

CHAPTER IV
QUALITY OF ACCOUNTS
AND FINANCIAL REPORTING
PRACTICES

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A sound internal financial reporting system with relevant and reliable information significantly contributes to efficient and effective governance by the State Government. Compliance with financial rules, procedures and directives as well as the timeliness and quality of reporting on the status of such compliance are, thus, the attributes of good governance. Reports on compliance and controls, if effective and operational, assist the Government in meeting its basic stewardship responsibilities, including strategic planning and decision-making.

A. Issues related to Completeness of Accounts

Completeness of Accounts means that the accounts have incorporated every item/transaction that should be included for a financial year. Thus, completeness ensures that there are no omissions of significance.

4.1 Non-discharge of liability in respect of State Incentive Bonus for procurement of paddy in the State

Under the Decentralised procurement Scheme (DCP) of Government of India (GoI), the Government of Kerala (GoK) through Kerala State Civil Supplies Corporation (a State-owned Company also known as Supplyco) undertakes direct purchase of paddy from the farmers of the State. The procurement price of paddy was declared by the GoK of which the GoI provides the approved Minimum Support Price (MSP)³¹ and any amount over and above this MSP is provided by the State Government as State Incentive Bonus (SIB). SIB is disbursed as a budgetary allocation and is booked in the Government Accounts under the head of account '2408-01-101-96-33-Subsidies-NP'. As on 31 March 2023, the State Government owes Supplyco ₹556 crore towards paddy procurement as unpaid SIB. This also includes an additional amount of ₹34 crore by way of interest accrued against monthly outstanding SIB during the year. Non-discharge of liabilities of ₹556 crore during the year resulted in understatement of revenue deficit and fiscal deficit to that extent.

In reply (November 2023), State Government agreed to the Audit observation and stated that due to the financial crisis of the State the SIB could not be released. It was also stated that the State Government is taking earnest efforts for the timely

31 MSP is announced by the Central Government on the recommendation of CACP - Commission for Agricultural Cost and Prices - under the Union Ministry of Agriculture.

disbursement of the procurement price (MSP and SIB) without arrears.

4.2 Non- discharge of liability in respect of interest towards interest bearing deposits

The Government has a liability to provide and pay interest on the amounts in the Interest-bearing Deposits (Major Heads of Accounts 8336 to 8342).

However, audit scrutiny has revealed that no provision has been made in the year 2022-23 in the Budget for the discharge of the interest liability on interest bearing deposits as shown in **Table 4.1**.

Table 4.1 Non-discharge of liability in respect of interest towards interest bearing Deposits

(₹ in crore)

Sl. No.	Name of the Interest bearing deposit	Opening Balance as on 01.04.2022	Interest Rate (percentage)	Interest due	Interest paid	Interest short paid
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	State Compensatory Afforestation Fund	54.67	3.35	1.83	Nil	1.83
Total				1.83	Nil	1.83

Source: Finance Accounts for the year 2022-23.

Non-payment/ short payment of the interest has resulted in understatement of Revenue and Fiscal Deficit by ₹1.83 crore.

4.3 Direct transfer of Central Scheme Funds to Implementing Agencies in the State (Funds routed outside State Budget)

Government of India (GoI) transfers substantial funds directly to State Implementing Agencies for implementation of various Schemes and Programmes. The details of Funds transferred by Government of India directly to State Implementing Agencies as per the Public Financial Management System (PFMS) portal of the Controller General of Accounts (CGA) is listed in Appendix VI of Volume-II of the Finance Accounts. During the year 2022-23, as per the PFMS portal of the CGA, an amount of ₹10,341.03 crore was directly received by the implementing agencies including ₹21.72 crore received by the intermediaries (Societies, NGOs, Trusts etc.) in the State. The details of Direct transfer of Central Scheme Funds to Implementing Agencies in the State during 2022-23 are given in **Appendix 4.1**.

4.4 Non Transfer of Compounding Fee to Kerala Road Safety Fund-

As per section 11(3) of Kerala Road Safety Authority Act 2007, State Government shall contribute to the fund every year, an amount equal to 50 per cent of the compounding fee collected in the previous year. Out of total collection of compounding fee of ₹111.11 crore during 2021-22, ₹55.56 crore

have to be transferred to the Kerala Road Safety Fund. However, this was not done resulting in understatement of Revenue deficit and fiscal deficit by ₹55.56 crore.

B. Issues related to transparency

Transparency ensures that everything should be properly disclosed and easily understandable.

4.5 Unadjusted Abstract Contingent (AC)/Temporary Advance Bills

The Government of Kerala discontinued the system of drawal of Abstract Contingent (AC) bills followed by submission of Detailed Contingency (DC) bills to the Office of the Principal Accountant General (A&E). Instead, the Drawing and Disbursing Officers (DDOs) have been empowered to draw Temporary Advances (TAs) under Article 99 of Kerala Financial Code (KFC) Volume I.

Out of temporary advances pending adjustments amounting to ₹1.86 crore drawn during the year 2022-23, bills amounting to ₹0.22 crore (11.83 *per cent*) were drawn in March 2023. Details of advance contingent bills pending as on 31.03.2023 is shown in the **Table 4.2** given below.

Table 4.2: Details of advance contingent bills pending as on 31.03.2023

Year	No. of pending Temporary Advances	Amount (₹ in crore)
Upto 2021-22	24,268	1,949.23
2022-23	599	1.86*
Total	24,867	1,951.09

Source: Finance Accounts

*Also includes Temporary advances taken in January-March 2023 which become due between April-June 2023.

At the end of 31 March 2022 (previous year), Detailed Contingency Bills in respect of a total of 24,268 AC bills amounting to ₹1,949.23 crore were not received.

4.6 Delay in Submission of Utilisation Certificates

In terms of Article 210(1) Chapter VIII of Kerala Financial Code 1963 as amended, Utilization Certificates (UCs) in respect of Grants-in-Aid received by the grantee should be furnished by the grantee to the authority that sanctioned it, within two years (maximum time limit of one year as period of utilisation, nine months for submission of audited accounts to the signing or countersigning authority from the expiry of the period fixed for the utilisation of the grant and three months for submission of Utilisation Certificates from the date of receipt of audited accounts) from the date of receipt of grant or before applying for a further grant on the same object, whichever is earlier. To the extent of non-submission of UCs, there is a risk that the amount shown in Finance Accounts

may not have reached the beneficiaries.

During the year 2022-23, ₹7.74 crore pertaining to six outstanding UCs for the period upto 2021-22 was cleared as against the balance of 11 UCs valuing ₹8.56 crore as at 31st March 2022. The position of outstanding UCs as on 31 March 2023 is shown in **Table 4.3**.

Table 4.3 Details of Pending Utilisation Certificates

(₹ in crore)

Year*	Number of UCs Outstanding	Amount
Upto 2021-22 (As on 31 st March 2022)	5	0.82
2022-23	121	88.62
Total	126	89.44

* The year mentioned above relates to "Due year" i.e., after 24 months/2 years of actual drawal.

The State Government replied (December 2023) that a software application is being developed to strengthen loans and grants-in-aid sanctioned by the Government to avoid non submission and delayed submission of UCs by the institutions concerned.

4.7 Treasury Savings Bank Accounts

4.7.1 Introduction

The Government of Kerala does not follow the system of operating PD Accounts for implementation of schemes by transferring funds from the Consolidated Fund. This purpose is served through Treasury Savings Bank Accounts maintained in the State Treasuries as per Rule 37 of Kerala Treasury Code.

The objective of the Government in establishing Treasury Savings Bank Scheme was to provide a ready means for the deposit of savings and to encourage thrift. Subsequently, funds released for various purposes from the Consolidated Fund such as grants-in-aid, loans and investments to State PSUs & Statutory Corporations were also credited to the Special Treasury Savings Bank Account (STSB) temporarily for keeping the unspent balance for a specified period on the basis of various Government Orders. Government also permits Public Sector Undertakings/Autonomous Bodies/ Institutions and Welfare Fund Boards to deposit their own funds in the Treasury Savings Bank accounts. The amounts credited to TSB Accounts are booked under sub head '99' below minor head '102 Savings Bank Deposits' below Major Head '8031-Other Savings Deposits'. Deposits under Term Fixed Deposits are booked under '8031-00-102-98-Fixed & Time Deposits'.

The TSB account by any person in treasury of the State is being regulated by the instructions contained in Appendix 3 to the Kerala Treasury Code. As on 31 March 2023, the amount lying in TSB Accounts under the head 8031-00-102- 99 was ₹ 833.56 crore. An amount of ₹ 73,900.05 crore was also outstanding under Term Fixed Deposit accounts in Treasuries as on 31 March 2023 under the head

of account ‘8031-00-102-98’

4.7.2 Resumption of Funds from Treasury Savings Bank Accounts

Audit conducted a field study on Resumption of funds from TSB account to the Consolidated fund of the State. A few important observations noticed in audit are detailed in the succeeding paragraphs.

➤ **Irregular method of Resumption of funds from TSB accounts into a common head of account.**

State Government vide orders dated 23 March 2023 resumed funds amounting to ₹6,859.18 crore parked in the TSB Accounts of various Government departments and state-owned PSUs, Autonomous Bodies etc. into the Consolidated Fund of the State on 31 March 2023 as given in **Table 4.4** below.

Table 4.4 Details of Funds resumed to Consolidated fund of State

(₹ in crore)

Sl. No.	TSB Account type ³²	Number of resumed TSB Accounts and amount resumed		TSB Accounts where the resumed fund credited to ‘2075-00-911-94’	
		Number	Amount	Number	Amount
1	STSB	12,186	5,156.39	12,185	5,156.39
2	PSTSB	207	640.18	25	24.94
3	LGTSB	2,697	1,032.62	2,697	1,032.62
4	JVTSB	11	1.54	11	1.54
5	SDTSB	4	0.19	4	0.19
6	Inoperative STSB	3,040	24.84	3,040	24.84 ³³
7	Inoperative PSTSB	172	3.42	172	3.42
Total		18,317	6,859.18	18,134	6,243.94

Source: As per the information furnished by the Treasury department

Out of ₹6,859.18 crore resumed, an amount of ₹6,243.94 crore was resumed to a common head of account ‘2075-00-911-94 Deduct Recoveries-Refund of amounts resumed from the idling STSB accounts’ during the year.

As per para 3.10 of General Directions contained in List of Major and Minor Heads of Accounts, recoveries of overpayments pertaining to previous year/years under revenue expenditure are to be recorded under distinct Minor Head (Deduct Recoveries of Overpayments) below the concerned major/sub major head from where the expenditure was initially incurred. Recovery of over payment during the same financial year in which such over payments are made shall be recorded as reduction of expenditure under the concerned expenditure head of account.

As per para 4.3 of the General Directions, in the case of Capital Expenditure,

32 STSB – Special Treasury Savings Bank, PSTSB – Plan Scheme TSB, LGTSB – Local Government TSB, JVTSB – Joint Venture TSB, SDTSB – Security Deposit TSB

33 Includes ₹0.06 crore credited to subheads other than ‘94’ in the Major head ‘2075-00-911’

distinct subheads (Deduct Receipts and Recoveries on Capital Account) are to be opened below the relevant minor heads under the various Capital major/sub major heads where the capital expenditure was initially incurred.

Credit back of amounts originally debited under various Revenue and Capital heads of accounts to the common head of account '2075-00-911' is in violation of the General Directions contained in paragraphs 3.10 and 4.3 of the List of Major and Minor Heads (LMMH) published by the Controller General of Accounts and will distort all key indicators of fiscal position of Government.

Audit also observed that as per the norms of the Public Account Committee, all heads of accounts having Savings/Excess more than the prescribed limit should be commented in the Appropriation accounts. But due to crediting of unutilized amount to the common head of account instead of crediting to the heads of accounts from where original debit was made, the schemes which otherwise would have been qualified for inclusion in the Appropriation Accounts may escape inclusion or may result in overstatement.

State Government replied (March 2024) that an automated mechanism developed by NIC to effect resumption from PSTSB accounts and remitting it to the concerned source plan head would be operational from 2023-24 onwards.

➤ **Resumption of funds from STSB account of Kerala Social Security Pension Ltd. (KSSPL)**

KSSPL is a State-owned company constituted in June 2018 for disbursing various social security pensions and welfare pensions. Government provides funds in the state budget under 2235-60-102-89 for disbursement of pension. These funds are released to the STSB Accounts of KSSPL maintained in the Public Account. KSSPL also mobilise fund as loan from the Consortium of Primary Co-operative Societies for the distribution of Social Security Pension. This fund was also credited to the same STSB account.

- Audit noticed that on 31.03.2023 ₹1,651.92 crore was released by Government to KSSPL by debiting the head 2235-60-102-89 Assistance to Kerala Social Security Pension Limited and credited to the STSB Account of KSSPL. However, on the same day itself this amount was resumed from the Public Account and written back (by deduct debiting) to head '2075-00-911-94' instead of original head '2235-60-102-89'. This resulted in overstatement of expenditure to the tune of ₹1,651.92 crore in the Appropriation Accounts under the major head '2235' and understatement of expenditure under the head '2075' for the year 2022-23.
- On 31.03.2023, an amount of ₹1,116.87 crore was resumed from the STSB account of KSSPL and written back (by deduct debiting) to the head '2075-00-911-94'. This amount was mobilised by KSSPL from the Consortium of Co-operative Societies and maintained in STSB Account of KSSPL. The resumption of funds (raised by KSSPL)

to the Consolidated fund of the State is irregular. Further, since this amount had been taken as loan from the Co-operative Societies, the servicing of which in form of Principal and Interest are done by the State Government, this amount is off-budget borrowing of the State Government. By making such resumption on the last day of the year, the Government had understated the Revenue deficit and Fiscal deficit to that extent.

➤ **Resumption of funds provided to Kerala State Electricity Board (KSEB) Limited.**

As per G.O.(Rt)No.71/2023/Power dated 29.03.2023, Government sanctioned an amount of ₹171.67 crore to Kerala State Electricity Board Limited (KSEBL) for settling the dues of electricity charges of Kerala Water Authority payable to KSEB Limited. The amount was credited to the STSB account of KSEB on 31-03-2023 by debiting the head of account '2801-80-101-92' (NP). However, the amount was resumed on the same day itself and written back (by deduct debiting) to the head of account 2075-00-911-94 instead of '2801-80-101-92' (NP). This resulted in overstatement of expenditure in the head '2801-80-101-92'-Assistance to Electricity Boards. Thus, the Appropriation Accounts for the year 2022-23 reflects only a savings of ₹7.60 crore instead of ₹179.27 crore (171.67 + 7.60), which is factually incorrect.

➤ **Resumption of funds provided to Kerala State Civil Supplies Corporation Limited.**

The Civil Supplies Corporation Ltd is the holder of STSB Account No. 711101400000002 to which the Commissioner of Civil Supplies transfers the amount by debiting the Subhead 94 - Ration Subsidy under the minor head 101 – Procurement and Supply below the Major head 2408– Food ('2408-01-101-94'). Audit observed that an amount of ₹86.88 crore was resumed from the STSB Account on 31.03.2023 and written back (by deduct debiting) to the Head '2075-00-911-94' instead of the head '2408-01-101-94'. This resulted in overstatement of expenditure to the tune of ₹86.88 crore under the head '2408-01-101-94' and understatement of Major head 2075.

➤ **Resumption of funds provided to Kerala Books and Publications Society (KBPS)**

Government provides funds to Kerala Books and Publications Society for printing charges of textbooks by debiting the head of account 2202-02-106-99 – Secondary Education – Textbooks Publication. The amount is credited to the STSB account of KBPS. Audit observed that as on 31 March 2023 an amount of ₹28.83 crore was resumed from the STSB account and written back (by deduct debiting) to the head 2075-00-911-94 instead of the head '2202-02-106-99'. This resulted in overstatement of expenditure to the tune of ₹28.83 crore under the head 2202-02-106-99 and understatement of expenditure under the major head 2075.

➤ **Overstatement of Investment by ₹200 crore**

Government, vide order dated 30.03.2023 had accorded sanction to increase the authorized share capital of Kerala Financial Corporation (KFC) from ₹500 crore to ₹1,000 crore and to infuse ₹200 crore into its Paid up Capital. ₹200 crore was released by debiting the head 4885-01-190-98 Kerala Financial Corporation – Investments and transfer credited the amount in the STSB Accounts of KFC maintained in the Public Account on 31.03.2023. On the same day the amount was deduct debited to the revenue expenditure head 2075 instead of deduct debiting under the capital head 4885. This has resulted in overstatement of Capital Expenditure and investment by ₹200 crore and understatement of Revenue Expenditure by ₹200 crore.

4.8 Clubbing of unrelated expenditure in common heads

4.8.1 Indiscriminate operation of Minor Head 800 – Other receipts and other expenditure

Minor Head 800 relating to Other Receipts and Other Expenditure is intended to be operated only when the appropriate Minor Head has not been provided in the accounts. Routine operation of Minor Head 800 is to be discouraged, since it renders the accounts opaque.

➤ **Minor Head 800-Other Expenditure**

During 2022-23, expenditure aggregating to ₹7,248.36 crore, constituting 4.65 *per cent* of the total Revenue and Capital expenditure (₹1,55,947.49 crore), was classified under Minor Head 800-Other Expenditure in respect of 67 Major Heads of account involving both Revenue and Capital sections. The total Revenue and Capital expenditure during 2021-22 was ₹1,60,371.24 crore. Out of this, ₹9,413.23 crore under 68 Major Heads of account constituting 5.87 *per cent* of the total expenditure were classified under the Minor Head 800-Other expenditure. Compared to the previous year, expenditure under Minor Head-800 decreased by 23 *per cent*. It was observed that in respect of nine Major Heads, expenditure of more than ₹100 crore was classified under the Minor Head 800 during 2022-23 as shown in **Table 4.5**.

Table 4.5: Expenditure of more than ₹100 crore under the Minor Head 800

(₹ in crore)

Sl.No	Major Head	Expenditure booked under Minor Head 800
1	2075 – Miscellaneous General Services	3,666.86
2	2210 – Medical and Public Health	901.79
3	5075 – Capital outlay on Other Transport Services	534.06
4	4515 – Capital outlay on Other Rural Development Programme	385.69
5	2217 – Urban Development	192.78

Sl.No	Major Head	Expenditure booked under Minor Head 800
6	2515- Other rural development programme	169.65
7	3054 – Roads and Bridges	155.09
8	2014 – Administration of Justice	119.75
9	4250- Capital outlay on other social services	103.86

Further, Audit examined selected cases of booking under Minor Head 800, and noted that in some instances, a valid Minor Head, other than 800 was available in the List of Major and Minor Head (LMMH) for booking these transactions which is summarised in **Table 4.6**.

Table 4.6 : Booking under Minor Head 800 instead of Valid Minor Head

(₹in crore)

Sl. No.	Heads of Account as per State budget	Amount	Suitable Minor head as per LMMHA
1	2040-00-800-99 Gulati Institute of Finance and Taxation (GIFT)	0.90	2040-00-188 Assistance to Autonomous bodies
2	3055-00-800-94 Implementation of e- Governance in MVD-Training and Capacity Building	1.04	3055-00-003 Training
3	6250-60-800-94 Loan to Rehabilitation Plantation Ltd	1.00	6250-60-190 Loans to Public Sector and other Undertakings
4	2075-00-800-98 Rajiv Gandhi Academy for Aviation Technology - Grant-In-aid	1.50	2075-00-188 Assistance to Autonomous bodies
5	2203-00-800-91 C-apt-Kerala State Centre For Advanced Printing And Training	3.70	2203-00-188 Assistance to Autonomous bodies
6	2210-06-800-81 Pradhanmantri Jan Aarogya Yojana/ Karunya Aarogya Suraksha Padhathi State Scheme	807.00	2210-80-101 Ayushman Bharat-Pradhan Mantri Jan Arogya Yojana (PMJAY)
7	2210-06-800-80 Pradhanmantri Jan Aarogya Yojana/ Karunya Aarogya Suraksha Padhathi-CSS	93.00	2210-80-101 Ayushman Bharat-Pradhan Mantri Jan Arogya Yojana (PMJAY)

➤ Minor Head 800-Other Receipts

During 2022-23, receipts aggregating to ₹1,459.48 crore under 48 Major Heads of account constituting 1.10 *per cent* of the total revenue receipts (₹1,32,724.65 crore) were classified under the Minor Head 800-‘Other Receipts’ in the Accounts. During the previous year ₹2,066.08 crore under 48 Major Heads of account constituting 1.77 *per cent* of the total revenue receipts (₹1,16,640.24 crore) were classified under 800 – ‘Other Receipts’ in the accounts. Compared to the previous year, booking of receipts under Minor Head-800 also decreased by 29.36 *per cent*.

It was observed that in respect of 3 Major Heads, receipts aggregating more than ₹100 crore were classified under the Minor Head 800 during 2022-23 as shown in **Table 4.7**.

Table 4.7: Receipts of more than ₹100 crore under the Minor Head 800

(₹ in crore)

SI No.	Major Head	Receipts booked under Minor Head 800
1	0029 – Land Revenue	491.24
2	0030 – Stamps and Registration Fees	151.86
3	0425 – Co-operation	126.43

4.8.2 Operation of Omnibus Object Head 34 – ‘Other Charges’

The object head, being the sixth tier of classification, represents the purpose and objective of expenditure. Paragraph 9(7) of Kerala Budget Manual (KBM) necessitates the need to analyse these object heads meant primarily for itemized control over expenditure indicating the nature of expenditure on a scheme in terms of inputs such as ‘salaries’, ‘grant-in-aid’, ‘travel expenses’, ‘hire charges of motor vehicles’, etc. A list of 99 separate standard object heads suitable for adoption by all Governments and representing the common items of Government expenditure, is given in Appendix 3 of KBM. Statement 4(b) of Volume I of Finance Accounts captures the expenditure booked under these object heads and displays it in terms of nature of expenditure.

Paragraph 29 of KBM, defines Object head 34 – ‘Other Charges’ as a residuary head that will embrace all charges which cannot appropriately be brought to account under any other object head. Object head 34- other charges is intended to be operated only when the appropriate object head has not been provided in the Accounts. Routine and indiscriminate use of object head-‘other charges’ renders the accounts opaque and prevents in identifying the exact economic nature of expenditure for accounting in Statement 4(b) of Finance Accounts. The expenditure booked under object head 34-other charges during the five-year period 2018-19 to 2022-23 is shown in **Table 4.8** below.

Table 4.8: Expenditure booked under object head 34 other charges from 2018-19 to 2022-23

(₹ in crore)

SI No.	Year	Total Expenditure*	Expenditure booked under object head-Other Charge
1	2018-19	1,17,746.93	1,704.60
2	2019-20	1,13,174.72	1,332.94
3	2020-21	1,36,335.98	2,236.30
4	2021-22	1,60,371.24	2,264.14
5	2022-23	1,55,947.49	2,463.12
*	Total expenditure includes revenue and Capital expenditure but excludes disbursement of loans and advances		

Source: Finance Accounts 2022-23 and VLC data

The table shows that over the five-year period 2018-19 to 2022-23 the expenditure booked under object head ‘other charges’ during 2022-23 was highest over last five years.

Audit examined the vouchers of 311 cases of expenditure of more than ₹10 lakh booked under the object head 34-‘other charges’ pertaining to the month of March 2023. It was noticed that out of 311 cases pertaining to 116 DDOs amounting to ₹244.57 crore, 171 cases in respect of 79 DDOs amounting to 140.92 crore were wrongly classified under the object Head 34- other charges, though appropriate object heads were available for booking the requisite expenditures. The list of misclassified cases is given in **Appendix 4.2**.

As a result of these incorrect classification of expenditure under object heads by various DDOs, the exact economic nature of expenditure is not reflected in Accounts.

State Government should issue specific directions to all the Controlling Officers/ Drawing and disbursing officers to assess the economic nature of the expenditure in relation to the object heads given in the KBM prior booking of the same.

C. Issues related to Measurement

4.9 Outstanding balance under Major Suspense and DDR heads

Certain intermediary/ adjusting heads of accounts known as ‘Suspense Heads’ are opened in Government accounts to reflect transactions of receipt and payments which cannot be booked to a final head of account due to lack of information such as non-furnishing of Schedule of Settlement by the Treasuries/ PAOs, Non-receipt of clearance memos from RBI, non-receipt of vouchers etc. These heads of accounts are finally cleared by minus debit or minus credit when the accounts under them are booked to their respective final heads of accounts. If these amounts remain unclear, the balance under the suspense heads would accumulate and does not reflect the Government’s receipts and expenditures accurately.

Remittances embrace all transactions which are adjusting Heads of Account and the debits or credits under these heads are eventually cleared by corresponding credit or debit within the same or in another circle of accounting.

The net balances under Suspense and Remittance Heads can be obtained from Finance Accounts. The outstanding balances under these heads are worked out by aggregating the outstanding debit and credit balances separately under various heads.

Clearance of suspense and remittance items depends on the details furnished by the State Treasuries/ Public Works and Forest Divisions, etc. The details of outstanding balances under a few major suspense and remittance heads from 2020-21 to 2022-23 are given in **Table 4.9**.

Table 4.9: Balances under Suspense and Remittance Heads*(₹ in crore)*

Minor Head	2020-21		2021-22		2022-23	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
101 - PAO suspense	359.03	0.48	392.72	0.82	440.62	0.20
Net	358.55		391.90		440.42	
102 - Suspense Account-Civil	704.46	13.11	951.21	14.78	25.04	11.22
Net	(-)691.35		936.43		13.82	
107 - Cash Settlement Suspense Account	0		0		0	
Net	0		0		0	
109 – Reserve Bank Suspense – Headquarters	4.57		2.69		2.50	
Net	4.57		2.69		2.50	
110 - Reserve Bank Suspense - CAO	4.48		7.84		(-)423.28	
Net	4.48		7.84		(-)423.28	
112 - Tax Deducted at Source (TDS) Suspense		5.59		1,099.52		176.29
Net	5.59		1,099.52		176.29	
123 - A.I.S Officers' Group Insurance Scheme		0.16		0.19		0.25
Net	0.16		0.19		0.25	
Major Head 8782-Cash Remittances						
102 - P.W. Remittances	732.54	92.26	1,015.06		484.12	
Net	640.28		1,015.06		484.12	
103 - Forest Remittances	1.68	-	-		-	
Net	1.68		-		-	

Source: Finance Accounts of respective years

Accumulations under 101- 'PAO Suspense' showed an increasing trend from the year 2020-21 to 2022-23. As the balances under this head are to be cleared, these accumulations affect the accuracy of the Government Accounts.

4.10 Reconciliation of Cash Balances

There should be no difference between the Cash Balance of the State as per the books of Accounts of the Accountant General (A&E), and the Cash Balance as reported by the Reserve Bank of India.

However, a scrutiny of Finance Accounts for the year 2022-23 has revealed that the cash balance of the State of Kerala for the year ending March 2023 as per the books of Accountant General (A&E) was ₹146.16 crore (Debit) whereas the Cash balance reported by Reserve Bank of India was ₹0.72 crore (Credit). Thus, there was a difference of ₹145.44 crore (Credit) as on 31 March 2023. Out of the difference, an amount of ₹0.04 crore (net credit) has been cleared in 2022-23. The balance difference of ₹145.40 crore (net debit) is under reconciliation.

4.11 Adverse balance under DDR Heads

Adverse balances are negative balances appearing under the heads of accounts where there should not be a negative balance. As on 31st March 2023, there was adverse balance under eight heads. Minus balances appearing in the accounts during the year are shown in **Table 4.10** below.

Table 4.10: Minus balances appearing in the accounts during the year 2022-23

(₹ in crore)

Major Heads	Major Head Description	Minus balance	Year from which outstanding
6408	Loans for Food, Storage and Warehousing	(-)0.07	2019-20
6425	Loans for Co-operations	(-)0.16	2019-20
6250	Loans for Other Social Services	(-)0.01	2021-22
6851	Loans for Village and Small Industries	(-)0.41	2019-20
6885	Other Loans to Industries and Minerals	(-)0.08	2018-19
7610	Loans to Government Servants	(-)2.21	2010-11
7615	Miscellaneous Loans	(-)0.03	1995-96
8448	Deposit with Local Funds	(-)227.81	2015-16
Total		(-)230.78	

Negative balance under loan heads indicate more repayment than the original amount advanced and negative balance under deposit head indicates more withdrawal than the amount deposited. The minus balances under these heads were due to misclassification. Hence, necessary action for clearing the adverse balances is required to be taken.

4.12 Opening of New Sub Heads/Detailed Heads of Accounts without advice

According to Article 150 of the Constitution of India the accounts of the State are to be kept in the form as advised by the Comptroller and Auditor General of India. During 2022-23, the State Government opened 38 new Sub Heads (30 under the Revenue Section, eight under Capital section and Loan heads) in the budget, without seeking the advice of the Comptroller and Auditor General as required under the Constitution. The State Government provided budget provisions under these heads and incurred expenditure of ₹4.73 crore under the Revenue Section and ₹2.21 crore under the Capital Section in these heads during 2022-23.

4.13 Compliance with Accounting Standards

As per Article 150 of the Constitution of India, the President of India may, on the advice of the Comptroller and Auditor General of India, prescribe the form of accounts of the Union and of the States. Further, the Comptroller and Auditor General of India set up a Government Accounting Standards Advisory Board (GASAB) in 2002, for formulating standards for government accounting and financial reporting, to enhance accountability mechanisms. On the advice of the

Comptroller and Auditor General of India, the President of India has so far notified three Indian Government Accounting Standards (IGAS). Compliance to these Accounting Standards by Government of Kerala in 2022-23 and deficiencies therein are detailed in **Table 4.11**.

Table 4.11: Compliance to Accounting Standards

Sl. No.	Essence of IGAS	Compliance by State Government	Impact of deficiency
1	IGAS-1 : Guarantees given by the Government – Disclosure requirements		
	IGAS-1 requires that sector-wise and class-wise disclosures on guarantees given by State Government should be incorporated in Finance Accounts	Complied (Statement 9 & 20 of Finance Accounts)	The Statements 9 & 20 are prepared in accordance with the provisions of IGAS-1 based on the information provided by the State Government.
2	IGAS-2 : Accounting and Classification of Grants-in- Aid		
	As per IGAS-2, expenditure relating to Grants-in-aid should be classified as revenue expenditure even if it involves creation of assets, except in cases specifically authorized by the President on the advice of the Comptroller and Auditor General of India.	Partly Complied (Statement 10 of Finance Accounts).	Accounting and classification of Grants-in-aid given by the State Government have been depicted in Statement 10 and Appendix III which are prepared as per the requirements of IGAS-2. However, detailed information in respect of Grants-in-aid given in kind has not been furnished by the State Government.
3	IGAS-3 : Loans and Advances made by Government		
	IGAS – 3 requires disclosures on Loans and Advances made by the Union and the State Governments.	Partly complied (Statement No. 7 & 18 of Finance Accounts).	The details of loans and advances reported in Statement No.7 & 18 of the Finance Accounts are based on information received through the accounts rendered to the Principal Accountant General (Accounts & Entitlement) and detailed accounts maintained by the Principal Accountant General (Accounts & Entitlement) in respect of loans and advances made to Government servants. The closing balances depicted in Statements 7 & 18 as on 31 March 2023 have not been reconciled with the Loanee Entities/State Government. The State Government has also not furnished the figures in respect of certain loans and advances for which they maintain detailed accounts (Extent of compliance not included).

D. Issues related to Disclosure

Disclosure in the accounts means that the recorded transactions have been properly classified and disclosed wherever appropriate. This implies that the Receipts and Expenditures are booked to the proper account head and the disclosures in the notes and footnotes in the accounts are appropriate and adequate.

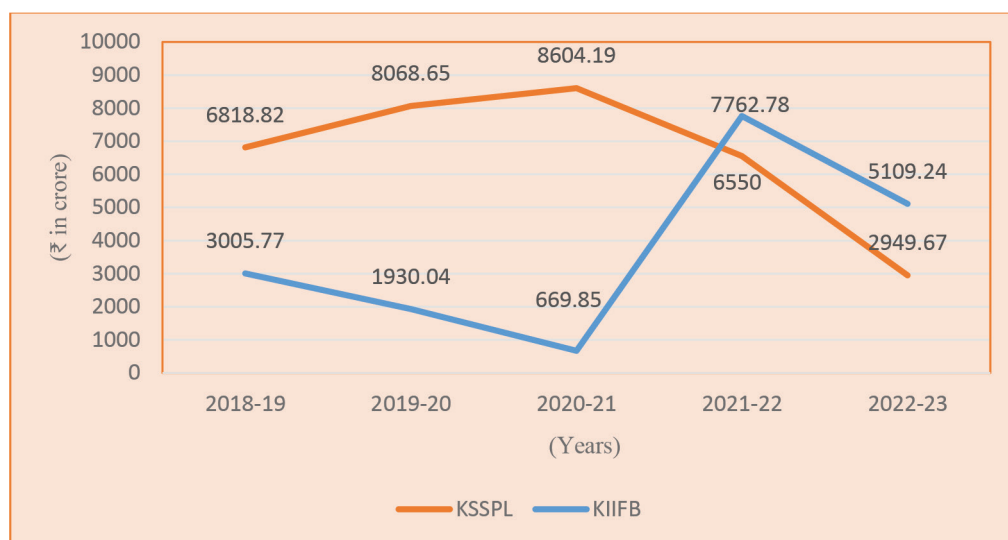
4.14 Off Budget borrowings

The borrowings of the State Government are governed by Article 293(1) of the Constitution of India, under which the State Governments can borrow money within the territory of India upon security of the Consolidated Fund of the State. The limits on such borrowings are regulated under Article 293(3) of the Constitution of India under which the State must obtain prior consent of the Government of India (GoI) to raise any loan. The State Government is, therefore, required to furnish to GoI, the financial statements showing the estimates of receipts and repayments of all sources of borrowings including open market borrowings, other liabilities arising out of Public Account transfers, etc. based on which the GoI gives the consent for raising loans and fixes the borrowing ceiling for the State Government. GoI had fixed Net Borrowing of the State for 2022-23 in line with the recommendations of Finance Commission at four *per cent* of the estimated GSDP in April 2022.

The details of the off-budget borrowings are given in Para 2.8.1 of this Report, wherein it has been stated that the State Government has an outstanding liability of ₹29,475.97 crore as at the end of March 2023, towards servicing the off-budget borrowings. Though the Government had undertaken to service these borrowings through its own revenue resources, the details of these borrowings have not been disclosed in the State Budget.

Chart 4.1 presents the trends in off budget borrowings over the period 2018-19 to 2022-23.

Chart 4.1: Trends in off budget borrowings over the period 2018-19 to 2022-23



Though the off budget borrowings of the State Government during 2022-23 decreased by ₹6,253.87 crore, the total cumulative outstanding liability of the State Government on account of off-budget borrowings at the end of March 2023 had increased by 21.44 *per cent*. Non-disclosure of off-budget borrowings in the State budget has the impact of diluting public financial management and oversight

role of the Legislature and placing major sources of funding of Government's crucial infrastructure projects beyond the control of the Legislature.

4.15 Reconciliation of Receipts and Expenditure between CCOs and Principal Accountant General (A&E)

All Controlling Officers are required to reconcile receipts and expenditure of the Government with the figures accounted for by the Principal Accountant General (A&E), Kerala. During the year 2022-23, receipts amounting to ₹90,680.28 crore (88.02 *per cent* of total reconcilable receipts of ₹1,03,019.59 crore) and expenditure amounting to ₹1,42,817.30 crore (95.63 *per cent* of total reconcilable expenditure of ₹1,49,340.54 crore) were reconciled by the State Government.

In comparison, receipts amounting to ₹66,442.18 crore (95.00 *per cent* of total reconcilable receipts of ₹69,939.14 crore) and expenditure amounting to ₹1,38,431.10 crore (93.00 *per cent* of total reconcilable expenditure of ₹1,48,850.65 crore) were reconciled by the State Government during 2021-22.

Non-reconciliation of receipts and expenditure of Government with the figures accounted by the Principal Accountant General (A&E) would lead to probable misclassification of receipts and expenditure in the accounts of the State Government.

4.16 Submission of Accounts /Separate Audit Reports of Autonomous Bodies

As per Section 19(2) of the CAG's DPC Act, the duties and powers of Comptroller and Auditor General in relation to the audit of accounts of Corporations established by or under law made by Parliament shall be performed and exercised by him in accordance with the provisions of the respective legislations. As per Section 19(3) of the CAG's DPC Act, the Governor/ Administrator may, in the public interest, request the CAG to audit the accounts of a Corporation established by law made by the Legislature of the State or of the Union Territory, as the case may be, and where such request has been made, the CAG shall audit the accounts of such Corporation and shall have, for the purposes of such audit, right of access to the books and accounts of such Corporation.

Apart from Section 19, where the audit of the accounts of any body or authority has not been entrusted to the CAG by or under any law, he shall, if requested so to do by the President, or the Governor of a State or the Administrator of a Union Territory having a Legislative Assembly, as the case may be, undertake the audit of the accounts of such body or authority on such terms and conditions as may be agreed upon between him and the concerned Government and shall have, for the purposes of such audit, right of access to the books and accounts of that body or authority under Section 20(1) of CAG's DPC Act.

On completion of financial audit, audit certificate is issued in case of above stated Autonomous Bodies and Authorities provided CAG is the sole auditor.

Apart from audit certificate, the audit office also issues separate audit report (SAR) that is part of the audit certificate on the accounts. These SARs are to be placed before the State Legislature.

The audit of accounts of 26 Autonomous Bodies in the State was entrusted to the Comptroller and Auditor General of India under Sections 19(2), 19(3) and 20 (1) of the Comptroller and Auditor General’s (Duties, Powers and Conditions of Service) Act, 1971. The status of entrustment of audit, rendering of accounts to audit, issuance of Separate Audit Reports (SAR) and their placement in the Legislature are indicated in **Appendix 4.3**.

The Autonomous bodies coming under the audit purview as per Section 19 or 20 of CAG’s DPC Act are required to submit annual accounts to audit before 30 June every year. In respect of 24 Autonomous bodies which were to render annual accounts to C&AG, 79 accounts were in arrears ranging from one to 10 years as shown in **Table 4.12**. The institution wise details are shown in **Appendix 4.4**.

Table 4.12: Arrears in accounts of Autonomous bodies

Years from which accounts pending	No. of Autonomous bodies	Years of pendency	No. of Accounts pending
2013-14	01	10	10
2015-16	02	8	16
2016-17	01	7	7
2017-18	01	6	6
2018-19	02	5	10
2019-20	02	4	8
2020-21	01	3	3
2021-22	05	2	10
2022-23	09	1	9
	24		79

The State Government should issue specific directions to all the Administrative departments to instruct the autonomous bodies under them to clear the arrears in accounts and to fix responsibility on the heads of autonomous bodies which defaulted in clearing the accounts.

4.17 Departmental Commercial Undertakings

The departmental undertakings of certain Government Departments performing activities of commercial and quasi-commercial nature are required to prepare Proforma Accounts in the prescribed format annually, showing the working results of financial operations, so that the Government can assess their working. The finalised accounts of departmentally managed commercial and quasi-commercial undertakings reflect their overall financial health and efficiency in conducting their business.

In the absence of timely finalisation of accounts, the results of the investment

of the Government remain outside the purview of State Legislatures and escape the scrutiny by Audit. Consequently, corrective measures, if any, required for ensuring accountability and improving efficiency cannot be taken in time. Besides, the delay renders the system vulnerable to the risk of fraud and leakage of public money.

The Heads of Departments in the Government are to ensure that the departmental undertakings prepare such accounts and submit the same to the Accountant General (Audit) within a specified time frame.

The department-wise position of arrears in preparation of *pro forma* accounts and investments made by the Government in respect of four such undertakings, are given in **Table 4.13**.

Table 4.13: Statement of finalisation of *pro forma* accounts and Government investment in Departmentally managed commercial and quasi-commercial undertakings

(₹ in crore)

Sl. No.	Name of the undertaking	Accounts finalized up to	Government investment as per the last accounts finalized	Profit/loss as per the last accounts	Government investment for the last four years (2019-20 to 2022-23)	Remarks	
1	State Water Transport Department	2020-21	776.63	(-)59.24	2019-20	0.66	
					2020-21	0.71	
					2021-22	0.89	
					2022-23*		
2	Kerala State Insurance Department	2016-17	Nil	563.76	Accounts not finalised from 2019-20 to 2022-23	Receipt of revised accounts for 2017-18 awaited	
3	Text Book Office	1986-87	21.26	(-) 5.61	Nil	<i>pro forma</i> Accounts due from 1987-88	
4	Rubber Plantations at Open Prison & Correctional Home, Nettukalthery	2020-21	Reply awaited	0.15	Reply awaited	Receipt of revised accounts is awaited	

* Information yet to be collected from the institution

Accounts of Text Book Office were in arrears from 1987-88. The State Government decided (December 2008) to dispense with the preparation of *pro forma* accounts for the period from 1975-76 to 1986-87 in respect of State Text Book Office. Decision on preparation of *pro forma* accounts for the period from 1987-88 to 2003-04 was pending with the Government. In the absence of up-to-date accounts, the current financial status of the Text Book Office could not be ascertained.

4.18 Misappropriations, Losses and Defalcations

Article 297 of the Kerala Financial Code provides that cases of defalcation or loss of public money, stamps, stores or other property should be reported to the Accountant General (Audit I)/ Accountant General (Audit II), Kerala as well as to the Heads of Departments.

The final action on 92³⁴ cases of misappropriation, defalcation, involving Government money amounting to ₹20.16 crore was pending with the State Government.

Table 4.14: Profile of misappropriations, losses and defalcations

A. Age-profile of the pending cases			B. Nature of the pending cases		
Range in years	Number of cases	Amount involved (₹ in lakh)	Nature/characteristics of the cases	Number of cases	Amount involved (₹ in lakh)
Less than 5 years	21	766.44	Theft	6	15.62
5 – 10	10	266.68			
10 – 15	13	713.32	Misappropriation/ loss of material	86	2,000.17
15 – 20	10	104.38			
20 – 25	16	81.32			
25 and above	22	83.65			
Total	92	2,015.79	Total pending cases	92	2,015.79

Source: Cases reported by departments of the State Government

The reasons for delay in finalisation of outstanding cases were analysed by Audit and are summarised in **Table 4.15**. Department-wise details are shown in **Appendix 4.5**.

Table 4.15: Reasons for outstanding cases of misappropriations, losses, defalcations, etc.

(₹ in lakh)			
Sl. No.	Reasons for the delay/ outstanding pending cases	Number of cases	Amount
1.	Awaiting departmental and criminal investigation	12	41.87
2.	Departmental action initiated but not finalised	48	1,518.77
3.	Awaiting orders for recovery or write off	11	19.88
4.	Pending in the courts of law	21	435.27
Total		92	2,015.79

Source: Information received from Departments of the State Government

34 This includes cases detected by Audit during local audit as well as cases reported by Government departments as per codal provisions.

Timely action needs to be taken to settle the misappropriation cases in order to bring defaulters to book and to have a deterrent effect on others.

4.19 Follow up Action on State Finances Audit Report

In Kerala State the Public Accounts Committee (PAC)/ Finance Department requires the line Departments to provide a *suo motu* Explanatory Note (EN) on the paragraphs featuring in the Audit Reports within two months of placing the Reports in the Legislature. The line Departments are also required to provide Action Taken Notes (ATNs) to the AG (for vetting and onward transmission to the PAC) within two months of tabling the Reports.

At the instance of the PAC, the Finance Department issues instructions to all the Departments to initiate *suo motu* action on all paragraphs and reviews featuring in the Audit Reports irrespective of whether the cases had been taken up for examination by PAC or not.

The receipt of ATNs from the line departments in respect of the State Finances Audit Report from the year 2017-18 to 2020-21 are pending. The details are shown in **Table 4.16**.

Table 4.16: Number of Audit Paras for which ATN due from Government

Sl. No.	Year of Audit Report	Total Number of ATNs
1	2017-18	3
2	2018-19	7
3	2019-20	19
4	2020-21	11
	Total	40

The discussion of paras in the State Finances Audit Report upto the year 2016-17 was completed on 05 July 2023.

4.20 Conclusions

- Autonomous bodies (24 numbers) were to render annual accounts to C&AG. The arrears in submission of accounts ranged from one to 10 years. There were delays in initiating departmental action, fixing liability, issuing orders of recovery, etc, in respect of cases of misappropriation/loss of public money.
- As compared to previous year, the expenditure booked under Minor head 800-other expenditure and receipts booked under Minor Head 800- other receipts declined by 23 *per cent* and 29 *per cent* respectively, which was a positive indicator.

4.21 Recommendations

- 1. The Finance Department should ensure that the administrative departments releasing grants collect UCs as per the time limits stipulated in the grant orders and to not release further grants to defaulting grantees. It is also recommended that Government shall fix responsibility on the defaulting officials. Further, the Government may consider adopting a module similar to Expenditure Advance Transfer (EAT) available in Public Financial Management System (PFMS) to address the problem of pending UCs.*
- 2. Finance Department may consider evolving a system to expedite the process of compilation and submission of annual accounts by autonomous bodies and departmentally run undertakings in order to assess their financial position.*