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**Chapter III**  
**FINANCIAL REPORTING**  
**PRACTICES**



## Chapter-III: Financial Reporting Practices

**This chapter provides broad based perspective of quality of the State Government Accounts rendered by various authorities of the State Government and status of compliance with prescribed financial rules, procedures and directives.**

Compliance with financial rules, procedures and directives as well as the completeness, timeliness and quality of reporting on the status of such compliance enhances relevance and reliability of the information presented in the financial reports

### Issues related to completeness of accounts

#### 3.1 Off-budget borrowings through State owned PSUs/Authorities

Article 293(3) of the Constitution of India mandates consent of Government of India (GoI) for a State Government's borrowing if it has any outstanding loans or guarantees from the Government of India. Further, the XV Finance Commission recommended that the normal net borrowing ceiling (NBC) to the State Governments for 2023-24 to 2025-26 may be fixed at three *per cent* of GSDP.

As per Kerala Fiscal Responsibility (Amendment) Act, 2022 the State has to maintain the Fiscal deficit at a level not exceeding 3.5 *per cent* of GSDP and reduce the debt liabilities of the State to 32.80 *per cent* of GSDP by 2024-25. The Kerala Fiscal Responsibility Act, 2003 also outlined that the State Government shall take suitable measures to ensure greater transparency in its fiscal operations in public interest by disclosing off-budget borrowings and contingent liabilities created by way of guarantees having potential budgetary implications at the time of presentation of budget. Further, as envisaged in the Act, the Medium-Term Fiscal Policy statement laid before the Legislature along with the Annual Budget shall contain a three-year rolling targets for fiscal indicators.

Bypassing the above stipulated borrowing ceiling by routing loans outside budget through various State Government Public Sector Undertaking (SPSUs)/Corporations/ other Bodies despite the State being significantly responsible for repayment of such loans, and non-disclosure of the same pose serious risk to fiscal health and transparency in the government finances. Borrowing Ceilings for a financial year of the State Governments are now being adjusted by GoI to extent of off-budget Borrowings.

For the year 2024-25, debt stock was targeted as 34.15 *per cent* of GSDP under MTFP and 32.80 *per cent* of GSDP under KFR Act 2003. Besides, the GoI had fixed borrowing ceiling of ₹37,512 crore (3.00 *per cent* of GSDP) for the State during 2024-25.

State Government of Kerala do not disclose details of off-budget borrowings in its budget. However, for seeking consent of GoI for raising open market borrowings, the State Government provides details on borrowings by Kerala

Infrastructure Investment Fund Board (KIIFB) and Kerala Social Security Pension Limited (KSSPL) to GoI indicating that these borrowings outside State budget are serviced (both principal and/or interest) out of the State Budget and/or by assignment of taxes/ cess or any other receipt of the State.

Based on the details collected from these entities, the outstanding off-budget borrowing as on 31 March 2025 was ₹39,230.33 crore which included borrowings of ₹13,653.01 crore borrowed during 2024-25. The details of off-budget borrowing as on 31 March 2025 is given in **Table 3.1**.

**Table 3.1: Details of off-budget borrowings as on 31 March 2025**

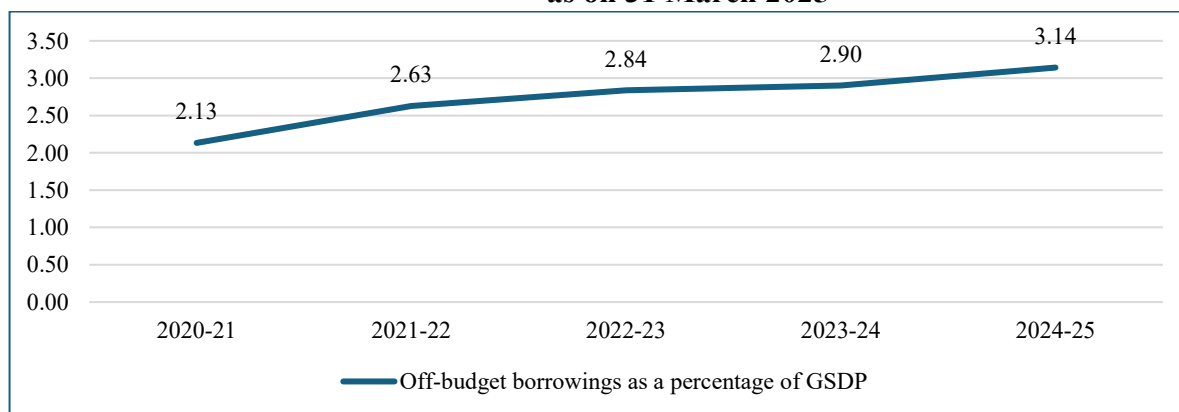
(₹ in crore)

Entities borrowed on behalf of Government	Loan Sanctioned	Loan availed/ disbursed	Amount Repaid	Purpose of loan	Outstanding loan as on 31 March 2025
Kerala Infrastructure Investment Fund Board	35,344.35	32,472.31	6,582.54	For infrastructure funding	25,889.77
Kerala Social Security Pension Limited	43,383.02	43,383.02	30,042.46	For payment of Social Security Pension and Welfare Fund Board Pension	13,340.56
<b>Total</b>	<b>78,727.37</b>	<b>75,855.33</b>	<b>36,625.00</b>		<b>39,230.33</b>

Source: Information provided by the respective entities

Total outstanding off-budget borrowings as a percentage of GSDP is depicted in **Chart 3.1**.

**Chart 3.1: Outstanding Off-Budget Borrowings as a percentage of GSDP as on 31 March 2025**



Source: Information provided by the respective entities

Out of ₹75,855.33 crore of off-budget borrowings, borrowings of ₹ 36,625.00 crore were repaid by KIIFB and KSSPL through financial assistance from the State Government as on 31 March 2025. This included repayment of off-budget borrowings of ₹7,364.82 crore during 2024-25. The details of repayment of borrowings in respect of KIIFB and KSSPL based on the financial year in which they were availed are given in **Appendix 3.1**.

The entity wise details of off budget borrowings for the period 2021-22 to 2024-25. are shown in **Table 3.2**.

**Table 3.2 : Entity-wise details of off-budget borrowings for the period 2021-22 to 2024-25****(₹ in crore)**

Name of the Entity	Opening Balance	Off Budget Borrowings during the year	Repayment during the year		Closing Balance
			Principal	Interest	
<b>Kerala Infrastructure Investment Fund Board</b>					
2021-22	5,610.82	7,762.78	307.42	739.66	13,066.18
2022-23	13,066.18	5,109.24	432.74	1,254.56	17,742.68
2023-24	17,742.68	5,803.86	3,505.02	1,639.64	20,041.52
2024-25	20,041.52	8,089.92	2,241.67	1,823.47	25,889.77
<b>Kerala Social Security Pension Limited</b>					
2021-22	10,848.61	6,550.00	6,192.12	743.94	11,206.49
2022-23	11,206.49	2,949.67	2,422.87	833.17	11,733.29
2023-24	11,733.29	4,828.60	3,661.27	970.18	12,900.62
2024-25	12,900.62	5,563.09	5,123.15	1,162.90	13,340.56

Source: Information furnished by KIIFB and KSSPL

The details of financial assistance given by State Government to the entities during 2024-25 are detailed in **Table 3.3**.

**Table 3.3: Details of financial assistance given by State Government during 2024-25****(₹ in crore)**

Sl.No.	Name of the Entities	Amount
1	Kerala Infrastructure Investment Fund Board (KIIFB)	3,695.18
2	Kerala Social Security Pension Limited (KSSPL)	12,741.00
<b>Total</b>		<b>16,436.18</b>

Source: Information provided by the respective entities

State Government replied that (December 2025) borrowings of KIIFB are not off-budgetary as KIIFB is provided grants by the State through allocations in the State Budget approved under Articles 202 and 203, based on powers conferred on the State under Article 282 of the Constitution. It was also stated that no additional money is needed for servicing the debt beyond what is devolved by Government annually in the State Budget and hence the infrastructure projects executed through KIIFB are fully covered in the Annual Budget. It was also replied that the borrowings of KIIFB are guaranteed by the Government and KIIFB pays an annual Guarantee Commission to the Government for the same. The State Government also replied (February 2026) that guarantees extended by Government to State owned entities constituted contingent liabilities which would devolve on the Consolidated fund of the State only in the event of default by borrowing entity in servicing principal and/ or interest. Hence, guarantees extended by the State Government to State owned entities therefore constitute contingent liabilities and not actual borrowing or debt of the State. It was also stated that as the matter being sub judice before the Hon'ble Supreme Court of India, any definitive audit conclusion on the

inclusion of guaranteed borrowings of State entities as State Government debt may be deferred.

During exit conference, Additional Chief Secretary (ACS) replied that 25 per cent of KIIFB's borrowings are used for financing revenue generating projects and KIIFB is earning interest out of these transactions. ACS also suggested that the burden of repayment do not fall on the State Government to the extent of revenue earned by these revenue generating projects and hence the borrowings of the KIIFB may be deducted to that extent for arriving at the off-budget borrowings of the State during the year. KIIFB replied (January 2026) that as on 31 March 2025, KIIFB disbursed an amount of ₹8,749.49 crore towards revenue generating projects and received a repayment of ₹1,552.29 crore thereon. Details of revenue generating projects as furnished by KIIFB are given in **Appendix 3.2**.

Audit does not deny that the State Government is providing financial assistance to KIIFB through budgetary allocations. From the reply of the State Government itself, it is very clear that the debt raised by KIIFB are repaid from the budgetary allocations as KIIFB does not have sufficient revenue base for servicing its debt. As such, the debt of KIIFB are repaid by the resources from the Consolidated Fund of the State and therefore essentially represents the debt of the State. Ideally, all debt of the State, in terms of Article 266 of the Constitution of India, should be part of the Consolidated Fund of the State and in terms of Article 202 the estimates of receipts of the State (including the debt receipts) require disclosure in the Annual Financial Statement/Budget. In case of debt raised by KIIFB and KSSPL, these debts though technically raised and accounted in the books of these entities, in essence are repaid by the State from the Consolidated Fund of the State. Paragraph No. 8 of Government of India letter dated 30 March 2024 communicating the Annual Borrowing Ceiling for the financial year 2024-25 treats borrowings by State Public Sector companies, Special Purpose Vehicles and other equivalent instruments, where principal and/or interest are serviced out of State Budget and/or by assignment of taxes/cess or any other State's revenue as Off-Budget borrowings. In the case of KIIFB and KSSPL, their borrowings fall well within the definition of Off-Budget borrowing. Therefore, contention of State Government that borrowing of KIIFB are not Off-Budget borrowing is not tenable. Besides, the argument that KIIFB's borrowings are guaranteed by the government does not take away the 'Off-Budget' nature of the borrowings and activities of the entity.

The State Government's argument that the borrowings made by KIIFB and KSSPL are contingent liabilities rather than debt of the State is not acceptable since the budgetary allocations of the State, are being utilised by KIIFB and KSSPL for repaying these liabilities, as these entities do not have a sufficient revenue base for servicing their debt. State Government's suggestion to defer any definitive audit conclusion to consider guaranteed borrowings of these entities as State's debt in view of the matter being pending before Hon'ble

Supreme Court of India is also not acceptable as the audit observation is on the nature of off-budget borrowings and its implication on the State Finances.

While we take note of the claim of the State Government that 25 per cent of KIIFB's borrowings are used for financing revenue generating projects and the repayment burden of which are not borne by the State Government, we could not verify the veracity of the figures furnished by KIIFB as the reply was received belatedly. The correctness of the figures would be examined during subsequent audits.

### 3.1.1 Variation in disclosure of borrowing details to GoI

Every year State Government furnishes details of off-budget borrowings raised by PSUs/ SPVs during the previous two years and proposed during the current year where principal and/ or interest are to be serviced out of the State Budget and or by assignment of taxes/ cess or any other State's revenue to GoI. The details are furnished to GoI for seeking consent for fixing gross borrowing ceiling of the State for the year. These borrowings are adjusted to arrive at the Open Market Borrowings (OMB) by the State Government.

While seeking consent of GoI for raising market loans for the year 2024-25, the State Government forwarded (May 2024) the proposed borrowing requirements of KIIFB and KSSPL for 2024-25 in Annexure VI of borrowing statement to GoI as given in **Table 3.4**:

**Table 3.4 : Borrowings details of KIIFB and KSSPL furnished by State Government during 2024-25**

<i>(₹ in crore)</i>		
Name of the Institution	Estimated Borrowings for 2024-25 reported by State Government to GoI	Actual Borrowings during 2024-25 reported by the Institutions
Kerala Infrastructure Investment Fund Board	0	8,089.92
Kerala Social Security Pension Limited	2,500	5,563.09
<b>Total</b>	<b>2,500</b>	<b>13,653.01</b>

As such, at the beginning of the financial year 2024-25, State Government intimated only ₹2,500 crore as off-budget borrowings proposed to be made in the financial year 2024-25. However, scrutiny of documents furnished by State Government to GoI for getting consent for market loans during 2025-26 and the information furnished to Audit revealed that there was variation in actual borrowings made by KIIFB and KSSPL during 2024-25 as given in **Table 3.5**:

**Table 3.5: Borrowings details of KIIFB and KSSPL furnished by State Government during 2025-26**

(₹ in crore)

Name of the Institution	Borrowings during 2024-25 reported by the Institutions	Borrowings reported by State Government to GoI for 2024-25	Variation
Kerala Infrastructure Investment Fund Board	8,089.92	0	8,089.92
Kerala Social Security Pension Limited	5,563.09	983.09	4,580.00
<b>Total</b>	<b>13,653.01</b>	<b>983.09</b>	<b>12,669.92</b>

It was observed that though KIIFB had borrowed an amount of ₹8,089.92 crore during 2024-25, the borrowing details furnished by State Government in respect of KIIFB showed that no amount been borrowed during 2024-25. Similarly, against an actual borrowing of ₹5,563.09 crore, the borrowings of KSSPL were shown as ₹983.09 crore. Accordingly, Audit observed that there was variation in off-budget borrowings amounting to ₹12,669.92 crore furnished in Annexure VI of borrowing statement furnished to GoI.

State Government replied (December 2025) that as KIIFB is a statutory body corporate established under a separate legislation, KIIFB's borrowings are not borrowings of the State and are independent borrowings of KIIFB.

The reply is not acceptable as the State Government have to provide the details of borrowings by State Public Sector Companies/Corporations, Special Purpose Vehicles (SPVs) and other equivalent instruments, where principal and / or interest are to be serviced out of the State Budgets and/ or assignment of taxes/cess or any other State's revenue in Annexure VI to Government of India for obtaining consent for raising OMB.

State Government replied (January 2026) that the variation in the borrowing details furnished to GoI was due to renewal of loans amounting to ₹4,580.00 crore availed by KSSPL during 2024-25 which were not treated as fresh borrowings during 2024-25 by the State Government.

Audit is of the opinion that State Government shall make full disclosure of the borrowings of KSSPL including the renewal of loans and repayments made during the year to GoI for obtaining consent for OMB. The State Government may also take up the matter of amending the format of Annexure VI of borrowing statement with GoI for including the details of repayment/ renewal of loans.

### 3.2 Undischarged liabilities of the Government

Undischarged liabilities, such as non-transfer of collected cess to designated bodies or short remittances to the National Pension System (NPS), *etc.* can have significant long-term fiscal and governance implications. These unpaid obligations accumulate over time, creating hidden liabilities that distort the true financial position of the State. Further, delays in cess transfer, defeats the

purpose for which such levies were imposed. Similarly, short transfers to NPS not only violate statutory commitments but also compromise the financial security of employees. Over the years, such practices can erode trust, trigger legal liabilities and increase future expenditure obligations, thereby, constraining fiscal space and weakening fiscal sustainability. Such issues are discussed in succeeding paragraphs.

### 3.2.1 Undischarged Interest liability

The Government has a liability to provide and pay interest on the amounts in the Interest-bearing Deposits/Reserve Funds.

Audit observed that ₹1.92 crore was required to be paid as interest on the balance of ₹ 56.16 crore lying under Interest bearing Deposits/Reserve Funds as on 1 April 2024 as shown in **Table 3.6**.

**Table 3.6: Details of interest liability not discharged in respect of Interest-bearing Deposits/Reserve Funds**

(₹ in crore)				
Sl. No.	Name/Head of the interest-bearing deposit	Opening Balance as on 1 April 2024	Basis for calculation of interest	Amount of interest not provisioned
1	State Compensatory Afforestation Fund	56.16	As per the circulars issued by the Ministry of Environment, Forest & Climate Change. (3.35 per cent for 2023-24, calculated on monthly progressive balance method)	1.92
<b>Total</b>		<b>56.16</b>		<b>1.92</b>

Source: Finance Accounts 2024-25

The State Government failed to pay the interest liability of ₹1.92 crore on State Compensatory Afforestation Fund balances during 2024-25.

State Government replied (January 2026) that necessary steps would be taken for adjusting the interest amount by placing it in the ensuing SDG.

### 3.2.2 Short contribution in National Pension System

The State Government implemented the Defined Contribution Pension Scheme (DCPS) under the National Pension System (NPS) for employees appointed on or after 1 April 2013, with a 10 per cent employee and 10 per cent employer contribution.

In 2024-25, ₹1,131.10 crore (employee share) and ₹1,133.24 crore (employer share) were booked, but against a Public Account balance of ₹2,264.34 crore, ₹2,263.41 crore was transferred to NSDL/Trustee Bank, leaving ₹ 0.93 crore un-transferred.

During 2013-25, out of total receipts under DCPS of ₹10,903.71 crore (employee: ₹5,449.08 crore, 0.11 crore opening balance 2013, employer: ₹5,454.60 crore), ₹10,902.74 crore was transferred to the NSDL/ Trustee Bank, resulting in a cumulative short transfer of ₹1.07 crore. The details of the receipts from employees' share, Government's contribution, interest accrued thereon and investment in pension fund are given in **Appendix 3.3**.

### **3.2.3 Non-transfer of cess to Kerala Road Safety Fund**

As per section 11(3) of Kerala Road Safety Authority Act, 2007 regarding Kerala Road Safety Fund, Government shall contribute to the fund every year, an amount equal to 50 *per cent* of the compounding fee collected in the previous year. Thus, out of the total collection of ₹ 170.06 crore during 2023-24, ₹ 85.03 crore towards compounding fee for Kerala Road Safety Fund was required to be transferred during 2024-25 by the State Government. However, the State Government has not transferred the cess amount of ₹85.03 crore to the Kerala Road Safety Fund during 2024-25. The Cumulative short transfer to Kerala Road Safety Fund from 2015-16 to 2024-25 works out to ₹565.78 crore.

### **3.2.4 State Mineral Exploration Trust/State Mineral Development Fund**

The Ministry of Mines, Government of India, vide its letter dated 19 November 2024, advised all State Governments to establish a State Mineral Exploration Trust (SMET)/ State Mineral Development Fund (SMDF) on the lines of the National Mineral Exploration Trust (NMET), as mandated under clause (g) of sub-section (A) of Section 15 of the Mines and Minerals (Development and Regulation) Act, 1957.

Industries department (November 2025) replied that Kerala State Mineral Exploration Trust Rules, 2025 has been framed (31 October 2025) and as envisaged in para 7 of the Rules, the State Shall set up Kerala State Mineral Exploration Trust Fund.

As per Section 8(3) of the of Kerala State Mineral Exploration Trust Rules, 2025, the quarrying lease holders of minor minerals are required to contribute two *per cent* of the royalty paid in terms of the Schedule-I of the Kerala Minor Mineral Concession Rules, 2015 to the Trust Fund.

### **3.2.5 Pendency of refund cases**

Promptness in disposal of refund cases is an important indicator of performance of the Department concerned.

The details of refund cases during the year 2024-25, as reported by SGST and Excise Departments are given in **Table 3.7**.

Table 3.7: Details of refund cases

(₹ in crore)

Sl. No.	Particulars	Excise		Sales Tax		VAT		AIT		GST		Total	
		No. of cases	Amount	No. of cases	Amount	No. of cases	Amount	No. of cases	Amount	No. of cases	Amount	No. of Cases	Amount
1.	Claims outstanding at the beginning of the year	32	2.00	3	9.96	116	40.66	3	1.49	642	292.79	796	346.90
2.	Claims received during the year	11	0.42	5	1.29	284	89.01	8	3.58	2951	634.34	3259	728.64
3.	Refunds made during the year	20	1.84	2	0.95	252	75.35	8	3.58	3026	732.98	3308	814.70
4.	Refunds rejected during the year	0	0	0	0.00	28	10.09	0	0.00	480	154.95	508	165.04
5.	Balance outstanding at the end of year	23	0.58	6	10.30	120	44.23	3	1.49	87	39.20	239	95.80

Source: Departmental information

The undischarged liabilities on account of pending refund cases as on 31 March 2025 works out to ₹95.80 crore.

### 3.3 Error in Classification

NABARD has credited Rural Infrastructure Development Fund loan amounting to ₹ 7.80 crore to the current account No. 67146398542 of Government of Kerala maintained with SBI, Treasury Branch, Thiruvananthapuram in December 2024. Additional Chief Secretary (Finance) forwarded a duly filled up challan to the Manager of SBI and requested to transfer credit ₹ 7.80 crore to the Head of Account 6003-00-105-97- Loans from the Rural Infrastructure Development Fund of NABARD. But the amount was credited to the Head of Account 8011-00-105-89 Group Personal Accident Insurance Scheme, instead of crediting to the Head of Account 6003-00-105-97. This misclassification of loan has resulted in understatement of borrowed funds under head of account 6003-00-105-97 by ₹7.80 crore and overstatement of public account receipts during the year 2024-25.

Additional Chief Secretary replied (December 2025) that appropriate measures to correct the misclassification by submission of alteration memorandum to AG(A&E) have been taken for the 2025-26 accounts.

### Issues related to transparency

#### 3.4 Delay in submission of Utilisation Certificates (UCs)

In terms of Article 210(1) Chapter VIII of Kerala Financial Code 1963 as amended, Utilisation 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.

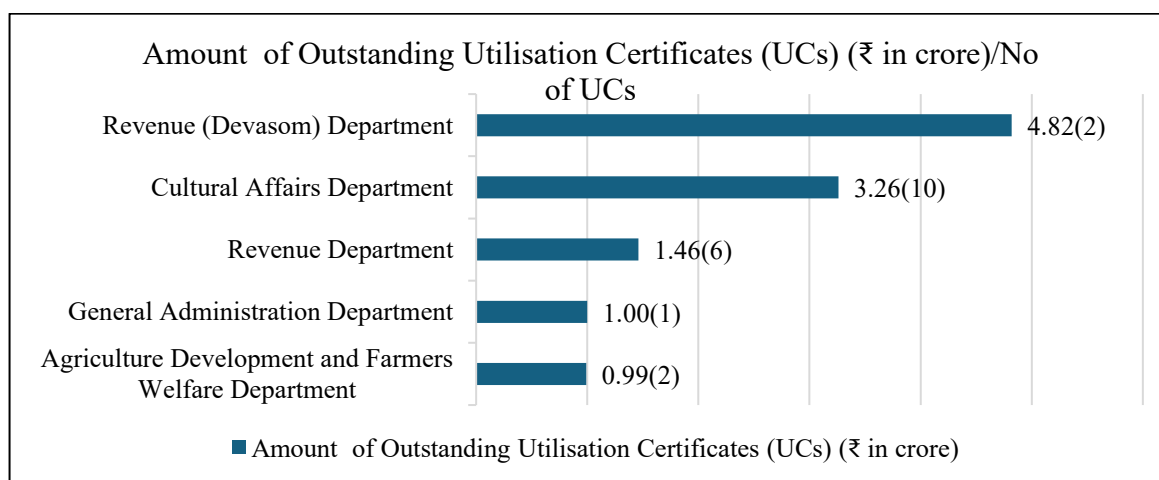
During the year 2024-25, UCs amounting to ₹1,189.13 crore in respect of grants-in-aid bills drawn upto 31 March 2023 became due for submission. In addition to that, UCs amounting to ₹ 1.88 crore were outstanding at the beginning of the year. During the year, outstanding UCs amounting to ₹1,179.31 crore were cleared, leaving outstanding UCs of ₹ 11.70 crore as on 31 March 2025 as given in **Table 3.8**.

**Table 3.8: Age-wise pendency of Utilisation Certificates**

UC due year <sup>49</sup>	Number of pending UCs	Amount (₹ in crore)
2022-23 (grants-in-aid sanctioned up to 31 March 2021)	3	0.29
2023-24 (grants-in-aid sanctioned up to 31 March 2022)	4	1.60
2024-25 (grants-in-aid sanctioned up to 31 March 2023)	16	9.81
<b>Total</b>	<b>23</b>	<b>11.70</b>

Source: Finance Accounts 2024-25 and Information furnished by Office of the Accountant General(A&E).

**Chart 3.2: Outstanding UCs in respect of five major Departments as on 31 March 2025**



Source: Information furnished by Office of the Principal Accountant General (A&E) Kerala

Since non-submission of UCs is fraught with the risk of misutilisation, it is imperative that the State Government should monitor this aspect closely and hold the persons concerned accountable for submission of UCs in a timely manner.

State Government replied (January 2026) that instructions have been given to Administrative Departments and Chief Controlling Officers to furnish UCs in respect of grant-in-aid directly to Accountant General. It was also stated that a

<sup>49</sup> The year mentioned above relates to "Due year", i.e., after 24 months of actual drawal

new module for monitoring grant-in-aid given by State Government is in final stage.

### 3.5 Unadjusted Temporary Advances

The Government of Kerala discontinued the system of drawal of Abstract Contingent (AC) bills followed by submission of Detailed Contingent (DC) bills to the office of the Accountant General (A&E). Instead, the Drawing and Disbursing Officers (DDOs) have been empowered to draw Temporary Advance (TAs) for specific purposes, and a time limit of three months is fixed for the presentation of final bill as per Article 99 of Kerala Financial Code (KFC) Volume-I.

As on 31 March 2025, an amount of ₹163.33 crore in respect of 4,737 Temporary Advance Bills drawn were pending, of which ₹42.44 crore in respect of 1,865 temporary advance bills were drawn during the year 2024-25 as shown in Table 3.9.

**Table 3.9 Details of Temporary Advance Bills pending as on 31 March 2025**

Due Year	No of pending Temporary Advance Bills	Amount (₹ in crore)
Up to 2023-24	2,872	120.89
2024-25	1,865	42.44
<b>Total</b>	<b>4,737</b>	<b>163.33</b>

Source: Finance Accounts 2024-25 and Information furnished by Office of the Principal Accountant General (A&E)

Non-adjustment of advances for long periods is fraught with the risk of misappropriation and therefore, requires close monitoring by the respective DDOs for ensuring submission of detailed vouchers against the Temporary Advance.

### 3.6 Irregular resumption of Funds from Treasury Savings Bank Accounts

State Government uses Treasury Savings Bank Accounts maintained in the State Treasuries formed as per Rule 37 of Kerala Treasury Code for transferring funds from the Consolidated Fund for implementing various schemes in the State.

Funds released from the Consolidated Fund for various purposes such as grants-in-aid, loans and investments to State PSUs & Statutory Corporations are also credited to the Special Treasury Savings Bank Account (STSB) temporarily for keeping the unspent balances for a specified period. 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 TSB account in State Treasury is regulated by the instructions contained in Appendix 3 to the Kerala Treasury Code.

The amounts credited to TSB Accounts are accounted under Heads of Account '8031-00-102-99 -Savings Bank Deposits' and '8031-00-102-98-Fixed & Time Deposits'. As on 31 March 2025, the amount under 'Savings Bank Deposits' was ₹10,551.83 crore and that lying under Fixed & Time Deposits' was ₹68,847.98 crore.

State Government vide Government Order<sup>50</sup> dated 26 March 2025 issued orders to resume funds lying in the STSB accounts of Government Departments, State owned Public-Sector Undertakings/Autonomous Bodies etc into the Consolidated Fund of the State. Accordingly, an amount of ₹7,171.55 crore kept in various STSB accounts of Government departments, Public Sector Undertakings/Autonomous Bodies were resumed to the Consolidated Fund of the State through District Treasury Officers.

Out of ₹7,171.55 crore resumed, an amount of ₹6,112.43 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, 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.

State Government replied (January 2026) that at the fag end of the financial year during the resumption process, Treasuries are unable to identify the programme wise split up of the remaining balance and the amount available against each individual project/ payment due to the absence of source wise segregation in the existing account procedure. This lack of traceability creates difficulty in ensuring accurate resumption of available balance under each programme.

The reply is not tenable, as resumption of funds from the STSB accounts to a common Head of Account instead of the actual Head of Accounts from which the amount was originally debited is violative of the accounting directions of the List of Major and Minor Heads of Account resulting in the overstatement of

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<sup>50</sup> G.O.(P) No.35/2025/Fin dated 26.03.2025 of Finance (Streamlining) Department

expenditure against the respective service heads and understatement of expenditure under the Head of Account '2075'.

Some of the issues relating to resumption of funds are covered in succeeding paragraphs.

**A. Irregular withdrawal of public contribution to Chief Minister's Disaster Relief Fund (CMDRF) towards the Consolidated Fund of the State**

During 2024-25, public contributions amounting to ₹262.06 crore lying in five STSB accounts relating to CMDRF were withdrawn to the Consolidated Fund of the State under Head of Account '2075-00-911-94 -Deduct Recoveries-Refund of Amounts Resumed from the Idling Treasury Accounts'. The funds lying in these STSB accounts were non-Government funds constituted for giving financial aid to children having cancer, 2018 floods, Wayanad landslide tragedy etc., by receiving contributions/ donations from Public, Government employees etc. Resuming these public contributions parked in the STSB account into the Consolidated Fund of the State is irregular and has understated the revenue deficit and fiscal deficit of the State by ₹262.06 crore during the year. Action may be taken by the State Government to prevent such accounting errors in future.

State Government replied (January 2026) that the unutilised funds kept in all STSB accounts at the end of a financial year are being resumed every year to reduce the Public Account size. The resumed CMDRF funds were reallocated to the STSB accounts in the first week of next financial year.

During the exit conference, Additional Chief Secretary (Finance) replied that such instances of resumption of CMDRF funds to the Consolidated Fund of the State would not happen in future.

While we note that the resumed funds have been reallocated in the first week of next financial year, resuming of non-government funds raised as contribution/ donation from Public/ Government employees towards consolidated fund of the State for reduction of public account liabilities and revenue/ fiscal deficit is highly irregular and contravenes the accounting norms.

**B. Irregular resumption of ₹494.29 crore transferred to Kerala State Electricity Board Limited**

Department of Expenditure, Ministry of Finance determines the Net Borrowing Ceiling (NBC) of States for each financial year on the basis of projected GSDP of the States and taking into consideration the recommendation of the Finance Commission. In line with the recommendations of the Fifteenth Finance Commission (15th FC), it has been decided to fix the normal NBC for the States for the financial year 2024-25 at three *per cent* of the projected GSDP. In addition, an additional borrowing ceiling of 0.50 *per cent* of GSDP over and above the aforesaid ceiling of three *per cent* of GSDP was also allowed to the States to promote a sustained increase in paid electricity consumption. As per GoI guidelines issued in this regard, the State in addition to other conditions has

to take over 90 *per cent* of the loss of all public sector DISCOMs for the year 2023-24 to become eligible for the additional borrowing space of 0.50 *per cent* of GSDP during 2024-25.

Accordingly, for availing the additional borrowing of 0.5 *per cent* of GSDP during 2024-25, State Government vide Government order dated 01 December 2024 accorded sanction to take over ₹494.29 crore being the 90 *per cent* of the total loss incurred by Kerala State Electricity Board Limited (KSEBL) and credited the amount to the STSB account of KSEBL on 26 December 2024. Subsequently, Government of India on 24 March 2025 accorded consent to the State Government to raise additional borrowing of ₹6,149 crore during 2024-25, through Open-Market-Borrowings.

However, subsequently the State Government resumed ₹494.29 crore lying in the STSB account of KSEBL on 26 March 2025 to the Consolidated Fund of the State under a common Head of Account '2075-00-911-94'. KSEBL stated (September 2025) that the resumed amount of ₹494.29 crore has not been refunded to KSEBL.

Resumption of ₹494.29 crore released to KSEBL towards taking over 90 *per cent* of the loss incurred by KSEBL for meeting the eligibility conditions after availing additional borrowing space of ₹6,149 crore during 2024-25 is a serious breach of financial propriety and therefore highly irregular.

State Government issued orders (02 November 2025) to net off the resumed amount of ₹494.29 crore against the electricity duty collected and retained by KSEBL.

State Government replied (January 2026) that resumed amount has been adjusted against the electricity duty retained by KSEBL in November 2025.

### **C. Resumption of ₹719.15 crore transferred to Kerala Water Authority for clearing outstanding dues of Urban Local Bodies**

As per the eligibility conditions issued by GoI (January 2024 and April 2024) to claim ULB/ RLB grants under 15th FC, the State have to submit a certificate in respect of unspent balances of grants of previous Finance Commission (14th FC) and the unspent balance should not exceed 10 *per cent* of the instalment under consideration. To fulfil the above condition, State Government released (March 2025) an amount of ₹719.15 crore being the unspent balance of 14<sup>th</sup> FC ULB Grants to Kerala Water Authority (KWA) for clearing the outstanding dues of public taps to be paid by Urban Local Bodies (ULBs) to KWA by debiting Head of Account '3604-00-200-90'. This amount was credited to the STSB account of KWA on 27 March 2025.

The entire amount transferred to KWA was subsequently resumed on 29 March 2025 and credited back to the Head of Account '2075-00-911-94 -Deduct Recoveries-Refund of Amounts Resumed from the Idling Treasury Accounts and booked as minus expenditure'. GoI had released an amount of ₹78 crore relating to 15<sup>th</sup> Finance Commission as 1<sup>st</sup> instalment of untied grants for ULBs on 31 March 2025.

The resumption has resulted in overstatement of expenditure amounting to ₹719.15 crore under head of account '3604-00-200-90' and corresponding understatement under Head of Account '2075-00-911-94'.

State Government replied that (January 2026) funds were resumed from STSB account no. 701011400000090 of KWA as the account was inoperative and funds kept unutilised. The reply is not tenable as the objection relates to resumption of funds amounting to ₹719.15 crore from the STSB Account no. 701011400000181 of KWA credited on 27 March 2025.

**D. Resumption of funds originally debited under Capital Head of Account to Revenue Head of Account**

Scrutiny revealed that funds amounting to ₹5.85 crore maintained in the STSB account of Kerala Water Authority originally given under Capital head of Account '4215-01-800-93 -Projects under Legislative Assembly Constituency Asset Development Scheme (LAC ADS)' was resumed to the common Head of Account 2075-00-911-94 - Deduct Recoveries-Refund of Amounts Resumed from the Idling Treasury Accounts. This has resulted in overstatement of Capital Expenditure by ₹5.85 crore under Capital Head of Account '4215-01-800-93.' The Revenue Expenditure and Revenue Deficit has been understated by ₹5.85 crore during the year.

**E. Resumption of ₹551.94 crore lying in the STSB account of Kerala State Civil Supplies Corporation Limited**

During 2024-25, State Government released (March 2025) an amount of ₹551.94 crore to the STSB account of Kerala State Civil Supplies Corporation Limited (KSCSCL) by debiting the heads of Account '2408-01-101-96-00-33-Paddy procurement through Kerala State Civil Supplies Corporation and Other Agencies'(₹352.50 crore), '2408-01-102-99-00-33 - Grant to Kerala State Civil Supplies Corporation Limited for market intervention operations' (₹100 crore), '2408-01-101-92-03 - Assistance to State Agencies for Intra-state movement of food grains under NFSA (50% CSS) - Additional State Assistance' (₹99.44 crore).

The State Government resumed (30 March 2025) the entire amount of ₹551.94 crore lying in the STSB account of KSCSCL to the Consolidated Fund of the State under Head of Account '2075-00-911-94. This has resulted in overstatement of expenditure under the Head of Account '2408-01-101-92-03' by ₹99.44 crore and in the overstatement of expenditure under subsidies by ₹452.50 crore<sup>51</sup>. Consequently, the Head of Account '2075-00-911-94' was understated by ₹551.94 crore.

**F. Error in classification of resumed funds to the head of account under which the expenditure was originally incurred**

Under the Grant No XXV- Welfare of Scheduled Castes, Scheduled Tribes, Other Backward Classes and Minorities, the LIFE Mission scheme provides outlay for the construction of new houses for those SC families with land who were identified under Extreme Poverty Survey 2021-22. It also provides funds for the construction of housing complexes or housing clusters for the homeless SC families without land.

<sup>51</sup> ₹352.50 crore under '2408-01-101-96-00-33' & ₹100.00 crore under '2408-01-102-99-00-33'

Director, Scheduled Caste Development Department, released an amount of ₹ 120 crore to the PSTSB account of Chief Executive Officer, LIFE Mission in three instalments<sup>52</sup> by debiting the Head of Account '4225-01-283-84(P)' Home for the homeless SC under life Mission' for implementing the scheme. However, no expenditure was incurred for the scheme during 2024-25. State Government resumed the entire amount lying unutilised to the Consolidated fund of the State in March 2025.

Though the entire amount of ₹120 crore released to the STSB account was resumed, only ₹60 crore was seen booked as minus expenditure under the Head of Account '4225-01-283-84' resulting in a final expenditure of ₹60 crore under the Head of Account '4225-01-283-84'. The incorrect booking of resumed funds under the Head of Account '4225-01-283-84' led to an overstatement of capital expenditure by ₹60 crore during 2024-25.

### 3.7 Operation of Minor Head-800

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. Regular operation of Minor Head-800 is to be discouraged, since it renders the accounts opaque. Classification of large amounts under the omnibus Minor Head 800 affects transparency in financial reporting and distorts proper analysis of allocative priorities and quality of expenditure.

During the year 2024-25, ₹7,164.24 crore under 68 Major Heads of Account, constituting 4.19 *per cent* of the total Revenue and Capital expenditure (₹1,71,003.19 crore<sup>53</sup>) was classified under the Minor Head-800-Other Expenditure in the accounts. Of these, ₹7.48 lakh under two Major Heads was classified under Minor Head-800-Other Expenditure despite availability of appropriate Minor Heads thereunder, as detailed in **Table 3.10**.

**Table 3.10: Expenditure misclassified under Minor Head 800-Other Expenditure during 2024-25**

(₹ in lakh)

Details of head under booking was wrongly classified	Amount	Nature of expenditure	Correct classification
5452-01-800-98 – Tourist Accommodation (Guest Houses)	5.66	Capital	5452-01-102 Tourist Accommodation
2211-00-800-95 Compensation/Damages to victims of Family Planning Operation	1.82	Revenue	2211-00-105 Compensation
<b>Total</b>	<b>7.48</b>		

Source: Finance Accounts and VLC data maintained by the PAG (A&E)

Similarly, ₹ 1,237.24 crore under 46 Major Heads of Account, constituting 0.99 *per cent* of the total Revenue Receipts (₹1,24,861.06 crore) was classified under 800-Other Receipts in the accounts during 2024-25.

It was also noticed that an expenditure of ₹289.26 crore was incurred under the Minor Head 800-'Other expenditure' below the Major Head 2217 during the year 2024-25, which constituted 23 *per cent* of the total expenditure under

<sup>52</sup> ₹ 60 crore in May 2024, ₹ 30 crore in October 2024 and ₹ 30 crore in November 2024.

<sup>53</sup> This amount excludes Loans and Advances and repayment of Public Debt.

Major Head 2217. Herein, Ayyankali Urban Employment Guarantee Scheme was the major scheme which accounted for ₹160.88 crore of this ₹289.26 crore expended under Minor Head 800. This scheme was introduced for the first time in the Budget speech of 2010-11. The scheme was intended to address the unemployment and under-employment problems in urban society and was structured in the pattern of Mahatma Gandhi National Rural Employment Guarantee Scheme. The expenditure incurred under this scheme during the period 2022-23 to 2024-25 is given in **Table 3.11** below:

**Table 3.11: Expenditure incurred under Ayyankali Urban Employment Guarantee Scheme during the period 2022-23 to 2024-25**

(₹ in crore)

Sl. No.	Year	Classification	Original Budget	Supplementary Budget	Expenditure
1	2022-23	2217-80-800-76	125.00	0	87.56
2	2023-24	2217-80-800-76	150.00	0	91.08
3	2024-25	2217-80-800-76	165.00	0	160.88

Audit observed that even though the scheme has marked more than a decade of implementation in the state, the expenditure has continued to be booked under the Minor Head 800, which is neither specific nor transparent in reflecting the true nature of the expenditure.

As per LMMH, there is a distinct Minor Head '108- Urban Oriented Employment Programme' under Major Head '3475- Other General Economic Service' below which a Sub-Head can be opened for booking Urban employment programmes.

State Government may examine the possibility of opening a suitable Sub-Head under '3475-00-108- Urban Oriented Employment Programme' for booking the State's Urban employment guarantee scheme.

### Issues related to measurement

#### 3.8 Outstanding balance under major Suspense and DDR Heads

The Finance Accounts reflect the net balances under Suspense and Remittance Heads. The outstanding balances under these heads are worked out by aggregating the outstanding debit and credit balances separately under various heads. Significant suspense items balances for the last three years have been shown in **Table 3.12**

**Table 3.12: Balances under Suspense and Remittance Heads**

(₹ in crore)

Head of Account		2022-23		2023-24		2024-25	
		Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
<b>8658</b>	<b>Suspense Account</b>						
101	Pay and Accounts Office-Suspense	440.63	0.20	407.06	0.53	226.25	0.61
	<b>Net Debit (Dr.) / Credit (Cr.)</b>	Dr. 440.43		Dr. 406.53		Dr. 225.64	
102	Suspense Account-(Civil)	25.04	11.22	21.69	189.08	3.96	166.19
	<b>Net Debit (Dr.) / Credit (Cr.)</b>	Cr. (-) 7.20		Cr. 167.39		Cr. 162.23	
109	Reserve Bank Suspense-(Headquarters)	2.50	-	6.10	-	4.11	-

Head of Account		2022-23		2023-24		2024-25	
		Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
	<b>Net Debit (Dr.) / Credit (Cr.)</b>	Dr. 2.50		Dr. 6.10		Dr. 4.11	
110	Reserve Bank Suspense- (Central Accounts Office)	93.55	-	263.74	-	287.57	-
	<b>Net Debit (Dr.) / Credit (Cr.)</b>	Dr. 93.55		Dr. 263.74		Dr. 287.57	
112	Tax Deducted at Source (TDS) Suspense	-	176.29	-	268.79	-	473.38
	<b>Net Debit (Dr.) / Credit (Cr.)</b>	Cr. 176.29		Cr. 268.79		Cr. 473.38	
123	AIS Officers' Group Insurance Scheme	-	0.25	-	0.23	-	0.26
	<b>Net Debit (Dr.) / Credit (Cr.)</b>	Cr. 0.25		Cr. 0.23		Cr. 0.26	
<b>8782</b>	<b>Cash Remittance and adjustments between officers rendering account to the same Accounts Officer</b>						
102	Public Works Remittances	484.12	-	(-)1,400.21	-	(-)3,705.61	-
	<b>Net Debit (Dr.) / Credit (Cr.)</b>	Dr. 484.12		Dr. (-)1,400.21		Dr. (-)3,705.61	
103	Forest Remittances	-	-	-	-	-	-
	<b>Net Debit (Dr.) / Credit (Cr.)</b>						
<b>8793</b>	<b>Inter-State Suspense Account</b>	61.98	-	66.33	-	67.21	-
	<b>Net Debit (Dr.) / Credit (Cr.)</b>	<b>Dr 61.98</b>		<b>Dr 66.33</b>		Dr. 67.21	

Source: Finance Accounts of respective years

Balance under Public Works remittances has increased considerably during 2024-25. Reasons for the huge increase in balance during 2024-25 have been called for and reply is awaited. Non-clearance of outstanding balances under these heads affects the accuracy of receipt/expenditure figures and balances under different Heads of Accounts (which are carried forward from year to year) of the State Government. Efforts have to be taken for the prompt clearance of balances through inter-departmental reconciliation.

### 3.9 Reconciliation of Departmental figures

To exercise effective budgetary control over revenue/expenditure and to ensure accuracy in accounts, State Financial Rules stipulate that Chief Controlling Officers (CCOs)/Controlling Officers (COs) are required to reconcile every month, the receipts and expenditure recorded in their books with the figures of the Accountant General (A&E).

The status of reconciliation of figures by the Controlling Officers is given in **Table 3.13 and Chart 3.3.**

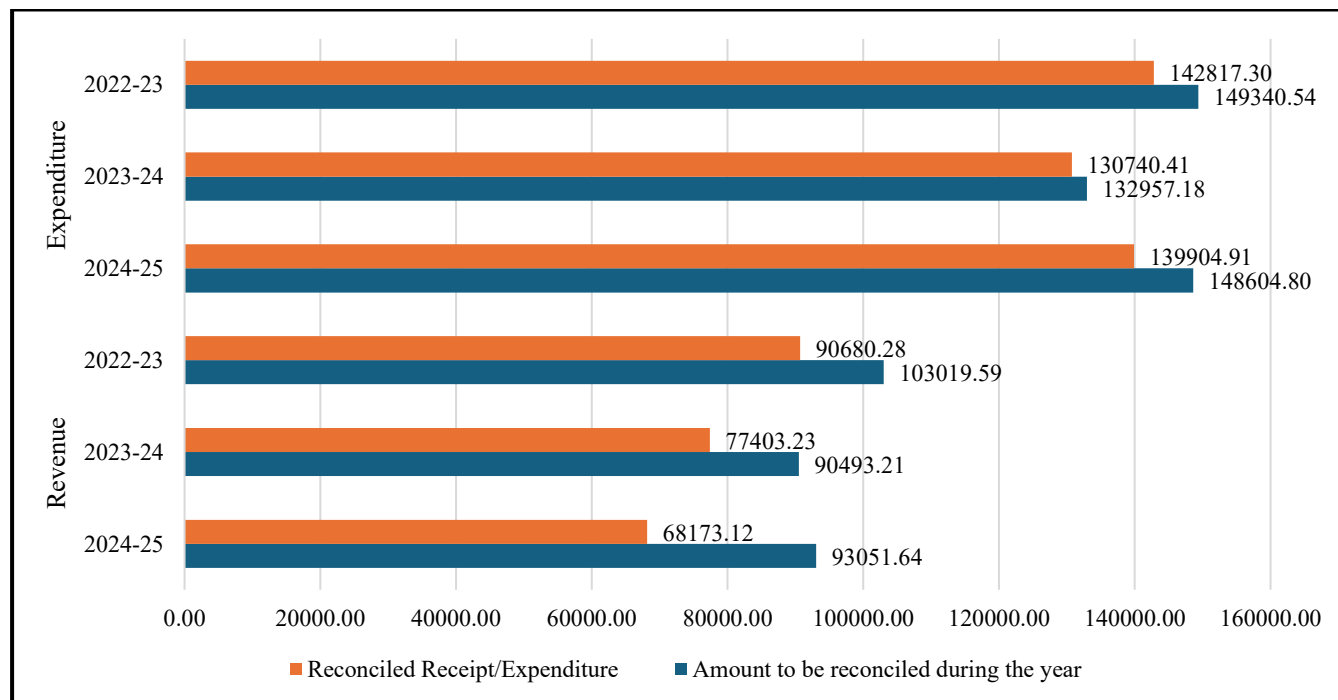
**Table 3.13: Status of Reconciliation of Receipts and Expenditure by Controlling Officers**

Year	Total No. of Controlling Officers	No. of Controlling Officers reconciled their receipts/ expenditure		
		Fully reconciled	Partially reconciled	Not reconciled
<b>Receipts</b>				
2022-23	67	65	1	1
2023-24	63	61	1	1
2024-25	88	29	17	42
<b>Expenditure</b>				
2022-23	199	196	2	1
2023-24	201	184	12	5
2024-25	203	115	74	14

Source: Information maintained by office of the Principal Accountant General (A&E)

**Chart 3.3: Status of Reconciliation of Receipts and Expenditure during the year 2022-25**

(₹ in crore)



Source: Information maintained by the office of the Principal Accountant General (A&E)

Necessary action may be taken for enforcing monthly reconciliation through stronger oversight, accountability measures and capacity building to ensure that receipts and expenditure figures between departmental records and Accounts of AG remain accurate and aligned.

### 3.10 Reconciliation of Cash Balances

As per accounts of the Accountant General (A&E) Kerala, the Cash Balance of the State Government as on 31 March 2025 was ₹ 378.42 crore (Credit) while the same was reported as ₹ 1.69 crore (Credit) by the Reserve Bank of India. As such, there was an unreconciled difference of ₹ 380.11 crore (Debit) which was under reconciliation between the Accountant General (A&E), Kerala and the State Government.

### 3.11 Unspent amount lying with divisional officers

As per Codal provisions, funds received by Public Works Divisions towards Deposit Works from non-government agencies are required to be credited under Minor Head '108 - Public Works Deposits' below Major Head '8443 - Civil Deposits'. The expenditure for related Deposit Works is also met from the same Head of Account. In the Monthly Divisional Accounts unremitted amount of such deposits are classified under Major Head '8671 -Departmental Balances, 101 – Civil', by the PW Divisions, under Public Account of the State and then form part of the Government Accounts. However, the funds received towards Deposits Works are being kept in the bank accounts of Divisional Officers

operated by PW Divisions instead of remitting them into the Government Accounts and thus, are not forming part of cash balance of the State with Reserve Bank of India.

An amount of ₹20.04 crore was lying in the bank accounts of PWD-Roads and Irrigation Departments. Details of the amounts lying in bank accounts being operated by Divisional Officers is detailed in **Table 3.14**

**Table 3.14: Details showing unspent amount lying with Divisional Officers**

Sl. No.	Name of Department	Number of Divisional Officers operating Bank Accounts	Amount lying in Bank Accounts (₹ in crore)
1.	Irrigation	2	0.42
2.	PWD-Roads	15	19.62
<b>Total</b>		<b>17</b>	<b>20.04</b>

Source: Departments concerned

Depositing these funds in the treasury, would have impacted on the daily Cash Balance of the State Government. Urgent action may be taken to transfer the funds lying in bank accounts to the treasury accounts under designated heads.

### Issues related to disclosure

### 3.12 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 (CAG), prescribe the form of accounts of the Union and of the States. On the advice of the CAG, the President of India has so far notified four Indian Government Accounting Standards (IGAS). Compliance to these Accounting Standards by the State Government during 2024-25 is detailed in **Table 3.15**.

**Table 3.15: Compliance to Accounting Standards**

Sl.No.	Accounting Standards	Essence of IGAS	Compliance by State Government	Deficiencies observed
1.	IGAS-1:	Guarantees Given by the Government – Disclosure requirements	Complied (Statement 9 and 20 of Finance Accounts)	No deficiencies were observed.
2.	IGAS-2:	Accounting and Classification of Grants-in-aid	Complied (Statement 10 of Finance Accounts)	
3.	IGAS-3:	Loans and Advances made by Government	Complied (Statement 7 and 18 of Finance Accounts)	
4	IGAS-4:	Prior period adjustments	Complied (Statement 13 of Finance Accounts)	

Source: Finance Accounts

### 3.13 Submission of accounts of Autonomous Bodies

As on 31 March 2025, 45 accounts in respect of 16 Autonomous Bodies (ABs) were pending as detailed in **Table 3.16**.

**Table 3.16: Arrears of accounts of Autonomous Bodies as on 31 March 2025**

Sl. No.	Name of Body or Authority	Accounts pending since	No. of Accounts pending
1.	Kerala Institute of Labour and Employment (KILE)	2023-24	1
2.	Kerala Building and Other Construction Workers Welfare Board	2023-24	1
3.	Kerala State Legal Services Authority, Ernakulam	2023-24	1
4.	District Legal Services Authority, Thiruvananthapuram	2023-24	1
5.	District Legal Services Authority, Kottayam	2023-24	1
6.	District Legal Services Authority, Alappuzha	2023-24	1
7.	District Legal Services Authority, Kasargod	2023-24	1
8.	District Legal Services Authority, Ernakulam	2016-17	8
9.	District Legal Services Authority, Kollam	2020-21	4
10.	District Legal Services Authority, Kozhikode	2021-22	3
11.	District Legal Services Authority, Kannur	2019-20	5
12.	Kerala State Human Rights Commission	2023-24	1
13.	Kerala State Commission for Protection of Child Rights (CPCR)	2014-15	10
14.	Kerala State Commission for Scheduled Castes and Scheduled Tribes	2023-24	1
15.	Kerala Water Authority	2021-22	3
16.	Kerala Khadi and Village Industries Board	2021-22	3
<b>Total</b>			<b>45</b>

Source: Information collected from various Autonomous Bodies

Of the 16 institutions, loan amounting to ₹140.05 crore had been given to two<sup>54</sup> institutions and grants amounting to ₹1,533.02 crore had been given to 15 of these institutions. Delayed submission of accounts reduces transparency and hinders financial oversight. The administrative departments must regularly monitor the timely submission of accounts and address capacity constraints, if any, within these bodies to ensure up-to-date financial reporting. It should be noted that the State Government has reduced the arrears in submission of accounts in respect of Autonomous Bodies from 61(25 ABs) as of 31 March 2024 to 45 (16 ABs) as of 31 March 2025.

State Government replied that (December 2025) that accounts of Kerala State Commission for Scheduled Castes and Scheduled Tribes for 2023-24 has since been submitted to AG. Accounts for 2023-24 were submitted in July 2025.

<sup>54</sup> Kerala Building & Other Construction Workers Welfare Board, Thiruvananthapuram for ₹ 140.00 crore, and District Legal Services Authority, Kannur for ₹ 0.05 crore.

### 3.14 Other Issues

#### 3.14.1 Performance of State DISCOMs

Kerala State Electricity Board Ltd. (KSEBL) is the main State-owned power utility in Kerala that carries out the activities of generation, transmission and distribution of electricity<sup>55</sup>.

##### A. Implementation of UDAY scheme

With the objectives of improving the health of State-owned DISCOMs and to provide affordable and accessible 24x7 power for all, the Ministry of Power, GoI launched 'Ujwal DISCOM Assurance Yojna' (UDAY) in November 2015. The scheme envisaged the following reforms to achieve the above objectives

1. Financial turnaround of DISCOMs
2. Improving operational efficiency of DISCOM

A tripartite Memorandum of Understanding (MoU) was signed between Government of India, KSEBL and Government of Kerala (March 2017) for achieving operational parameters. Though the MoU did not cover financial turnaround part under UDAY, the MoU envisaged that KSEBL would improve its financial performance and report profits for 2017-18 and 2018-19. As per the MoU, KSEBL was also required to prepare a detailed action plan for various targeted activities focusing on Aggregate Technical and Commercial (AT&C) loss reduction for its implementation.

This office conducted a Performance Audit on 'Performance of KSEBL during pre and post Ujwal DISCOM Assurance Yojna' covering the period 2015-16 to 2020-21. The key Audit findings in the Report No 5 of the year 2022 and the latest status of the targets envisaged in the MoU for improving operational efficiency are summarised in **Appendix 3.4**.

##### B. Profit/Loss of KSEBL

The year wise details of Losses incurred/Profit earned by KSEBL during Pre-UDAY (2015-16 to 2016-17), UDAY (2017-18 to 2018-19) and Post-UDAY (2019-20 onwards) periods are given in **Table 3.17** below:

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<sup>55</sup> KINESCO Power and Utilities Pvt. Ltd. is a power distribution licensee operating in limited, notified areas, primarily within KINFRA industrial parks in Kerala (such as Infopark and KINFRA (Kerala Industrial Infrastructure Development Corporation)) and this entity has not been included in this analysis.

**Table 3.17 :Profit/(Loss) of KSEBL from 2015-16 to 2024-25**

(in crore)

Year	Profit /(Loss)
<b>Pre-UDAY period</b>	
2015-16	(696.97)
2016-17	(1494.63)
<b>UDAY Period</b>	
2017-18	(784.09)
2018-19	(290.00)
<b>Post-UDAY Period</b>	
2019-20	(269.55)
2020-21	(475.08)
2021-22	97.66
2022-23	(994.64)
2023-24	(1397.87)*
2024-25	571.22#

\* After adjusting for loss taken over by Government of Kerala - ₹ 767.72 crore

# After adjusting for loss taken over by Government of Kerala - ₹ 494.29 crore

Though the State did not opt for debt takeover under UDAY scheme, it undertook parallel measures such as Pension Liability Restructuring and Capital Investment in system strengthening. A Master Trust was created to service pension liabilities and KSEBL issued bonds worth ₹11,895 crore to fund the trust. These bonds were partly funded by the State Government as well (₹5,861 crore). Under Capital Investment in system strengthening programme, distribution systems were reinforced and High-Tension Lines were upgraded.

The reasons pointed out in performance audit on UDAY scheme were still the major reasons contributing to the losses of KSEBL. For the period from 2015-16 to 2024-25, the power purchase cost increased by 101.2 *per cent*, the employee cost increased by 39.71 *per cent*, and the finance costs increased by 116.83 *per cent*. During the same period, the total borrowings increased by 369.91 *per cent*, being ₹ 13,884.73 crore in 2024-25, mainly due to issuing bonds to fund the employee's Master Trust. KSEBL also took short-term loans of ₹1,500 crore during 2020-21 to 2021-22 to service its debt. A balance of ₹258.77 crore remains to be repaid of these loans availed for servicing debt.

The XV<sup>th</sup> Finance Commission has recommended performance based additional borrowing space of 0.50 *per cent* of Gross State Domestic Product to States linked to performance in the power sector. To avail this additional borrowing space the State Government had took over 75 *per cent* of losses of KSEBL for 2022-23 (₹767.71 crore) and 90 *per cent* of losses of KSEBL for 2023-24 (₹494.29 crore). The amount of ₹494.29 crore released to KSEBL was later resumed by (March 26, 2025) Government into the Consolidated fund of the State. This action belied the intention behind XV Finance Commission recommendation and is a serious breach of financial propriety. The audit observation on this is explained in para 3.7 B.

State Government replied (January 2026) that the amount of ₹494.29 crore resumed has been netted of against the electricity duty collected by KSEBL in November 2025.

### **C. Tariff Subsidies and Departmental electricity demand dues owed to KSEBL**

As per Kerala Electricity Duty Act, 1963, licensees are liable to remit the collected electricity duty to Government Account. However, KSEBL had not been remitting electricity duty to Government from 2002-03 onwards. Further, Government had permitted KSEBL (2013) to retain the collected electricity duty as a special and time-bound mechanism to meet the State's share of the unfunded pension liability. Further, the subsidies and electricity demand dues that Government Departments owe to KSEBL were also netted-off against the electricity duty collected by KSEBL.

From 2016-17 to 2024-25, an amount of ₹4,433.80 crore was netted off against the electricity duty collected to adjust for the tariff subsidy owed by Government to KSEBL. Similarly, ₹5,861 crore towards Government's contribution to KSEBL Pension Master Trust and ₹2,019.66 crore towards departmental dues were netted against the electricity duty collected by and kept with KSEBL.

Netting off subsidies and departmental dues that are owed to KSEBL without earmarking the required provision in the Budget, does not accurately reflect the true picture of these transactions in Government Accounts, thus, compromising the principle of transparency.

State Government replied (January 2026) that even though Finance Department had issued various Government orders provisionally netting of electricity charge arrears of Government department and other dues up to 30.09 2025 against the electricity duty collected and retained by KSEBL, the Administrative department (Power department) has neither issued final orders nor submitted proposal for proforma adjustment.

### **3.15 Misappropriations, losses, thefts, etc.**

Article 297 of 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, Kerala as well as to the Heads of Departments.

As on 31 March 2025, 71 cases of misappropriation, losses, theft, etc. involving ₹2,748.11 lakh were pending. The department-wise break-up of pending cases is given in **Table 3.18**.

**Table 3.18: Details of pending cases of misappropriation, losses, theft, etc.***(₹ in lakh)*

Name of Department/ Corporation	Cases of misappropriation/ losses /theft		Reasons for the delay in final disposal of pending cases of misappropriation, losses, theft, etc.							
			Awaiting departmental and criminal investigation		Departmental action initiated but not finalised		Criminal Proceedings finalised but recovery of the amount pending		Pending in court of Law	
	Number of cases	Amount	Number of cases	Amount	Number of cases	Amount	Number of cases	Amount	Number of cases	Amount
Agriculture	9	45.85	1	1.28	0	0	6	34.58	2	9.99
Co-operation	1	293.47	0	0	0	0	1	293.47	0	0
Dairy Development	1	1.20	0	0	0	0	1	1.20	0	0
Archives	1	2.20	0	0	0	0	1	2.20	0	0
Finance-Treasury	11	408.16	0	0	1	200.00	5	71.80	5	136.36
Fisheries and Ports	1	1.04	1	1.04	0	0	0	0	0	0
Forest	2	27.46	0	0	0	0	2	27.46	0	0
General Education	7	11.60	0	0	1	1.68	5	9.01	1	0.91
Higher Education	3	32.35	1	15.43	0	0	0	0	2	16.92
Health	5	22.63	1	0.09	1	20.07	3	2.47	0	0
Directorate of Medical Education	4	7.87	0	0	0	0	3	1.80	1	6.07
Indian System of Medicine	1	1.84	0	0	0	0	1	1.84	0	0
Public Relations	1	3.12	0	0	0	0	1	3.12	0	0
Industries	1	0.31	0	0	0	0	0	0	1	0.31
Insurance Medical Services	1	38.36	0	0	0	0	0	0	1	38.36
Cultural Affairs	1	26.57	0	0	1	26.57	0	0	0	0
Lotteries	2	59.95	0	0	0	0	1	10.92	1	49.03
LSGD	12	1,130.21	2	1,025.00	0	0	8	101.47	2	3.74
PWD NH	1	2.37	0	0	0	0	1	2.37	0	0
PWD Roads Bridges	1	1.88	0	0	0	0	1	1.88	0	0
SC/ST Development	2	0.43	0	0	1	0.26	0	0	1	0.17
Water Resources	3	629.24	1	614	0	0	2	15.24	0	0
<b>Total</b>	<b>71</b>	<b>2,748.11</b>	<b>7</b>	<b>1,656.84</b>	<b>5</b>	<b>248.58</b>	<b>42</b>	<b>580.83</b>	<b>17</b>	<b>261.86</b>

*Source: Departmental data/information*

Out of the total 71 cases, in respect of five cases (₹2.49 crore), departmental action had been initiated but not finalised, while in seven cases (₹16.57 crore) departmental and criminal proceedings were pending.

The age-profile of the pending cases and the number of cases pending in each category-theft and misappropriation/loss of Government material is summarised in **Table 3.19**.

**Table 3.19: Profile of misappropriations, losses, defalcations, etc.***(₹ in lakh)*

A. Age-profile of the pending cases			B. Nature of the pending cases		
Range in years	Number of cases	Amount involved	Nature/Characteristics of the cases	Number of cases	Amount involved
0-5	10	1,255.42	Theft	4	1.09
5-10	15	1,076.91	Misappropriation	67	2,747.02
10-15	4	67.13			
Above 15	42	348.65			
<b>Total</b>	<b>71</b>	<b>2,748.11</b>	<b>Total</b>	<b>71</b>	<b>2,748.11</b>

*Source: Departmental data/information*

Out of the total cases, four cases amounting to ₹1.09 lakh were related to theft of Government money/stores, whereas 42 cases involving ₹348.65 lakh pertaining to misappropriation/loss of Government material were pending for more than 15 years.

State Government has to take immediate steps to clear misappropriation/loss cases that have been pending for more than five years.

### **3.16 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.

The Public Accounts Committee has completed the discussion of Reports on State Finances for 2018-19. Chapters I and II of report 2019-20 has also been discussed.

### **3.17 Conclusions**

State Government's continues to resort to significant amount of off budget borrowings through KIIFB and KSSPL during 2024-25 for infrastructure funding and for disbursement of Social Security and Welfare Pension respectively. These liabilities are being serviced from Consolidated Fund of the State. The upfront non-disclosure of these liabilities dilutes transparency in management of public finances and affects the quality of overall government accounts. The outstanding balance as on 31 March 2025 of the two institutions comes to ₹39,230.33 crore<sup>56</sup>. Discrepancies in reporting of off-Budget Borrowings to Government of India while seeking consent for raising market borrowings is another serious transparency concern noted by the audit.

Irregular resumption of funds from STSB accounts to the Consolidated Fund of State in violation of accounting principles and deliberate violation of GoI guidelines after availing additional borrowing space related to power sector reforms and irregular withdrawal of public money from CMDRF constituted serious breach of accountability and financial propriety.

Undischarged liabilities towards various reserve funds, delays in initiating departmental action, fixing liability, issuing orders of recovery, *etc*, in respect of cases of misappropriation/loss of public money are other significant concerns that require immediate remedial measures from the State Government to enhancing quality in financial reporting practices.

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<sup>56</sup> The State Government replied that 25 *per cent* of borrowings of KIIFB are for revenue-generating projects, with ₹8,749.49 crore disbursed towards revenue-generating projects as on 31 March 2025. The State Government requested that, as the burden of borrowings of ₹8,749.49 crore disbursed for revenue-generating projects do not fall on the State Government, the amount may not be considered as off-budget borrowings of the State.

### 3.18 Recommendations

1. *The Government may include the disclosure of the details of the off-budget borrowings done through various agencies of the State Government in the Budget and transparently disclose these borrowings to GoI.*
2. *State Government may institute systemic check to ensure adherence to the accounting rules while carrying resumption of unspent balances. The State Government may also issue instructions to ensure that public contributions and amounts due to the State PSUs kept in STSB accounts are not irregularly withdrawn towards the Consolidated Fund of the State.*
3. *The Government may consider preparing a time bound framework for taking prompt action in cases of misappropriation, loss, theft etc. and strengthening the internal control system to prevent recurrence of such cases.*

Thiruvananthapuram,  
The 30 April 2026



(VISHNUKANTH P. B)  
Accountant General (Audit II), Kerala

Countersigned

New Delhi,  
The 05 May 2026



(K. SANJAY MURTHY)  
Comptroller and Auditor General of India

