Chapter 2

Financial Management and Budgetary Control

2.1 Introduction

Appropriation Accounts are accounts of the expenditure (voted and charged) of the Government, for each financial year compared with the amounts 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-appropriation distinctly and indicate actual capital and revenue expenditure on various specified services *vis-à-vis* those authorised by the Appropriation Act. The Karnataka Budget Manual (KBM) contains the procedure 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.

2.2 Summary of Appropriation Accounts

Audit of appropriation 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 provision 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, regulation and instructions. The summarised position of actual expenditure during 2018-19 against 29 grants/appropriations is given in **Table 2.1.**

Table 2.1: Summarised 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 (-) / Excess over provision (+)	Amount surrendered	Amount surrendered on 31 March	*Per cent* of savings surrendered on 31 March
Voted	I Revenue	1,49,168.61	14,703.43	1,63,872.04	1,48,976.27	14,895.77	8,036.77	8,036.77	100
	II Capital	35,442.84	3,978.02	39,420.86	35,053.78	4,367.08	1,609.61	1,609.61	100
	III Loans and Advances	7,140.48	2,672.88	9,813.36	5,810.94	4,002.42	131.50	131.50	100
Total Voted		**1,91,751.93**	**21,354.33**	**2,13,106.26**	**1,89,840.99**	**23,265.27**	**9,777.88**	**9,777.88**	
Charged	*IV Revenue*	*19,785.59*	*140.88*	*19,926.47*	*18,257.00*	*1,669.47*	*472.47*	*472.47*	*100*
	V Public Debt Repayment	*11,135.84*	*67.09*	*11,202.93*	*11,094.58*	*108.35*	*120.31*	*120.31*	*100*
	VI Capital	*1,437.41*	*0.00*	*1,437.41*	*1,341.53*	*95.88*	*0.01*	*0.01*	*100*
Total Charged		***32,358.84***	***207.97***	***32,566.81***	***30,693.11***	***1,873.70***	***592.79***	***592.79***	
Grand Total		**2,24,110.77**	**21,562.30**	**2,45,673.07**	**2,20,534.10**	**25,138.97**	**10,370.67**	**10,370.67**	

Source: Appropriation Accounts

During 2018-19, as against the provision of ₹2,45,673.07 crore, expenditure of ₹2,20,534.10 crore was incurred resulting in unspent provision of ₹25,138.97 crore (10 *per cent*).

2.3 Comments on Expenditure

Expenditure from Public Funds cannot be incurred unless it is sanctioned by the competent authority and sufficient funds are provided in the Appropriation Act/ by re-appropriation of funds. The summary of demands for grants placed before the Legislature, seeks approval for incurring the expenditure during the course of the year on various specified services, as brought out in the schedules appended to the demand. The expenditure so indicated implies that the amounts so drawn are expended for the purpose for which they were drawn.

Audit observed that the canon of sanction as well as the assumption that expenditure was expended for the purpose was vitiated as discussed below.

2.3.1 Overstatement/Understatement of expenditure

Due to non-submission of Non-payment Detailed Contingent (NDC) bills and unutilised amount in Zilla Panchayat (ZP) and Taluk Panchayat (TP) funds under Public Account, the expenditure stood overstated. In addition, due to non-initiation of certain transactions in reserve funds, the expenditure stood understated. Impact of the above transactions are shown in **Table 2.2 (This is only illustrative).**

Table 2.2: Overstatement/Understatement of expenditure

(₹ in crore)

Sl. No	Overstatement of expenditure	Amount	Understatement of expenditure	Amount
1	Non-submission of NDC bills for AC bills drawn by the DDOs during 2018-19 (details at Paragraph 3.6)	52.37	Non-transfer of Green Tax collected to Public Account (details at Paragraph 1.10.4)	27.20
2	Amount remained unutilized under ZP Fund in Public Account out of the amount (₹7,546.53 crore) released to it.	492.17	Short investment and adjustment of amount to Consolidated Sinking Fund (details at Paragraph 1.10.4)	465.29
3	Amount remained unutilized under TP Fund in Public Account out of the amount (₹15,005.71 crore) released to it.	814.65		
4	Non-transfer of expenditure to Karnataka Forest Development Fund (details at Paragraph 1.10.4)	299.20		
Total		**1,658.39**		**492.49**

From the above, it was observed that overstatement of expenditure was to the extent of ₹1,165.90 crore.

2.3.2 Additional amount released through Executive orders

Article 266(3) of the Constitution of India prohibits withdrawal of money from out of the Consolidated Fund of the State unless relevant Appropriation Acts under Article 204 and 205 of the Constitution are passed by the Legislature.

During 2018-19, audit observed that ₹3,940.35 crore covering 19 grants under revenue/capital section, (this is only illustrative), (**Appendix 2.1**) was released through 77 executive orders which were later regularised through Supplementary Estimates. It was observed that expenditure incurred out of these additionalities was on routine items *viz*., payment for implementation of 6th Pay Commission, subsidiary expenses, payment of pending bills, refund of Sales Tax to eligible industries *etc*. which did not qualify as emergent/unforeseen expenditure and could have waited for placement of supplementary demands. The Public Accounts Committee (PAC) in its fifth report (Fourteenth Assembly) recommended (July 2015) that sanctioning of additionality through executive instruction should be limited to emergent cases **(**Para 5 of Government order dated 6 August 2015). However, it is observed that incurring expenditure without authority of the Legislature was continuing despite the PAC's recommendation.

Table 2.3: Additional amount released through executive orders during 2015-2019

(₹ in crore)

Year	No. of grants covered	No. of cases	Amount
2015-16	25	190	5,065.69
2016-17	26	293	6,057.11
2017-18	20	128	3,747.77
2018-19	19	77	3,940.35

Article 266(3) of the Constitution prohibits the appropriation of revenues without the approval of Legislature through placement of supplementary demands. This principle needs to be adhered to the maximum extent possible.

The Finance Department replied (March 2020) that the efforts to limit the sanctioning of additionality through executive orders to only justifiable cases would be made in the ensuing years.

2.3.3 Excess expenditure requiring regularisation

As per Article 204 of the Constitution of India, no money shall be withdrawn from the Consolidated Fund except under appropriation made by law by the State Legislature and Article 205 stipulates that the Government should get the excess over a grant/appropriation regularised by the State Legislature. Although no time frame for regularisation of expenditure was prescribed under the Article, the regularisation of excess expenditure is done after the completion of discussion of the Appropriation Accounts by the PAC. During the year 2018-19, there were no cases of grants/appropriations, where expenditure exceeded the provision and required regularisation. Excess expenditure aggregating ₹2,409.53 crore for the years from the year 2012-13 to 2017-18 is yet to be regularised as detailed in **Appendix 2.2.** This is in violation of the Article 204 of the constitution which provides that no money shall be withdrawn from the Consolidated Fund except under appropriation made by law by the State Legislature. This vitiates the system of budgetary and financial control and encourages financial indiscipline in management of public resources.

Early action is required to get the excess of previous years regularised in consultation with the PAC.

The Finance Department stated (March 2020) that action has been initiated to regularize the excess expenditure from 2012-13 onwards and that notification in this regard will be issued shortly.

2.3.4 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 authorisation by the Legislature. The Government issued orders in August 2015 based on the recommendations of the PAC in its Fourth Report (Fourteenth Assembly), exempting certain items of expenditure for which 'New Service' criteria shall not be applicable and also prescribed the criteria, for treating the expenditure as 'New Service'. The revised criteria for 'New Service' became effective from the financial year 2015-16. As per the above order, the cases already provided for and approved by the Legislature but where the expenditure is subsequently expected to exceed the amount originally provided in the budget will not be treated as '**New Service**', provided the increase over the actual provision does not exceed twice the provision or `five crore, whichever is more.

During the year 2018-19, in four cases, involving three grants, excess expenditure amounting to ₹686.82 crore, which should have been treated as 'New Service/New Instrument of Service', was incurred without the approval of the Legislature as shown in **Table 2.4**.

Table 2.4: Cases of New Service/New Instrument of Service

(₹ in crore)

Sl. No.	Grant No./ Nomenclature	Head of Account	Total Grant	Expenditure	Excess
1	12-Information, Tourism and Youth Services	3452-80-104-0-04-106 - Subsidies	5.00	15.10	(+)10.10
2	19-Urban Development	3604-00-191-1-51-240 – Debt Servicing	0.00	573.67	(+)573.67
3	20- Public Works	3054-03-337-0-07-200 – Maintenance Expenditure	37.46	117.46	(+)80.00
4		4711-02-103-2-00-139 – Major Works	9.86	32.91	(+)23.05
Total					**686.82**

Source: Appropriation Accounts

The case at Sl. No. 2 attracts the criteria of New Service due to misclassification of provision under *charged* instead of voted which is discussed in **Paragraph 2.4.2.**

Withdrawal of sums attracting the criteria of 'New Service/New Instrument of Service' could be avoided by keeping tab on the expenditure vis-à-vis the budget regularly.

The Finance Department replied (March 2020) that necessary checks would be put in place to avoid such mistakes in future.

2.4 Errors in budgeting

Misclassifications of transactions on revenue/capital and voted/charged are charactersed by lack of application of rules of classification of transactions under relevant heads. These transactions have a bearing on revenue account and the fiscal indicator *viz*. revenue surplus, which are brought out at the beginning of the year in the budget document. Provisioning of funds for previous expenditure booked in accounts also is a type of erroneous budgeting. Further, classification of transactions to the correct object code is essential to know the expenditure during the year and for future budgeting.

2.4.1 Misclassification between 'Capital' and 'Revenue' sections

During 2018-19, an amount of ₹108.40 crore was misclassified between 'Capital' and 'Revenue' Sections as shown in **Table 2.5**.

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

(₹ in crore)

Sl. No.	Grant No.	Head of Account	Provision	Expenditure	Audit observation
Revenue Expenditure shown as Capital Expenditure					
1	25 – Kannada and Culture	4202-04-800-1-08 – Border Area Development Authority	38.06	28.06	The provision made was a grant provided to the organisations. Since, the Grants-in-aid disbursed by a grantor to a grantee, shall be classified and accounted as Revenue Expenditure in the Financial Statement of the Grantor as per IGAS-2 irrespective of the purpose for which the funds disbursed, the provision was to be classified as revenue.
2	02 – Animal Husbandry and Fisheries	4403-00-101-0-11 – Karnataka Veterinary Animal and Fisheries Sciences University, Bidar	16.06	16.06	
Thus, revenue expenditure understated by ₹ 44.12 crore					
Capital Expenditure shown as Revenue Expenditure					
3	05 – Home and Transport	3055-00-190-0-03-240 – Debt Servicing	80.97	64.28	The amount was released towards repayment of Debt. Since the expenditure reduces the liability it should have been categorised as capital.
Thus, revenue expenditure overstated by ₹ 64.28 crore					

From the table it is evident that during 2018-19 there was an overstatement of revenue expenditure by ₹20.16 crore and corresponding understatement of revenue surplus.

In the Exit Conference (March 2020), the Finance Department accepted the observation and stated that action would be taken to rectify the misclassification.

2.4.2 Misclassification between 'voted' and '*charged*' sections while budgeting

During 2018-19, it was noticed that there were two cases of misclassification amounting to ₹621.88 crore between Voted and *Charged* Sections as detailed in **Table 2.6**.

Table 2.6: Misclassification between 'Voted' and '*Charged*'

(₹ in crore)

Sl. No.	Grant No.	Head of Account	Provision	Expenditure	Audit observation
1	03 - Finance	2071-01-104-0-06-240– Debt Servicing (C)	1.50	0.67	Debt charges of the GoK are deemed to be guaranteed by the State. Hence they are to be charged. However, the Debt servicing in the table was towards Gratuities and Assistance to Municipal Corporations. Hence, the expenditure was in the nature of voted.
2	19 – Urban Development	3604-00-191-1-51-240– Debt Servicing (C)	620.38	573.67	
Total			**621.88**	**574.34**	

The Finance Department replied (March 2020) that the misclassification between 'Voted' and '*Charged*' under both the heads was rectified in financial year 2019-20.

2.4.3 Error in provision made under Major Heads of Account

Even though the previous SFAR had pointed out (**paragraph 3.10.2** and **paragraph 2.4.4**) errors in provision under certain major heads of accounts, the errors continued during 2018-19 also which is discussed below:

- During 2017-18, waiver of loan to farmers was classified under the capital/loan section instead of revenue section thereby affecting the fiscal indicators like Revenue Surplus. The department had accepted the observation and stated that it would avoid such errors in future. However, during 2018-19 it was noticed that a provision of ₹4,000 crore was made under Loan Head of Account 6425-00-107-5-10 - Assistance to Apex Bank towards Loan Waiver scheme. In order to set right the issue, out of ₹4,000 crore, ₹3,541 crore was converted as grant by providing provision under the revenue head 2425-107-2-56-394 – Loan. Thus, there was an excess provision and saving under Capital Section amounting to ₹459 crore.
- As per instructions contained in Note (3) below Major Head 6003 in LMMH, the unclaimed balances of Compensation and other Bonds are usually retained in Government Accounts for 20 years from the date of their maturity and after which the balances are transferred to Revenue by credit to the head '0075-Miscellaneous General Services-Other Receipts'.

Repayments of these amounts subsequently claimed are to be debited to the head '2075-Miscellaneous General Services-Other Expenditure'. However, during 2018-19 a provision of ₹0.10 crore for such claims was made under '2049-Interest Payments' which was incorrect.

In reply, the Finance Department (March 2020) has quoted a specific case where the compensation bond had just matured and has been accounted for in 2018-19. The reply is not relevant since the observation is on the provision made for payment of interest on compensation bonds which are overdue.

2.4.4 Errors in classification under object heads of account

The budget/expenditure suffered on account of operation of incorrect budget lines for release and accounting of Urban Local Bodies (ULB) grants at the object level of classification. Such misclassification amounted to ₹35.93 crore under Pension and Other Retirement Benefits, ₹797.95 crore under Consolidated Salaries and ₹476.76 crore under Maintenance Expenditure. Lack of a separate object head with a distinct code prevents the segregation of expenditure incurred by the ULB from that incurred by the State Government. Though this was pointed out in earlier Audit Reports, corrective action was not initiated.

Subsequent to the Exit Conference the Finance Department replied (March 2020) that the issue would be examined in future.

2.4.5 Provision made for previous year's expenditure in the current year budget

A provision of ₹12.95 crore was made in the Supplementary Estimate (II instalment) for the year 2018-19 towards Bengaluru Upgradation Project loan adjustment under the Head of Account 6801-00-205-1-80-394 – Loans. While making the provision it was stated that since the adjustment order issued during 2017-18 had not been effected due to non-availability of budget provision, the amount was provided. However, it was noticed that the book adjustment was already effected in the accounts based on the classification provided in the Government Order dated 31 March 2018 and a comment on excess expenditure requiring regularisation and expenditure booked without provision attracting 'New Service' was included. Hence, the provision made during the current year was erroneous and unnecessary thus resulting in overstatement of budget by ₹12.95 crore. The Finance Department pointed out that the entire amount was surrendered. The reply is irrelevant since the observation by audit pertained to error in budgeting.

Subsequent to the Exit Conference the Finance Department replied (March 2020) that such mistakes would be avoided in future.

2.4.6 Lack of transparency in Provisioning – Budget Operation of Omnibus Object Head 059 - Other Expenses

Provisions/expenditure in Government Accounts are classified according to Sector/Sub-sector/Function/Sub-function/ Programme/Detailed/Object head using 15 digit classifications. The 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 classifications 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 provisions/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 2018-19, under eight Major Heads it was noticed (in test checked cases), that an expenditure of ₹2,901.92 crore was wrongly classified under the object head "059-Other Expenses" in lieu of the relevant objects heads, *viz*., 100 – Financial Assistance, 200– Maintenance, 211- Investment, 103– Grants-in-aid- General, 386 – Construction, 117 – Scholarships and Incentives *etc.* The details of such misclassification are detailed in **Appendix 2.3**.

Wrong classification under the object head "059-Other Expenses" goes against the principle of reflecting expenditure against the relevant head to the maximum extent possible.

The Finance Department replied (March 2020) that instructions were issued to the departments to judiciously examine the nature of expenditure and propose provision accordingly, keeping the provision under the Object Head 059 minimum. It also stated that the departments were instructed to transfer the provision to the correct object heads in financial year 2020-21.

2.5 Financial Accountability and Budget Management

Financial accountability revolves around the preparation of the budget by taking into account all the data required for the purpose and watching the progress of expenditure against the provisions made. This exercise should be a continuous process. Persistent non-utilisation of funds and going for supplementary demands regularly defeats the very purpose of accountability. A close watch on non-utilisation of provision is to be kept to carry out re-appropriation of funds to needy heads instead of going in for supplementary demands.

2.5.1 Unspent provisions against allocation

There were 37 cases of unspent provisions, each exceeding ₹100 crore and above under 23 grants/appropriation, which aggregated to ₹24,335.20 crore during 2018-19. Large unspent provisions *i.e.* more than ₹1,000.00 crore were in areas of Agriculture and Horticulture, Finance, Rural Development and Panchayat Raj, Co-operation, Education and Public Works as indicated in **Appendix 2.4**. Further, major heads of accounts, under which the unspent provisions including re-appropriation amount was more than ₹25 crore, are detailed in **Appendix 2.5**.

As per Rule 264 of the KBM, all savings anticipated by the Controlling Officers should be reported by them with full details and reasons to the Finance Department. However, it was observed that the reasons were either not appropriately explained or not furnished by the departments in the Appropriation Accounts.

The PAC, in its 13th Report submitted to the Legislature (December 2011), observed that in order to have control over provision/expenditure, unutilised provisions 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. The Finance Department in its circular dated December 19, 2013 directed all the Administrative Departments and the Heads of Departments to take appropriate action to surrender the full unspent provisions to the Finance Department as soon as it was anticipated without waiting for the year end. However, it was observed that large amounts remained unutilised/un-surrendered, indicating poor quality of control over expenditure, despite the PAC recommendations

The Finance Department replied (March 2020) that as recommended, needful instructions would be issued to the departments in the successive years.

2.5.2 Supplementary Provisions

Article 205 of the Constitution of India read with clause 282 to 292 of the KBM provides a legal basis for supplementary budget or supplementary estimates (SE). The GoK normally presents two to three SEs in a year.

During 2018-19, two installments of Supplementary Estimates (SE) were laid before the Legislature. The Supplementary provisions (₹21,562.30 crore) constituted 10 *per cent* of the original provisions (₹2,24,110.77 crore).

2.5.2.1 Supplementary Provisions are not fiscally neutral

The supplementary budgets are not 'fiscally neutral'[17]as required by KFRA, 2002 since sufficient part of the additional expenditure remained unfunded. Further, commitments of significant amounts are included as a part of the supplementary estimates, which affect the budget-execution process.

As per sub-section (5) of section 6 of KFRA, 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 (SE) in relation to the budget targets of the current year and the Medium Term Fiscal Plan objectives and targets for the future year.

Though the SE document provides a brief write-up on the sources of funds to meet the SEs, it does not provide the details relating to the corresponding curtailment of expenditure and/or augmentation of revenue to fully offset the fiscal impact. **Table 2.7** indicates the SEs and their funding.

[17]the SE is fiscally neutral if the financial impact of the SE is fully off-set by curtailment of expenditure and/or augmentation of revenue.

Table 2.7: Financing of SE during 2018-19

(₹ in crore)

Financing pattern	First Supplementary Estimate	Second Supplementary Estimate
Amount met out of Reserve Funds (recoveries)	0	525.22
Amount covered by Central Assistance	334.75	402.66
Amount covered by Adjustments	5.93	27.88
Cash Outgo	6,640.20	13,625.67
Total	**6,980.88**	**14,581.43**

Source: Supplementary Estimates

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

The Finance Department replied (March 2020) that in the introductory note to supplementary estimates an illustrative note detailing the breakup of supplementary provision is provided where the net cash outgo is specified to be met out of expenditure reprioritization. The reply is not satisfactory as the details relating to the corresponding curtailment of expenditure and/or augmentation of revenue to fully offset the fiscal impact of SEs needs to be provided.

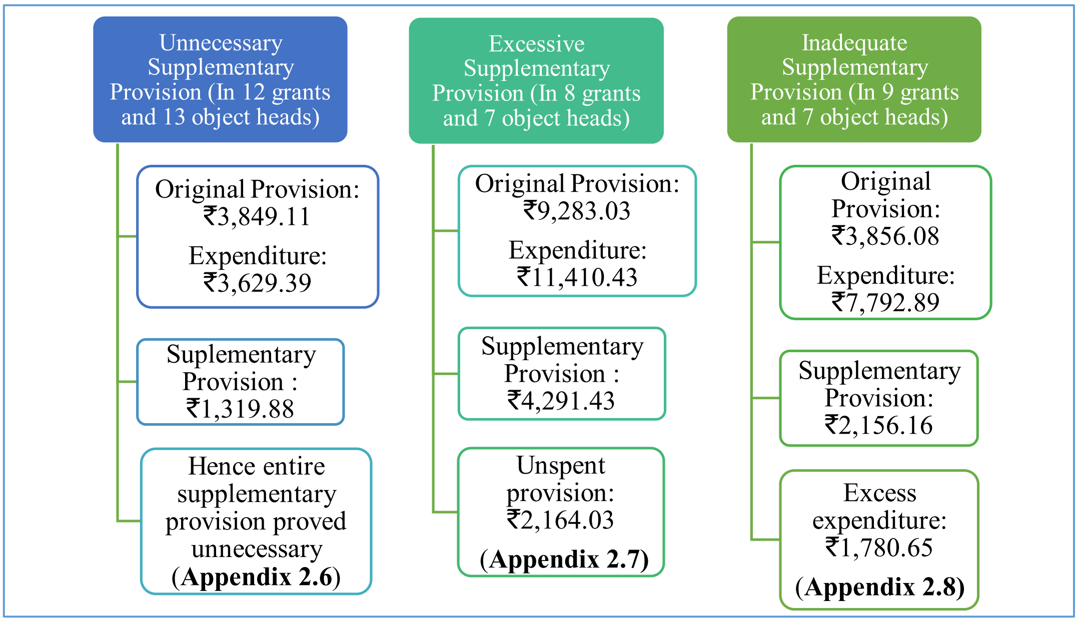
The supplementary provision should be made fiscally neutral as brought out under KFRA by bringing out a statement of savings in the budget/additional resource mobilization etc.

2.5.2.2 Unnecessary/ Excessive[18]/Inadequate Supplementary Provision

Some of the supplementary provisions provided proved unnecessary or excessive or inadequate as detailed in **Chart 2.1**.

Chart 2.1: Unnecessary/Excessive/Inadequate Supplementary provision

(₹ in crore)



[18]When the unspent provision is lower than the supplementary provision obtained for the purpose.

As non-utilization/excessive provisioning/inadequate provisioning reflects injudicious budgetary exercise, robust checks should be placed to avoid such occurrences.

The Finance Department replied (March 2020) that caution to avert such instances of provisioning by engaging needful checks will be taken in the coming years.

2.5.3 Re-appropriation of Funds

A grant or appropriation for disbursement 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.

During 2018-19, 350 re-appropriation orders for an amount ₹9,611.05 crore were issued, as against 351 re-appropriation orders for ₹4,749.37 crore issued during 2017-18. Review of the orders/cases revealed the following.

2.5.3.1 Unnecessary/Excessive/Insufficient re-appropriation of funds

In 2018-19, 27 cases of re-appropriation of funds were made injudiciously as compared to 44 cases in 2017-18, resulting either in un-utilised provision or excess over provision in each case **(Appendix 2.9)**, as summarised below:

- In 18 cases, the un-utilised provision was not properly assessed as, even after the withdrawal of ₹2,224.11 crore through re-appropriation, ₹2,777.22 crore remained un-utilised;
- In five cases, additional funds ₹797.18 crore, provided by re-appropriation, resulted in overall un-utilised provision of ₹535.44 crore;
- In one case, withdrawal of ₹30 crore resulted finally in excess expenditure of ₹55.99 crore and
- In three cases, additional funds of ₹33.55 crore provided through re-appropriation, proved insufficient as the final expenditure exceeded the provision by ₹87.27 crore.

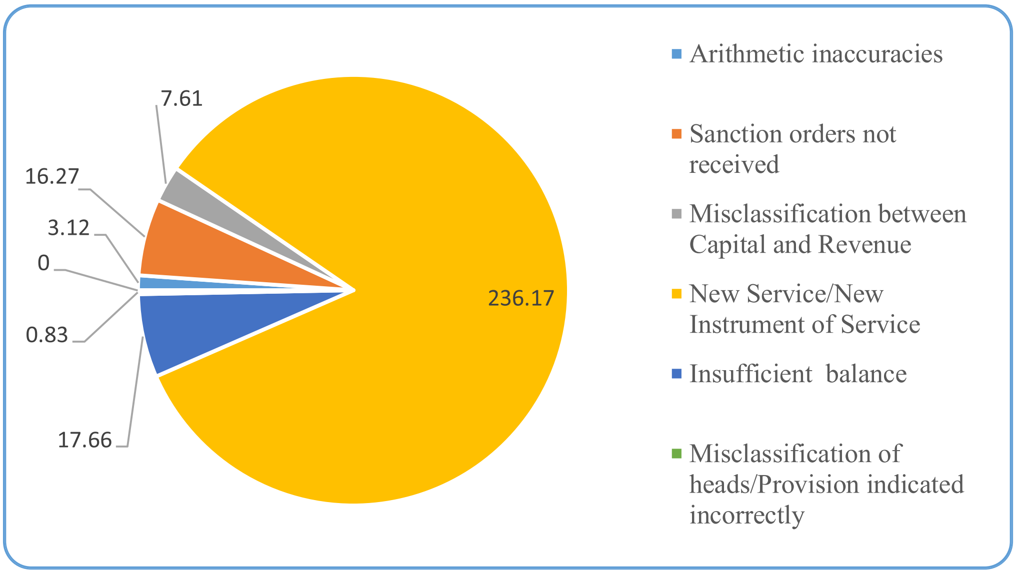
Subsequent to the Exit Conference, the Finance department replied (March 2020) that re-appropriation orders were issued based on the proposals of the administrative departments. But due to unavoidable circumstances some of the re-appropriation orders proved unnecessary/excessive/inadequate.

2.5.3.2 Defective Re-appropriation

Article 309, 312 and 315(a) of the Karnataka Financial Code (KFC) *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). During 2018-19, 35 re-appropriation orders for ₹282.56 crore (**Appendix 2.10**) were not affected for the reasons indicated in **Chart 2.2**.

Chart 2.2: Defective re-appropriation

(₹ in crore)



The administrative departments are required to exercise proper checks before the re-appropriation orders are submitted to the Pr. AG (A&E) for acceptance.

The re-appropriation of funds, which is an exercise of the grant controlling authorities with reference to the budget/expenditure, needs to be carried out in a rigorous manner.

The Finance Department replied (March 2020) that re-appropriation orders are thoroughly scrutinised and issued by the departments. It further stated that additional care would be taken to avoid such instances of defective orders in future.

2.5.4 Surrender of unspent Provision

Rule 66 (1) of GFR, 2017 states that departments are required to surrender all the anticipated unspent provision noticed in grants/appropriations controlled by them to FD by the stipulated date. During 2018-19, there was total unspent provision of ₹25,138.97 crore which was around 10 *per cent* of the total provision.

2.5.4.1 Unspent provision not surrendered

In the case of 13 grants/appropriations, the entire unspent provision, aggregating ₹2,941.72 crore, was not surrendered **(Appendix 2.11)**.

Further, in the case of 26 grants /appropriations, there was only partial surrender and around 53 *per cent* (₹11,826.59 crore) of the total unspent provision (₹22,197.26 crore) was not surrendered (**Appendix 2.12**).

The Finance Department replied (March 2020) that clear instructions in this regard are issued to the departments and compliance to the instructions are reinforced from time to time.

2.5.4.2 Substantial surrenders

In 41 cases, out of the total provision of ₹3,041.72 crore, ₹ 2,837.79 crore was surrendered. The surrender was substantial as 50 *per cent* and above of the provision in each case was surrendered. This included 100 *per cent* surrenders in 23 cases (₹2,365.59 crore) (**Appendix 2.13**). The reasons attributed for surrender were non-honoring of bills presented during end of March by the treasury, economy measures, imposition of code of conduct, delay in commencement of work, violation of tender rules, *etc.*

Besides, in 19 grants where surrender of funds was in excess of ₹five crore, ₹7,667.67 crore was surrendered on the last two working days of the financial year, indicating inadequate financial control (**Appendix 2.14**).

2.6 Contingency Fund

The Contingency Fund of the State was 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 the Contingency Fund are subsequently recouped to the fund through supplementary provisions.

During the year 2018-19, five sanctions aggregating ₹59.64 crore for withdrawing the amount from the Contingency Fund were issued.

Review of the operation of the Contingency Fund disclosed that ₹2.82 crore as detailed in **Table 2.8** was withdrawn from the Contingency Fund during the month of January and March 2019 after the supplementary demand was voted by the Legislature for recoupment of the fund. This indicates that expenditure was not for an unforeseen/emergency purpose. Drawing money from the Contingency Fund after the Supplementary Demands were voted in the Legislature was in contravention to the rules governing the Contingency Fund.

Table 2.8: Details of drawal from Contingency Fund after the Appropriation Act passed by Legislature

(₹ in crore)

GO No. and Date	HOA	Final Head of Account	Approval by Legislature	Amount	Date of drawal
FD 02 BCF 2018 dated 27.08.2018	8000-00-231-0-00	2210-011-110-2-85	December 2018	0.76	January 2019
FD 02 BCF 2018 dated 17.08.2018	8000-00-205-0-00	2015-00-105-0-01-059 2015-00-105-0-02-059	February 2019	2.06	March 2019

The Finance Department replied (March 2020) that instructions on prudent practice of drawal under the Contingency Fund was issued to departments.

2.7 Review of Grant No. 23 – Labour, Employment and Skill Development

2.7.1 Introduction

The Labour and Skill Development Department is responsible for protection of labour rights and skill development in Karnataka. This grant covers the following major heads:

i) 2210 – Medical and Public Health
ii) 2230 - Labour, Employment and Skill development
iii) 2501 – Special Programme for Rural Development
iv) 2851 – Village and Small Industries
v) 3604 – Compensation and Assignments to Local Bodies and Panchayat Raj Institutions
vi) 4250 - Capital outlay on Other Social Services
vii) 4851 – Capital outlay on Village and Small industries

During the year 2016-17 to 2018-19, more than 70 *per cent* of the budget allocation and expenditure was under major Heads 2230 and 4250-Labour, Employment and Skill Development and Capital Outlay on Other Social Services. Thus, the grant review was conducted in respect of the said two functional heads.

2.7.2 Budget and Expenditure

The overall position of budget provisions, actual disbursements and savings under the selected major heads for the last three years (2016-17 to 2018-19) is detailed in **Table 2.9**.

Table 2.9: Budget and Expenditure under the selected major heads

(₹ in crore)

Year	Section	Budget Provision	Total	Expenditure	Unutilized provision and its percentage
2016-17	Revenue Original(V)	560.24	573.45	494.64	78.81(14)
	Supplementary	13.21			
	Capital Original(V)	120.11	120.11	95.52	24.59(20)
	Supplementary	0.00			
2017-18	Revenue Original(V)	932.26	970.62	559.17	411.45(42)
	Supplementary	38.36			
	Capital Original(V)	90.42	90.42	83.43	6.99(8)
	Supplementary	0.00			
2018-19	Revenue Original(V)	601.25	673.94	511.69	162.25(24)
	Supplementary	72.69			
	Capital Original(V)	50.51	50.51	20.42	30.09(60)
	Supplementary	0.00			

Source: Grant Registers

During 2016-17 to 2018-19 as a percentage of total provision, unutilized provision ranged between 14 *per cent* and 42 *per cent* under Revenue Section, and between 8 *per cent* and 60 *per cent* under Capital Section.

2.7.3 Role of Internal Financial Advisor (IFA)

As per the notification issued by the GoK in July 1982, Internal Financial Advisor (IFA) is in overall charge of work relating to Finance, budget and accounts of the department to which he is appointed. He is responsible for ensuring that the budget estimates are properly framed, time schedule is scrupulously followed, budget proposals are scrutinised and the Secretary is assisted in formulation of budget proposals, advice is given on budgeting for new schemes *etc.* Further, IFA renders advice on financial prudence, tracking audit reports and action taken reports *etc.*

During the review of records of the Labour and Skill Development Department, it was observed that the files relating to budget proposal were not submitted to the IFA for scrutiny. Hence, the IFA was not involved in the formulation of Budget proposals and also budget proposals were not formulated under his superintendence.

The Government while accepting (December 2019) that the budget proposals for earlier years were forwarded directly to the Finance Department stated that the budget proposal for 2018-19 was forwarded to the Finance Department through the IFA. Though the budget proposals were forwarded through the IFA during 2018-19, from the records provided it was noticed that the IFA was not involved in formulation of budget proposals.

2.7.4 Persistent savings

Scrutiny of Appropriation Accounts for the years 2016-17 to 2018-19 showed that there were persistent savings under four heads of accounts during the above period which is indicative of poor budgetary monitoring or shortfall in performance or both.

It was observed that budget allocations remained unutilized every year indicating non-achievement of the projected financial outlays in the respective years. 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 2.10** below.

Table 2.10: Persistent Savings

(₹ in crore)

Sl. No.	Head of Account	Savings		
		2016-17	2017-18	2018-19
1	2230-02-001-0-01/03*-059 - Other Expenses	9.71	127.20	7.34
2	2230-02-001-0-01/03*-071 – Building Expenses	1.54	2.02	0.91
3	2230-02-001-0-01/03*-422 – Scheduled Caste Sub Plan	12.34	18.88	10.11
4	2230-02-001-0-01/03*-423 – Tribal Sub Plan	4.59	7.69	4.27

* *During 2016-17 the expenditure was under the sub-head 01- Employment and Training which was shifted to sub-head 03 during 2018-19.*

In the Exit Conference (March 2020), the Finance Department stated that action would be taken to avoid such instances in future.

2.7.5 Diversion of funds provided for Capital Expenditure towards incurring Revenue Expenditure

As per Rule 8 of the KBM, capital expenditure is incurred with the object of either increasing the concrete assets of material and permanent character such as construction of buildings, irrigation projects, or of reducing liabilities. As such, the provision made under this head shall be utilized for incurring capital assets only.

A provision of ₹6.36 crore was made during 2018-19, under the head of account 4250-00-201-0-04-386 for construction of new Karmika Bhavans in five cities. Out of this, the Government gave approval (between January 2019 and March 2019) for incurring revenue expenditure of ₹0.90 crore *viz*., repair of toilets, repair/fixing of lights, painting and repair of third floor of Karmika Bhavan, Bannerghatta Road. Hence, expenditure of revenue nature was incurred under a capital work which was incorrect.

The Government accepted (December 2019) the observation and stated that in future such diversions would be avoided.

2.7.6 Blocking up of Government funds outside Government Accounts

Withdrawing of money from the Consolidated Fund of the State without actual requirement is not a prudent fiscal practice. Charging of expenditure without actual utilisation for the purpose for which it was released results in distortion of fiscal indicators in the relevant financial years.

The department of Labour and Skill Development implements many schemes through implementing agencies like Boards/Corporations/Societies constituted by the GoK. It releases funds to these Boards/Societies from the budget allocations made for implementation of various scheme.

On review of funds released and expenditure incurred by five Boards/Societies, it was observed that during the period from 2015-16 to 2018-19, an amount of ₹87.59 crore, shown as expenditure to the Consolidated Fund, was parked in the Savings Bank Accounts of the implementing Agencies under the control of the Labour and Skill Development Department. This resulted in overstatement of expenditure to the tune of ₹87.59 crore. Individual observations are discussed below.

- **Construction of Karmika Bhavan at Mysuru**

During 2017-18 and 2018-19, the Commissioner of Labour released an aggregate amount of ₹10 crore to the Executive Engineer, PWP&IWTD, Mysuru for construction of ‘Karmika Bhavan’ at Mysuru.

It was noticed that the construction work of Karmika Bhavan was not taken up due to non-finalization of tender (22 August 2019). Hence ₹10 crore released to PWP&IWTD remained unutilized.

- **Asha Deep Scheme**

The State Budget of 2017-18 announced 'Asha Deep scheme' with an objective of providing employment to the workers belonging to SCs/STs in private enterprises. Under this scheme, the Government was to bear the employee's share of ESI (4.75 *per cent*) and Provident Fund (12 *per cent*) of newly employed SC and ST candidates. The GoK accorded approval (July 2017) for implementing the scheme through Karnataka State Workers' Welfare and Social Security (Asha Deep) Society (Society). During 2017-18 and 2018-19, ₹43.25 crore was released to the Society. Against the release, ₹0.10 crore was incurred as expenditure.

The scheme was not implemented due to a similar scheme 'Pradhan Mantri Rojgar Protsahan Yojana' being implemented by GoI and also due to non-availability of category-wise employees' data with the private enterprises. In spite of availability of ₹40 crore released during 2017-18, a provision of ₹4.33 crore was made during 2018-19 and ₹3.25 crore was released by the department. The entire amount along with interest of ₹1.87 crore was parked in the Savings Bank account of the Society.

The Government replied (December 2019) that in spite of its efforts to popularize the scheme, the scheme was not implemented. It further stated that the Society had submitted a proposal to revise the scheme which includes re-imbursement of stipend and salary amount of ₹3,000 per month per candidate to the employer for employing candidates belonging to the SC/ST community.

- **Ambedkar Karmika Sahaya Hasta Scheme**

Ambedkar Karmika Sahaya Hasta Scheme was implemented during 2017-18 with an objective to provide benefits to unorganised workers under accident relief scheme by providing smart cards. This scheme was to be implemented by Karnataka Unorganised Workers' Social Security Board.

During 2017-18 and 2018-19 against the total budget allocation of ₹37.78 crore, ₹30.83 crore was released and an expenditure of ₹6.39 crore was incurred towards printing of smart cards, establishment of Karmika Seva Kendras *etc*. The balance of ₹24.44 crore was kept in the Savings Bank Account of the Board which resulted in blocking up of Government Funds.

The Government replied that the Board would take action to utilize the amount and had earmarked ₹14.00 crore for Contributory Provident Fund by placing it in its next general body meeting and also stated that it has submitted proposal to surrender ₹8.61 crore out of the balance amount.

- **Bharath Ratna Sir M. Visvesvaraya National Training Facility for Skills for All**

Mokshagundam Visveswaraya Centre for training master trainers in Skill Development at Muddenahalli, Chikkaballapura on Public and Private Project (PPP) module was established during 2015-16. A society - Bharath Ratna Sir. M. Visvesvaraya National Training Facility of Skills for All (Society) was established to run the centre with an objective to create top class master trainers in India through the world class super trainers from vocational technology and to scale up the skills of the technician work force in the country. A total amount of ₹10 crore was released under the Head of Account 4250-00-203-0-05-386 during 2015-16 and 2016-17 to take up construction activity.

However, it was observed that the entire amount of ₹10 crore was kept in the savings Bank Account for more than two years without utilization. The administrative approval for construction of the building is yet to be obtained. Thus, the amount released to the Society remained unspent resulting in blocking up of Government Funds.

- **Karnataka State Labour Institute**

Karnataka State Labour Institute was registered (February 2009) as a society with the aim of creating awareness and providing a forum for training as well as information dissemination to all the stakeholders in labour management and industrial relations. The main objective of the Institute was to start certificate and diploma courses, to conduct impact assessment studies to improve and update the existing labour laws, to conduct trainings/workshops/seminars as per the objectives of the Bye-Laws. The Institute received grants from the Government.

A mention was made vide Para 3.4.1 in the report of Comptroller and Auditor General of India (Report No.2) of the year 2013 regarding retention of Government grants without utilization to the tune of ₹3.14 crore by Karnataka State Labour Institute as at the end of March 2012. The Institute remitted ₹3.19 crore to treasury during January 2013.

However, it was observed that non-utilisation of grants by the institute continued during the period 2012-13 to 2018-19. Against the release of ₹5.35 crore, the expenditure incurred was ₹1.62 crore. This resulted in blocking of ₹3.63 crore outside the Government Account. The year-wise details of grants released under the Head of Account 2230-01-277-0-01 to the Institute and expenditure thereon are indicated in **Table 2.11** below:

Table 2.11: Year-wise details of funds released to the Institute and expenditure thereon

(₹ in crore)

Year	Amount Released	Expenditure	Unspent Amount
2012-13	0.50	0.21	0.29
2013-14	0.50	0.24	0.26
2014-15	1.00	0.19	0.81
2015-16	0.75	0.22	0.53
2016-17	0.75	0.22	0.53
2017-18	1.00	0.11	0.89
2018-19	0.75	0.43*	0.32
Total	**5.25**	**1.62**	**3.63**

* Expenditure up to October 2018

This indicated that the Government released the grants to the society without reviewing the utilisation of previous year's grants.

The Government replied (December 2019) that the objectives were not achieved due to non-availability of training resources/persons/staff and sufficient infrastructure. It also stated that since the institute has established its own building at Peenya, Bengaluru (July 2019) with adequate infrastructure, two training programme have since been conducted and hence action was initiated to achieve its objectives.

Subsequent to the Exit Conference, the Finance Department replied (March 2020) that a circular has been issued in March 2018 with instructions to the administrative departments to check the utilisation before releasing further budgetary allocations to the implementing agencies. In addition, it stated that efforts to monitor the bank balances of all corporations, boards and departments are made in order to prevent undue parking of funds.

2.7.7 Rush of Expenditure

Rule 62 (3), GFR, 2017 states that rush of expenditure particularly in the closing month of the financial year shall be avoided as it is regarded as breach of financial propriety. Further, 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 ranged from 51 *per cent* to 100 *per cent* during March and 86 *per cent* to 100 *per cent* during the last quarter of the year 2018-19. The object head wise details of expenditure are detailed in **Table 2.12.**

Table 2.12: Rush of Expenditure

(₹ in crore)

Head of Account	Total Expenditure	Expenditure during the last Quarter and its percentage	Expenditure during the month of March and its percentage
2230-01-112-0-01-059 – Other Expenses	2.32	1.95(84)	1.95(84)
2230-02-001-0-03-051 – General Expenses	2.18	2.12(97)	2.02(93)
2230-02-001-0-03-125 – Modernization	0.64	0.63(98)	0.63(98)
2230-02-001-0-03-221 – Materials and Supplies	1.58	1.37(86)	0.83(53)
2230-02-001-0-03-422 – Scheduled Caste Sub Plan	6.21	6.21(100)	6.21(100)
2230-02-001-0-03-422 – Tribal Sub Plan	2.48	2.48(100)	2.48(100)
2230-02-101-0-11-015–Subsidiary Expenses	2.00	2.00(100)	2.00(100)
2230-02-800-0-02 -422 – Scheduled Caste Sub Plan	8.47	8.47(100)	4.29(51)
2230-02-800-0-02 -423 –Tribal Sub Plan	3.15	3.15(100)	2.07(66)
2230-03-101-0-49 -125 –Modernisation	1.75	1.75(100)	1.75(100)

Source: Grant Register

The Finance Department replied (March 2020) that periodic instructions were being issued to the departments to plan balanced expenditure in order to avoid rush at the end of the year.

2.8 Conclusion

Against the total provision of ₹2,45,673.07 crore during 2018-19, an expenditure of ₹2,20,534.10 crore was incurred. This resulted in unspent provision of ₹25,138.97 crore (*10 per cent*). Out of the unspent provision, in 19 grants, ₹7,667.67 crore was surrendered in the last two working days of the financial year.

The budgetary exercise should be more rigorous as an amount of ₹108.40 crore was misclassified under the capital/revenue section affecting the fiscal indicators.

Executive orders for expenditure, prior to approval of the Legislature, were issued for ₹3,940.35 crore forming 18 *per cent* of the Supplementary Estimate. Excess expenditure of ₹2,409.53 crore relating to the period 2012-13 to 2017-18 required regularization under Article 205 of the Constitution. In four cases, involving three grants, excess expenditure amounting to ₹686.82 crore, which should have been treated as 'New Service/New Instrument of Service' was incurred without the approval of the Legislature.

Supplementary Estimates were not fiscally neutral as the statement showing the corresponding curtailment of expenditure and/or augmentation of revenue to fully offset the fiscal impact of SEs, as required by KFRA, was not provided. Supplementary provision of ₹1,319.88 crore in 13 object heads was unnecessary and ₹4,291.43 crore made under seven object heads proved excessive.

While re-appropriation in 27 cases was made injudiciously resulting in either un-utilized provision or excess over provision; in 35 cases re-appropriation was not effected due to defective re-appropriation orders.

2.9 Recommendations

- ***Budgetary control should be strengthened in all the departments to avoid cases of provision remaining unutilized as well as surrendering of unspent provision during fag end of the financial year.***

- ***Top priority should be accorded to regularize the excess expenditure from the year 2012-13 by bringing those cases before the PAC.***

- ***The Supplementary Estimates should indicate the details of curtailment of expenditure and / or augmentation of revenue to fully offset the fiscal impact as brought out under KFRA.***

- ***Reasons for the issue of re-appropriation orders especially injudicious and defective orders needs to be ascertained in order to develop a strategy to control issue of such re-appropriation orders.***