

In three cases, additional fund of ₹47.07 crore, provided through re-appropriation, proved insufficient as the final expenditure exceeded the provision by ₹82.62 crore.

In one case, withdrawal of ₹111.50 crore resulted finally in excess expenditure of ₹1.05 crore.

In 43 cases, the un-utilized provision was not properly assessed as, even after the withdrawal of ₹844.85 crore through re-appropriation, ₹600.74 crore remained un-utilized.

In 26 cases, additional funds of ₹1,083.62 crore, provided by re-appropriation, resulted in overall un-utilized provision of ₹649.27 crore.

2.7.9 Defective Re-appropriation

During 2015-16, 283 re-appropriation orders for an amount of ₹3,242.36 crore were issued of which 65 re-appropriation orders for 126.65 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* if the re-appropriation statement is not self-balanced and not in the prescribed form (Form No.22A of KFC) (**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.

2.7.10 Unspent provision not surrendered

In the case of 17 grants/appropriations, the entire unspent provision, aggregating ₹5,655.03 crore, was not surrendered (**Appendix 2.11**).

Further, in the case of 29 grants/appropriations, there was only partial surrender and around 55 per cent (₹9,604.59 crore) of the total unspent provision (₹17,488.06 crore) was not surrendered (**Appendix 2.12**). Besides, in 15 grants where surrender of funds was in excess of ₹ five crore, ₹7,342.99 crore were surrendered on the last two working days of the financial year, indicating inadequate financial control (**Appendix 2.13**).

2.7.11 Substantial surrenders

Out of the total provision of ₹2,289.66 crore in 34 cases, ₹1,903.48 crore (83 per cent) were surrendered, which included cent per cent surrenders in 14 cases (₹546.88 crore) (**Appendix 2.14**). These surrenders were stated to be due to non-approval of revised action plan, non-identification of space for construction of Aahara Bhavan, non-receipt of claims from unit offices, non-receipt of application in time for fee concession, etc.

2.8 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 2015-16, an amount of ₹36.25 crore was released from Contingency Fund as shown in the **Table 2.10** given below which was recouped to the fund subsequently through supplementary provisions.

Table 2.10 Statement showing the advances sanctioned from Contingency Fund

(₹ in crore)					
Sl No	Gr. No.	Head of Account	GO No. and Date	Amount Sanctioned	SE in which it was recouped
1	01	6860-01-190-5-394(NP)	FD 01 BCF 2015 dated 19.05.2015	10.00	SE - I
2	18	6852-01-190-1-02	FD 01 BCF 2015 dated 05.11.2015	1.00	SE - II
3	18	6860-04-101-0-28-394(P)	FD 01 BCF 2015 dated 13.11.2015	6.00	SE - II
4	09	2425-00-108-0-70-100(P)	FD 01 BCF 2016 dated 16.02.2016	8.75	SE - III
5	17	2202-03-102-0-04-102 and 103(P)	FD 01 BCF 2016 dated 24.03.2016	10.50	SE - III

Audit observations on these transactions are given below:

- Decision was taken during October 2014 to provide loan of ₹30 crore to Karnataka Silk Marketing Board (KSMB) to encourage purchase of raw silk and protect the interests of farmers. Sanction was accorded (May 2015) for release of ₹10 crore from Contingency Fund to KSMB. Since the decision was taken in October 2014 itself, the loan amount

for purchase of silk could have been assessed and the provision included in the original budget estimate.

- Rupees One crore was sanctioned as loan from Contingency fund to Karnataka Mining Environment Restoration Corporation based on the proposal of Commerce and Industries Department (October 2015). There was a delay of nearly one month in sanctioning the loan, reasons for which are not on record. Even after the issue of orders, the amount could not be drawn from the treasury as the Government Order authorizing the withdrawal of the sum did not contain complete budget head details to which the amount was to be debited. Meanwhile, the Supplementary Estimate-II was placed before the Legislature and hence a revised order was issued by the Commerce and Industries Department on the opinion of FD that operation of Contingency Fund was not necessary after the approval of SE in the Legislature. Hence, the inclusion of recoupment of Contingency Fund in the Supplementary Estimate II when the amount was not drawn from the fund was unnecessary.
- An amount of ₹8.75 crore was released from Contingency Fund (February 2016) towards construction of new buildings and repair of Primary Co-operative Agriculture & Rural Development Banks, Taluk Agricultural Produce Co-operative Marketing Societies and Agricultural Service Co-operative Societies. As the work was ongoing and amounts had been released for it during Supplementary Estimates for 2014-15 also, the same could have been assessed and included in the Budget Estimate. In reply, the FD stated that as the repairs works were ongoing, and no provisions were made in the Budget Estimates, the funds were released from Contingency Fund to pay pending bills as per the requests made by the elected representatives. The reply is not tenable for the reasons already indicated above.
- An amount of ₹10.50 crore towards development and maintenance works of Pali, Samskurta and Comparative Philosophy Institute, Kalaburagi was released from Contingency Fund during February 2016. As grants were being released every year for the same purpose in Supplementary Estimates, the same could have been assessed in advance and included in the Budget Estimate rather than operating from the Contingency Fund. The Finance Department stated (October 2016) that provision was made in the SE-III for the year. It further stated that if the grants were released pending authorization by the Legislature, it would have attracted the criteria of New Service. The reply is not tenable as the Finance Department had already agreed in January 2014 for release of maintenance grants for five years.

2.9 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 2013-14 to 2015-2016 showed the following:

2.9.1 Grant No. 1 - Agriculture and Horticulture

2.9.1.1. Introduction

The Agriculture Department implements various programme like Krishibhagya, Establishment of custom hiring centres, Bhoochethana, National e-governance, Bhoosamruddi, RKVY, organic farming etc., and timely supply of agricultural inputs like seeds, micro nutrients and bio-fertilizers to the farmers.

The Department of Horticulture is responsible for the overall development of Horticulture in the State, which includes production and distribution of quality planting materials of various Horticultural plants, promoting hi-tech Horticulture, assisting the farmers in value addition and export of Horticultural produce *etc.*,

During the year 2013-14 to 2015-16, more than 85 *per cent* of the budget allocation and expenditure under this grant was under the functional Major Heads 2401, 2402, and Capital outlay on these functional heads. Owing to the vastness of transactions, the scope of the review was limited to the budget/expenditure of above Major Heads.

A review of budgetary procedure and control over expenditure in the selected grant i.e., Grant No.1- Agriculture and Horticulture showed the following:

2.9.1.2 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 (2013-14 to 2015-16) is given in **Table 2.11**.

Table 2.11 Budget and Expenditure

(₹ in crore)					
Year	Section	Budget Provision	Total	Expenditure	Un-utilized provision and its percentage
2013-14	Revenue – Original (V)	3,382.93	4,011.74	2,622.37	1,389.37(35)
	Supplementary	628.81			
	Revenue – Original(C)	0.27	0.27	0.12	0.15(57)
	Supplementary	0.00			
	Capital - Original (V)	87.16	102.70	72.25	30.44(30)
Supplementary	15.54				
2014-15	Revenue – Original (V)	4,250.81	5,040.37	3,556.63	1,483.74(29)
	Supplementary	789.56			
	Revenue – Original(C)	0.28	0.28	0.04	0.24(86)
	Supplementary	0.00			
	Capital - Original(V)	60.30	94.04	68.98	25.06(27)
Supplementary	33.74				
2015-16	Revenue – Original (V)	3,878.79	4,586.27	3,768.12	818.15(18)
	Supplementary	707.48			
	Revenue – Original(C)	0.83	0.83	0.39	0.44(53)
	Supplementary	0.00			
	Capital - Original (V)	22.00	56.43	56.43	0.00
Supplementary	34.43				

During 2013-14 to 2015-16, as a percentage of total provision, unutilized provision ranged between 18 to 86 *per cent*, under Revenue Section and up to 30 *per cent* under Capital Section

2.9.1.3 Budget Revenue and Capital

The budget is presented under Revenue and Capital, Plan and Non-plan in the detailed demand for grants. The bifurcation of provision/expenditure during the period 2013-14 to 2015-16 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
2013-14						
(V)	548.55	3,463.18	539.09	2,083.28	2	40
(C)	0.27	0.00	0.12	0.00	56	0
2014-15						
(V)	524.35	4,516.12	497.32	3,059.31	5	32
(C)	0.28	0.00	0.04	0.00	87	0
2015-16						
(V)	513.48	4,072.79	509.15	3,258.98	1	20
(C)	0.03	0.80	0.00	0.39	100	51

As can be seen from the table above, the deviation was insignificant during 2013-14 to 2015-16 under non-plan (Voted) expenditure but ranged from 56 to 100 *per cent* in charged category. In respect of plan expenditure the deviation declined from 40 *per cent* in 2013-14 to 20 *per cent* in 2015-16.

Table – 2.13 - Capital

(₹ in crore)

Year	Budget including supplementary		Expenditure		Deviation in Percentage	
	Non - plan	Plan	Non - plan	Plan	Non - plan	Plan
2013-14 (V)	0.00	102.70	0	72.25	0	30
2014-15 (V)	0.00	94.04	0	68.98	0	27
2015-16 (V)	0	56.43	0	56.43	0	0

As seen from the table, the deviation under plan showed a declining trend for the period 2013-14 to 2015-16 under capital section.

2.9.1.4 Incorrect provision for funds:

Expenditure relating to the Krishibhagya Scheme, implemented from the year 2014-15 was accounted for under the budget head 2401-00-800-1-68-Krishibhagya, with object heads 059- Other Expenses, 422 - SCSP and 423-TSP. The scheme is aimed at improving rain-fed agriculture through the efficient management of rain water thereby, enhancing farm productivity. The thrust was on water conservation and tackling water energy excess. During 2015-16, a provision of ₹350 crore was made in the Budget Estimate. In the Supplementary Estimate-I, an amount of ₹351.14 crore was provided under 2401-00-800-40-Other Agricultural Schemes, stating that this additionality

was being released for payment of incentives to sugarcane growers. However, this expenditure was not connected with the above Scheme. This was done based on the proposal of the Commerce and Industries Department to avoid the criteria prescribed for New Service.

This was accepted by the Department stating that it would be rectified in future years.

2.9.1.5 Incorrect provision/expenditure under *Charged* Category

During 2015-16, a sum of ₹83 lakh was provided under *charged* category in the Revenue Section as per the Appropriation Act passed by Legislature. It was observed that the expenditure of ₹38.80 lakh incurred against the above provision of funds was not in order, as the scrutiny of records in the department revealed the expenditure was for purchase of stationery, furniture, equipment and other contingent expenditure for which suitable budget heads existed.

2.9.1.6 Lapse of Budget/surrender of savings

According to paragraph 264 of the Karnataka Budget Manual (KBM) and Article 314 of the KFC, 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 provision was violated as the total amount surrendered was insignificant during 2013-15 and 57 *per cent* during 2015-16. The position of surrender of unutilized provision is brought out in **Table 2.14**.

Table 2.14 - Lapse of Budget/surrender of savings

Year	Savings			Amount surrendered		
	Revenue(V)	Revenue(C)	Capital(V)	Revenue(V)	Revenue(C)	Capital(V)
2013-14	1,389.37	0.15	30.44	0.00	0.00	0.00
2014-15	1,483.74	0.24	25.06	177.46	0.01	24.91
2015-16	818.15	0.44	0.00	464.40	0.02	0.00

(₹ in crore)

2.9.1.7 Persistent Savings

It was observed that a substantial portion of the budget allocation remained unutilized every year under certain heads of accounts during 2013-14 to 2015-16, 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/Nomenclature	2013-14	2014-15	2015-16
1	2401-00-102-07 National Mission on Food process	16.24	8.61	4.58
2	2401-00-104-12 Organic Farming- Agriculture	11.40	0.70	0.47
3	2401-00-108-2 Horticulture Department	155.09	15.31	50.78
4	2401-00-109-21 Farm related activities	21.38	26.95	1.14
5	2401-00-111-08 Comprehensive Horticulture Development	23.64	12.44	7.46
6	2401-00-119-4 Development of Farms and nurseries	121.31	532.33	54.59
7	2401-00-800-1 Agriculture Department	305.08	132.35	580.00
8	2401-00-800-2 Horticulture Department	47.48	10.67	7.64
9	2402-00-102-01 Directorate and Other establishment	0.88	0.18	0.16
10	2402-00-102-15 Soil and Water Conservation – Watershed Development Department –Directorate of Watershed Department	1.46	0.49	0.41
11	2402-00-102-25 Soil Conservation in the Catchment of River Valley Project by Watershed development Department	1.80	2.86	3.12
12	2402-00-102-28 Sujala Watershed Project – III EAP	42.72	60.52	57.88
13	2402-00-102-30 Integrated Watershed Management Programme	450.00	556.62	9.59
14	2402-00-109-02 Karnataka Watershed Training Centre	0.63	0.46	0.43

2.9.1.8 Rush of Expenditure

As per paragraph 6 of the 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 47 to 100 per cent during 2015-16. The sub-head wise details of expenditure are detailed in **Appendix 2.15(a)**.

2.9.2 Grant No. 26 – Planning, Statistics, Science and Technology

2.9.2.1 Introduction

A review of budgetary procedures followed and expenditure controls exercised in respect of Grant No.26 - Planning, Statistics, Science and Technology showed the following.

2.9.2.2 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 (2013-14 to 2015-16) is given in **Table 2.16**.

Table 2.16 Budget and Expenditure

(₹ in crore)

Year	Section	Budget Provision	Total	Expenditure	Un-utilized provision and its percentage
2013-14	Revenue – Original (V)	236.10	240.81	145.50	95.31(40)
	Supplementary	4.71			
	Capital - Original (V)	326.20	626.21	646.63	(+20.42(3)
	Supplementary	300.01			
2014-15	Revenue – Original (V)	175.40	175.64	152.21	23.42(13)
	Supplementary	0.24			
	Capital - Original(V)	614.00	614.00	590.46	23.54(4)
	Supplementary	0.00			
2015-16	Revenue – Original (V)	757.53	760.39	603.39	157.00(21)
	Supplementary	2.86			
	Capital - Original (V)	1,003.01	1,010.01	909.19	100.82(10)
	Supplementary	7.00			

2.9.2.3 Deviation from the budget

During 2013-14 to 2015-16, under the Revenue Section, the deviation of unutilized provision ranged between 13 to 40 *per cent*. Under the Capital Section, for the year 2013-14 the expenditure exceeded the budget provision and during 2014-15 and 2015-16 the percentage deviation of the unutilized provision was between 4 to 10 *per cent*.

2.9.2.4 Budget Revenue and Capital

The budget is presented under Revenue and Capital, Plan and Non-plan in the detailed demand for grants. The bifurcation of provision/expenditure during the period 2013-14 to 2015-16 under revenue/capital is given in **Table 2.17** and **Table 2.18**.

Table – 2.17 – Revenue

(₹ in crore)

Year	Budget including supplementary		Expenditure		Deviation in Percentage	
	Non - plan	Plan	Non - plan	Plan	Non - plan	Plan
2013-14	59.62	181.19	51.01	94.49	(-)14	(-)48
2014-15	73.11	102.52	62.96	89.25	(-)14	(-)13
2015-16	55.09	705.30	51.59	551.80	(-)6	(-)22

Deviation from the budget

As can be seen from the **Table 2.17**, the deviation of percentage was between 6 and 14 *per cent* under Non-plan and 13 to 48 *per cent* under Plan.

Table – 2.18 - Capital

(₹ in crore)

Year	Budget including supplementary		Expenditure		Deviation in Percentage	
	Non - plan	Plan	Non - plan	Plan	Non - plan	Plan
2013-14	0.00	626.21	0.00	646.63	0.00	3
2014-15	0.00	614.00	0.00	590.46	0.00	(-4)
2015-16	0.00	1,010.01	0.00	909.19	0.00	(-10)

As seen from the **Table 2.18**, there was excess expenditure during 2013-14 and the deviation was between 4 to 10 *per cent* for the remaining two years.

2.9.2.5 Misclassification of Provision/Expenditure under Capital

According to Indian Government Accounting Standards (IGAS)-2, all grants-in-aid are in the nature of pass through grants and shall be classified and accounted as revenue expenditure in financial statements of the Union/State Governments, irrespective of the purpose for which such grants are spent by the ultimate grantee.

Karnataka Legislatures' Local Area Development (KLLAD) Scheme was introduced (2001-02) for asset creation, infrastructure development and employment generation for the benefit of the poor and weaker sections. While the expenditure for the period 2001-02 to 2009-10 was classified as revenue, the same from 2010-11 is being classified as capital.

The details of expenditure classified as capital instead of revenue for the period 2013-14 to 2015-16 is as shown in **Table 2.19**.

Table 2.19- Misclassification of expenditure between capital and revenue

(₹ in crore)

Year	Head of Account	Provision	Expenditure
2013-14	4575-60-800-0-01	600.01	593.44
2014-15	4575-60-800-0-01	600.01	576.46
2015-16	4575-60-800-0-01	600.01	600.00

On this being pointed out, the government replied (December 2013) that since grants under KLLADS are provided for capital assets creation which are executed through the concerned Deputy Commissioners(DCs), these cannot be classified as grants to Legislatures' as mentioned in IGAS-2.

The reply was not acceptable as the transaction was in the nature of pass through transaction and hence the classification of expenditure should remain under revenue head only. Thus the action of the Government in accounting revenue expenditure as capital has not only overstated capital expenditure to the extent stated above, but also gives leverage to borrow more.

2.9.2.6 Lapse of Budget/surrender of savings

According to paragraph 264 of the Karnataka Budget Manual (KBM) and Article 314 of the KFC, 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 provision was violated as the total amount surrendered was 19 *per cent* under revenue section and under capital section no amount was surrendered as shown in **Table 2.20**.

Table 2.20 - Lapse of Budget/surrender of savings

(₹ in crore)

Year	Savings		Amount Surrendered	
	Revenue	Capital	Revenue	Capital
2013-14	95.37	(+)20.42	27.03	0.00
2014-15	23.42	23.54	19.23	0.00
2015-16	157.00	100.82	6.38	0.00

2.9.2.7 Persistent Savings

It was observed that a substantial portion of the budget allocation remained unutilized every year under certain heads of accounts during 2013-14 to 2015-16. 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 2.21**.

Table 2.21 – Persistent Savings

(₹ in crore)

Sl.No	Head of Account/Nomenclature	2013-14	2014-15	2015-16
1	2217-80-001-1 Inspection of Municipal Councils and Local Bodies	0.54	0.59	0.07
2	2515-00-003-01 Result Frame-work document(RFD) and monitoring reforms	0.83	0.69	0.01
3	3451-00-090-2 Information Technology Secretariat	0.78	0.85	0.51
4	3451-00-101-5 Evaluation and Manpower unit	0.24	0.30	0.20
5	3454-02-204-18 India Statistical Strengthening Project	9.87	7.00	0.31
6	3454-02-204-19 VI Economic Census	8.60	3.31	2.31

2.9.2.8 Rush of Expenditure

As per paragraph 6 of the 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 50 to 82 *per cent* during the year 2015-16. The sub-head wise details of expenditure are in **Appendix 2.15(b)**.

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 2015-16, it was noticed that in 172 cases relating to 31 District Treasuries, Public Sector Banks made payments of Family Pension at enhanced rates beyond the period mentioned in the Pension Payments Orders, resulting in excess payment of ₹1.81 crore (**Appendix 2.16**). Further, in respect of 20 District Treasuries, excess payment of ₹75.62 lakh was noticed during 2014-15 in 98 cases, despite the excess payments in these cases having been pointed out in earlier years, resulting in cumulative continued excess payments of ₹1.67 crore (**Appendix 2.17**).

Failure on the part of the Banks to monitor/incorporate a validation check to facilitate adherence to the cutoff date 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 payments paid.

However, the fact remained that excess payment of family pension continued even during 2015-16, though CPPCs have been established by many banks. Although, the detailed procedure to be followed for recovery after the excess payment was made, it was, however, silent about the action taken to prevent such excess payment. Further, action initiated for invoking the provisions of the Indemnity Bonds executed by the Banks for recovery of the excess payments along with interest was also not forthcoming. As the amounts are reimbursed to the Banks to the extent of excess payment, Government incurred an avoidable loss of interest of ₹5.15 lakh (**Appendix 2.18**) that could have accrued had the amount been invested in 14 days Treasury Bills. (The interest calculated refers to cases of excess payment pointed out during 2015-16 only and the period is reckoned from the month of issue of Inspection Report to the end of March 2016).

Finance Department replied (December 2016) that action would be taken to recover the excess amount immediately. It also stated that instructions had

been issued to all treasuries to send alert messages to all the bank branches in their jurisdiction, a month in advance to avoid excess payments. Based on the indemnity bonds signed by the banks, notices had also been sent to the banks to pay the excess payment made to the Government at once.

2.11 Conclusion

As brought out in earlier paragraphs, the 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 ₹1,66,671.86 crore during 2015-16 an expenditure of ₹1,49,249.83 crore was incurred. This resulted in an unspent provision of ₹17,422.03 crore (10 per cent). The budgetary exercise should be more robust as it was observed that provision of ₹3,825.41 crore was erroneously made under charged section instead of under voted section, leading to placement of Supplementary Estimate under voted section which could have been avoided.
- Executive Orders for expenditure, prior to approval of the Legislature, were issued for ₹5,065.69 crore, forming 27 per cent of Supplementary Estimate. Resorting to executive route of incurring expenditure before Legislature's sanction should be barest minimum and resorted to in exceptional circumstances.
- Errors in obtaining provisions under demands which are not connected with the activity continued during 2015-16 also.
- Supplementary Provision was not completely supported by the saving under other demands to make the transactions neutral.
- Provision made in Supplementary Estimate III could not be given effect to as the Appropriation Act was approved only on 30 March 2016, leaving no scope for the administrative heads to complete their transactions through the Treasury.
- Supplementary provision of ₹936.68 crore in 36 cases was unnecessary.
- Re-appropriation of funds in 73 cases was made injudiciously resulting in either un-utilized provision or excess over provision.
- In 15 grants, ₹7,342.99 crore was surrendered in the last two working days of the financial year.
- Resorting to withdrawal from Contingency Fund should be based on the facts /circumstances rather than releasing the amount as a matter of routine.
- Excess payment of Family Pension was noticed.