

**CHAPTER II**  
**APPROPRIATION AUDIT AND CONTROL OVER EXPENDITURE**

**2.1 Introduction**

The Appropriation Accounts are prepared every year indicating the details of amounts on various specified services actually spent by Government vis-a-vis those authorised by the Appropriation Act.

The objective of appropriation audit is to ascertain whether the expenditure actually incurred under various grants is within the authorisation given under the Appropriation Act and that the expenditure required to be charged under the provisions of the Constitution is so charged. It also ascertains whether the expenditure so incurred is in conformity with the law, relevant rules, regulations and instructions.

**Appropriation Accounts: 2001-2002**

**Total No. of Grants: 60**

**Total provision and actual expenditure**

Provision	Amount (Rs in crore)	Expenditure	Amount (Rs in crore)
Original	25270.60		
Supplementary	1785.97		
<b>Total gross provision</b>	<b>27056.57</b>	<b>Total gross expenditure</b>	<b>22869.17</b>
Deduct-Estimated recoveries in reduction of expenditure	556.47	Deduct-Actual recoveries in reduction of expenditure	195.67
<b>Total net provision</b>	<b>26500.10</b>	<b>Total net expenditure</b>	<b>22673.50</b>

**Voted and Charged provision and expenditure**

	Provision (Rs in crore)		Expenditure (Rs in crore)	
	Voted	Charged	Voted	Charged
Revenue	18192.31	2934.68	16002.54	2741.92
Capital	3947.90	1981.68	2676.05	1448.66
<b>Total Gross</b>	<b>22140.21</b>	<b>4916.36</b>	<b>18678.59</b>	<b>4190.58</b>
Deduct-recoveries in reduction of expenditure	556.47	-	195.67	-
<b>Total: Net</b>	<b>21583.74</b>	<b>4916.36</b>	<b>18482.92</b>	<b>4190.58</b>

## 2.2 Summary of Appropriation Accounts

The summarised position of actual expenditure against 60 Grants/Appropriations was as follows:

(Rupees in crore)

	Nature of expr	Original grant/Appn	Suppl. grant/Appn	Total	Actual expr	Saving (-)/ Excess(+)
Voted	1. Revenue	17319.50	872.81	18192.31	16002.54	(-) 2189.77
	2. Capital	2412.00	655.63	3067.63	2161.58	(-) 906.05
	3. Loans & Advances	573.73	219.36	793.09	514.47	(-) 278.62
	4. Public Debt	87.18	-	87.18	-	(-) 87.18
<b>Total Voted</b>		<b>20392.41</b>	<b>1747.80</b>	<b>22140.21</b>	<b>18678.59</b>	<b>(-) 3461.62</b>
Charged	5. Revenue	2903.79	30.89	2934.68	2741.92	(-) 192.76
	6. Capital	5.38	-	5.38	1.01	(-) 4.37
	7. Public Debt	1969.02	7.28	1976.30	1447.65	(-) 528.65
<b>Total Charged</b>		<b>4878.19</b>	<b>38.17</b>	<b>4916.36</b>	<b>4190.58</b>	<b>(-) 725.78</b>
<b>Grand Total</b>		<b>25270.60</b>	<b>1785.97</b>	<b>27056.57</b>	<b>22869.17</b>	<b>(-) 4187.40</b>

The total expenditure of Rs. 22869.17 crore stands understated at least to the extent of Rs. 7.89 crore being the advance drawn from Contingency Fund during 2001-02 but remained un-recouped at the close of the year under following grants.

- (i) Grant No.46 – Major Head 2215 – Water Supply and Sanitation (Rs. 3.39 crore)
- (ii) Grant No.39 – Major Head 2702 – Minor Irrigation (Rs. 3.35 crore)
- (iii) Grant No.30 – Major Head 2406 – Forestry and Wild Life (Rs. 1.00 crore)
- (iv) Grant No.10 – Major Head 3425 – Other Scientific Research (Rs. 0.15 crore)

The total expenditure stands inflated atleast to the extent of Rs. 385.97 crore as under;

- (i) Rs.68.70 crore drawn through NIL payment vouchers in March 2002 and transferred to Personal Deposit Accounts, which is discussed at Para 2.3.14. of this chapter
- (ii) Rs. 317.27 crore relating to investments in KBJNL and KNNL was retained in the public account of the State Government without being released to the said institutions (refer Para 1.7.1 of Chapter I).

## 2.3 Results of Appropriation Audit

The broad results emerging from appropriation audit are set out in the following paragraphs.

### 2.3.1 Savings/Excess over provision

The overall saving of Rs.4187.40 crore constituting 15.48 per cent of the total grant/appropriation was the result of savings of Rs.4300.77 crore in 60 grants/appropriations partly offset by excess of Rs.113.37 crore in 10 grants/appropriation. As per Article 205 of the Constitution of India, it is mandatory for the State Government to get the excess over grant/appropriation

regularised by the State Legislature. During 2001-02, an excess expenditure of Rs. 112.64 crore over the provision was incurred in 10 grants. Details of these are given in Appendix.2.1. In addition, a provision of Rs.9.39 crore included under Grant No.1 – Agriculture through errata to the budget estimates, was omitted to be included in the Appropriation Act and hence, the expenditure of Rs. 7.20 crore incurred against this provision also requires regularisation. Similarly, under Grant No.39 – Minor Irrigation (excluding ground water), provision was obtained for net amount of Rs. 0.05 crore instead of gross amount of Rs. 6.62 crore and hence the expenditure of Rs. 4.10 crore accounted under this grant also required regularisation. The excess expenditure amounting to Rs.993.64 crore for the years 1989-90 to 2000-01 was yet to be regularised. The year-wise details of excess expenditure over the provision are as detailed below:

Year	Number of grants/ Appropriation	Grant/Appropriation numbers	Amount of excess (Rs in crore)
1989-90	12/5	7,8,10,24,27,46,47,49,53,20,35,56,23,45,12, Interest payments	25.89
1990-91	13/4	6,7,10,13,20,32,45,46,47,52,27,33,35,47,4,41,35	35.73
1991-92	13/3	7,11,14,22,23,36,45,46,47,51,57,27,24,41,43	58.99
1992-93	12/3	6,9,27,32,34,41,43,44,45,46,50,52,25,33,34,48	107.47
1993-94	7/3	22,36,46,49,54,13,29,49,24,43, Internal debt, Loans and advances from Central Government and Inter State Settlements	57.47
1994-95	4/6	21,35,3,48,15,24,46,47,55	8.35
1995-96	9/2	2,33,39,43,45,49,1,46,52,21,44	27.79
1996-97	9/3	2,16,33,43,49,51,8,24,25,45,1,21,43,44	104.40
1997-98	11	12,33,37,39,43,49,51,24,27,32,55	84.01
1998-99	12	9,17,33,37,39,40,4,24,25,46,43,52	35.86
1999-2000	11/2	10, 16, 19, 33, 34, 39, 48, 49, 65, 66, 8, 43	333.22
2000-2001	11	5, 15, 24, 35, 38, 49, 7, 10, 42, 30, 44	114.46
2001-2002	10	5, 10, 13, 15, 24, 30, 35, 42, 44, 50	112.64

The main reasons for the excess expenditure for the year 2001-02 were;

- More collection of cess for the infrastructure initiative fund, than the estimated collection and consequent transfer to the fund (Rs. 99.73 crore – Grant No.5)
- Receipt of more debit of pension payment from Maharashtra under State Re-organisation Act 1956 (Rs. 2.06 crore – Grant No.15)
- Excess expenditure under special repairs to buildings – Governor (Rs. 0.36 crore – Grant No.44)
- More receipts towards compensatory plantations ultimately transferred to Karnataka Forest Development Fund through inter account transfers (Rs.6.32 crore – Grant No.30)
- Erroneous provision obtained through supplementary grants under Grant No.45 – Co-operation (excluding Agricultural Marketing) instead of under Grant No.35 (Rs. 20.80 crore)

Out of overall savings of Rs. 4187.40 crore (15 per cent of the total provision) saving of Rs. 957.37 crore (23 per cent) under various grants was mainly due to the following reasons.

- Savings in salaries due to provision for vacant posts (Rs. 108.06 crore)
- Reduction in allocation/cut in provision/non investment of funds due to drop in revenue receipts (Rs. 122.20 crore)
- Economy measures (Rs. 63.85 crore)
- Cancellation of projects /delay in processing of tenders/delay in execution of works/delay in employing contractors etc., (Rs. 186.37 crore)
- Short/non release of fund/ letter of credit (Rs.105.69 crore)
- Delays in approval/issue of sanction order/implementation order etc., (Rs.22.44 crore)
- Erroneous provisions in budget under certain grants (Rs. 87.18 crore)
- Delay in starting/abolition of educational courses (Rs. 4.16 crore)
- Failure to complete Technical/tender formalities (Rs. 5.82 crore)
- Less receipt of pension cases (Rs. 77.05 crore)
- Delay in finalisation of purchase formalities (Rs. 1.84 crore)
- Direct release of funds by Government of India for which provision was made in the budget (Rs. 4.92 crore), non-release/less release of funds from Government of India (Rs.42.18 crore).
- Cancellation of International Film Festival (Rs. 0.98 crore)
- Delay in receipt of bills (Rs. 12.84 crore)
- Reduction in subsidy payment (Rs. 8.16 crore)
- Release of funds to ZPs as per revised estimates (Rs. 82.38 crore)
- Lesser release of loans and advances (Rs. 21.25 crore)

In 54 grants, explanations for savings in 625 cases and excesses in 345 cases were not furnished by the Departmental Officers.

**2.3.2** Supplementary provision of Rs.1785.97 crore constituted 7 per cent of the original provision as against 6 per cent in the previous year.

**2.3.3** Supplementary provision of Rs. 354.58 crore made in 27 grants involving 45 detailed heads proved unnecessary in view of aggregate saving of Rs.463.77 crore as detailed in Appendix 2.2. In seven grants (Grant Nos.1,5,8,13,25,41 and 43 mentioned in Appendix 2.2) the entire supplementary provision of Rs. 189.04 crore obtained remained unutilised. Out of this, Rs. 178.44 crore were obtained for releasing to KPTCL under Grant No.25 – Power Projects to provide loan (Rs. 89.00 crore) and grant (Rs. 89.00 crore) from funds released by Government of India, and for refund of Sales Tax on Diesel consumed on Captive Power Generation (Rs. 0.44 crore), which was not actually utilised for the purpose for which they were obtained. Under Grant No.5 – Large and Medium Scale Industries (excluding IT), Rs. 6.38 crore obtained for the purpose of payment of minimum guaranteed dividend to the share holders of KSFC were not spent.

**2.3.4** In 18 grants involving 32 detailed heads, supplementary provision of Rs.179.27 crore obtained proved insufficient leaving an aggregate uncovered excess expenditure of Rs.225.93 crore (Appendix 2.3).

**2.3.5** In 27 grants involving 54 detailed heads, as against additional requirement of Rs.187.18 crore, supplementary grant for Rs.350.45 crore were obtained resulting in saving of Rs.163.27 crore (Appendix 2.4). Supplementary provision of Rs. 100.49 crore was obtained under Grant No.32 (Revenue-Voted) for Modernisation of Police Forces to match the Government of India grants already released. However, actual releases under the head were Rs. 38.49 crore only.

**2.3.6** In 30 grants, expenditure fell short by more than Rs.10.00 crore and also more than 10 per cent of the total provision in each case as indicated in Appendix.2.5.

### **2.3.7 Injudicious re-appropriation of funds**

Re-appropriation is transfer of funds within a grant from one unit of appropriation where savings are anticipated to another unit where additional funds are needed.

In 49 cases, re-appropriation of funds was injudiciously made resulting in final excess/savings in each case by more than Rs.25.00 lakh (listed in Appendix.2.6) of which;

(a) In 17 cases, additional funds of Rs.22.62 crore provided through re-appropriation proved insufficient as the final expenditure exceeded the grant by Rs.60.94 crore.

(b) In 20 cases, additional funds of Rs.32.15 crore provided by re-appropriation resulted in final savings of Rs.84.58 crore and the re-appropriation proved unnecessary.

(c) In 6 cases, the savings were not properly assessed as there was a final savings of Rs.112.74 crore even after the withdrawal of Rs.14.70 crore through re-appropriation.

(d) In 6 cases, the withdrawal of Rs.17.72 crore through re-appropriation proved injudicious as the final expenditure exceeded the modified grant by Rs.31.37 crore.

### 2.3.8 New Service/New Instrument of Service

Article 205 of the Constitution provides that expenditure on a 'New Service' not contemplated in the Annual Financial Statement (Budget) can be incurred only after its specific authorisation by the Legislature. The Government have issued orders based on recommendations of Public Accounts Committee laying down various criteria for determining items of 'New Service'/'New Instrument of Service'. These, inter-alia, stipulate that the expenditure over the grant/appropriation exceeding twice the provision or rupees one crore whichever is more should be treated as an item of New Service.

In 30 cases involving 14 grants, expenditure totalling Rs.210.61 crore which should have been treated as 'New Service/New Instrument of Service' was met without the approval of the Legislature (Appendix 2.7).

### 2.3.9 Expenditure without provision

As envisaged in the budget manual, expenditure should not be incurred on a scheme/service without provision of funds there for. It was, however, noticed that expenditure of Rs.104.60 crore was incurred without provision either in the original or in supplementary demands in 112 cases involving 28 grants test checked in audit.

A few cases where expenditure was incurred without budget provision are indicated below.

Sl. No.	Grant No. & Name	Head of Account	Amount (Rs. in crore)
1	55 – Internal debt, loans and advances from Central Government and Inter- State settlements	6003 – Internal debt of the State Government 101 – Market loans 1 – Market loans bearing interest 09 – 11 per cent KSDL 2001 127 – Repayment of internal debt	85.75
2	54 – Interest Payments	2049 – Interest Payments 01 – Interest on internal debt 101 – Interest on Market Loans 1 – Interest on current loans 12 – 9.75 per cent KSDL 1998 241 – Interest	9.08

Sl. No.	Grant No. & Name	Head of Account	Amount (Rs. in crore)
3	15 – Pension and other retirement benefits	2071 – Pension & Other Retirement Benefits 01 – Civil 108 – Contributions to PF 01 – Contributions to PF of Commercial concerns 104 – Contributions	0.54
		2071 – Pension & Other Retirement Benefits 01 – Civil 115 – Leave encashment benefits 2 – Social Services 03 – Technical education 126 – Terminal leave benefits	0.42
4	46 – Rural Development and Panchayat Raj	2215 – Water Supply & Sanitation 01 – Water Supply 191 – Assistance to local bodies, Corporations etc. 3 – BWSSB 82 – Augmentation of water supply & Sewerage System in Bangalore with French Assistance (FRGL)	0.84

Under Article 202 (3) of the Constitution, debt charges including interest for which the State is liable shall be an expenditure charged on the Consolidated Fund of the State. However, in (1) above provision for discharge of debt obligation was made in the voted section of the budget estimates and in respect of (2 and 3) above no provision was made. In respect of (4) above expenditure was booked to match in the book of accounts the additional Central Assistance for externally aided projects released by Government of India.

### 2.3.10 Non surrender of savings

**2.3.10(a)** According to rules framed by Government, the spending departments are required to surrender the Grants/Appropriation or portion thereof to the Finance Department as and when the savings are anticipated. However, at the close of the year 2001-02, out of total saving of Rs. 3411.51 crore in 84 cases of 55 grants/appropriation Rs. 1078.38 crore (31.62 per cent) only were surrendered leaving a balance of Rs. 2333.13 crore un-surrendered (Appendix-2.8).

**2.3.10(b)** In the following cases against a total saving of Rs. 735.41 crore, the amount actually surrendered was Rs. 864.33 crore resulting in excess surrender of Rs. 128.92 crore (17.53 per cent) indicating injudicious surrender of savings.

**(Rs. in crore)**

<b>Grant No./Name of the Grant</b>	<b>Total savings</b>	<b>Amount surrendered</b>	<b>Excess surrender</b>
7 – Small Scale Industries (Capital-Voted)	11.44	14.65	3.21
54 – Interest payments (Revenue-Charged)	195.32	227.56	32.24
55 – Internal Debt, loans and advances from Central Government and Inter State Settlements (Capital-Charged)	528.65	622.12	93.47
<b>Total</b>	<b>735.41</b>	<b>864.33</b>	<b>128.92</b>

In the above cases, savings of Rs. 1943.04 crore (Rs.1078.71 crore + Rs.864.33 crore) was surrendered on the last working day of the year.

The above instances indicate inadequate financial control over expenditure.

### **2.3.11 Advances from Contingency Fund**

The Contingency Fund of the State of Karnataka was established under the Karnataka Contingency Fund Act, 1957 in terms of provisions of Articles 267 (2) and 283 (2) of the Constitution of India. Advances from the fund are to be made only for meeting expenditure of an unforeseen and emergent character, the postponement of which, till its authorisation by the Legislature would be undesirable.

The Fund is in the nature of an imprest and its corpus is Rs.80 crore. The closing balance of the fund as on 31 March 2002 was Rs.72.11 crore.

The Budget Manual lays down that proposals for sanctioning advances from the Contingency Fund may be made by the Administrative Departments of the State Government when they are in a position to justify the circumstances under which (a) provisions could not be made in the annual or supplementary budget (b) the expenditure could not be foreseen and (c) the expenditure could not be postponed till the necessary approval of the Legislature is obtained. The Controlling Officers are required to reconcile the expenditure with the figures booked by the Accountant General (Accounts & Entitlement) in the accounts.

During the year 2001-02, 42 sanctions were issued for withdrawal of total amount of Rs.116.60 crore.

A review of the operation of Contingency Fund disclosed that sanctions for advances were issued though the money was not needed and also in respect of 22 sanctions amounting to Rs.44.98 crore, amount to the extent of Rs.18.88 crore were drawn, leaving an amount of Rs.26.10 crore un-drawn.

Few cases where the advances sanctioned from Contingency Fund were not utilised in full are indicated below.

Under Grant No.46 – Capital Outlay on Water Supply and Sanitation – Water Supply – Rural Water Supply – Schemes with bilateral assistance – Overall Rural Water Supply and Sanitation - Netherland assisted - Plan, Rs.733 lakh was sanctioned, as there was no sufficient budget provision during that



financial year. However, a sum of Rs. 517.22 lakh only was utilised (70.56 per cent).

Under Grant No.49 – Social Security and Welfare – Social Welfare –Child Welfare – Balika Samruddi Yojane - Plan, Rs.242 lakh was sanctioned for CSS – Balika Samruddi Yojane as a matching grant, as the equivalent grant was already released by Government of India. However, a sum of Rs. 144.14 lakh only was utilised (59.56 per cent).

Under Grant No.24 – Elections – Expenses on Lok Sabha Elections – Bye-elections to Parliament – Bye-elections - Non-plan, Rs.100 lakh was sanctioned for conducting Kanakapura Lok Sabha bye-election and for preparation and printing of electoral rolls. However, a sum of Rs. 31.28 lakh only was utilised (31.28 per cent).

Under Grant No.46 – Water Supply and Sanitation – Water Supply – Assistance to local bodies, corporations etc., – Zilla Panchayats and Mandal Panchayats – Block Assistance to Zilla Panchayats - Plan (Rs. 681 lakh) was sanctioned to take up Rural Water Supply Scheme, as the budget provision was inadequate. However, a sum of Rs. 339.43 lakh only was utilised (49.84 per cent).

Under Grant No.46 – Rural Employment – Other Programmes – Assistance to Local Bodies, Corporations etc., – Zilla Panchayats and Gram Panchayats – State Employment Assurance Schemes (Nemmadi) – Grants-in-aid to Zilla Panchayats, Rs. 613.35 lakh was sanctioned for State Employment Assurance Scheme (Nemmadi). However, a sum of Rs. 334.55 lakh only was utilised (54.54 per cent).

The practice of sanctioning advances from Contingency Fund as shown above continued despite instructions issued by the Finance Department to avoid indiscriminate drawal of advances from Contingency Fund.

### **2.3.12 Trend of Recoveries and Credits**

In 25 grants, against the estimated recoveries of Rs.556.47 crore to be adjusted in the account as reduction of expenditure, the actual reduction of expenditure was Rs.195.67 crore and shortfall was Rs.360.80 crore (65 per cent). Recovery was 'nil' in 18 departments against the provision of Rs.217.13 crore under capital section. More details are given in appendix to Appropriation Accounts.

### **2.3.13 Un-reconciled expenditure**

To enable departmental officers to exercise proper control over expenditure, there are standing instructions that expenditure recorded in their books should be reconciled with those recorded in the books of the Accountant General.

During 2001-02, out of 323 Controlling Officers 23 had not reconciled expenditure of Rs.3082.72 crore (15 percent of the total expenditure of Rs. 20711.37 crore) and 39 Controlling Officers had reconciled their

expenditure figures for part of the year, leaving an expenditure of Rs.495.35 crore un-reconciled. Similarly, 19 Controlling Officers who had disbursed Rs.514.35 crore of loans and advances had not reconciled their expenditure figures.

Failure to reconcile the expenditure figures by the departments would result in cases of frauds and defalcations, remaining undetected.

### 2.3.14 Diversion of funds to avoid lapse of budget grant

Financial Rules of the Government prescribed that money should not be drawn from the treasury unless it is required for immediate disbursement nor should it be drawn for depositing under Civil Deposit heads in Personal Deposit Accounts/Bank deposits in order to avoid lapse of budget grant. However, it was noticed that Rs 68.70 crore were transferred in March 2002 to Personal Deposit Accounts to avoid lapse of budget provision.

The drawal of funds in anticipation of actual requirement not only violated the codal provisions but also inflated revenue expenditure during the year, which had the effect of inflating the revenue and other deficits.

### 2.3.15 Errors in Budgetting

In seven grants Rs.33.85 crore were inadvertently obtained under the grants other than to which they related as detailed below.

Sl. No.	Number and Name of the Grant under which provision was made	Amount (Rs. in Crore)	No. and Name of the Grant under which provision was to be made
1	1 Agriculture	1.82	2 – Horticulture
2	37 – Urban Development Authorities (Excluding Bangalore Development Projects), City Corporations (excluding BCC) and Town Planning Department	0.60	21 – Bangalore Development Projects
3	27 – Muzarai (excluding Wakf and Haj)	0.15	47 – Labour and Wakf
4	45 – Co-operation (excluding Agricultural Marketing)	24.40	35 – Agricultural Marketing
5	39 – Minor Irrigation (excluding ground water)	0.05	46 – Rural Development and Panchayat Raj
6	49 – Women and Child Welfare	0.50	44 – Public Works (excluding Ports and Inland Transport)
		2.08	- do -
		0.97	- do -
7	47 – Labour and Wakf	2.65	44 – Public Works (excluding Ports and Inland Transport)
	47 – Labour and Wakf	0.63	51 – Health and Family Welfare Services

Such errors in budgetting resulted in saving or excess under the grants concerned as expenditure was accounted for correctly under the relevant grants.

