

CHAPTER II

ALLOCATIVE PRIORITIES AND APPROPRIATION

2.1 Introduction

The Appropriation Accounts prepared annually indicate Capital and Revenue expenditure on various specified services *vis-à-vis* those authorised by the Appropriation Act in respect of both charged and voted items of the budget.

Audit of appropriation by the Comptroller and Auditor General of India seeks 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.

2.2 Summary of Appropriation Accounts

The summarised position of actual expenditure during 2003-04 against grants/appropriations was as follows:

(Rupees in crore)

Nature of expenditure	Original grant/ appropriation	Supplementary grant/ appropriation	Total	Actual expenditure	Savings(-)/ Excess(+)
Voted					
I. Revenue	12756.24	1481.89	14238.13	12997.32	(-) 1240.81
II. Capital	603.29	271.02	874.31	650.47	(-) 223.84
III. Loans and Advances	124.29	1250.30	1374.59	1291.94	(-) 82.65
Total Voted	13483.82	3003.21	16487.03	14939.73*	(-) 1547.30
Charged					
IV. Revenue	2782.37	365.83	3148.20	3374.50	(+) 226.30
V. Capital	2.16	0.69	2.85	2.55	(-) 0.30
VI. Public Debt	5509.57	3887.46	9397.03	10322.04	(+) 925.01
Total Charged	8294.10	4253.98	12548.08	13699.09*	(+) 1151.01
Grand Total	21777.92	7257.19	29035.11	28638.82**	(-) 396.29

* These are gross expenditure figures without taking into account the recoveries adjusted in accounts as reduction of expenditure (Revenue: Rs 876.15 crore and Capital: Rs 13.31 crore, Total: Rs 889.46 crore).

** The total expenditure was inflated at least to the extent of Rs 29 lakh being amounts drawn on abstract contingent bills during the year for which detailed contingent bills were not received and was understated to the extent of Rs 1.49 crore due to non-receipt of vouchers from treasuries.

The total expenditure was understated to the extent of Rs 16.88 crore on account of advances drawn from contingency fund remaining unrecouped at the end of the year (see *Appendix I* of Appropriation Accounts)

The overall savings of Rs 396.29 crore was the result of savings of Rs 1704.14 crore in 82 grants and appropriations offset by excess of Rs 1307.85 crore in 11 grants and appropriations. The actual expenditure exceeded the provisions under Revenue (Charged) and Public Debt. Reasons for excess/savings in respect of 68 *per cent* of subheads required to be mentioned in the Appropriation Accounts have not been furnished by the Controlling Officers as of August 2004.

2.3 Fulfilment of Allocative Priorities

2.3.1 Appropriation by Allocative Priorities

Out of the savings of Rs 1704.14 crore, the major savings of Rs 1014.09 (60 *per cent*) occurred in 17 grants as indicated below:

<i>(Rupees in crore)</i>				
Sl. No	Number and Name of Grant/Appropriation	Total Grant/ Appropriation	Actual expenditure	Amount of savings
Revenue Voted				
1	II Heads of States, Ministers and Headquarters Staff	271.23	110.65	160.58
2	VI Land Revenue	123.87	95.32	28.55
3	XV Public Works	636.76	550.74	86.02
4	XX Water Supply and Sanitation	305.50	230.36	75.14
5	XXI Housing	79.30	51.56	27.74
6	XXII Urban Development	331.05	214.23	116.82
7	XXIV Labour and Labour Welfare	174.60	91.56	83.04
8	XXV Social Welfare including Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes	631.72	537.52	94.20
9	XXX Food	170.06	39.33	130.73
10	XL Ports	17.83	6.76	11.07
Capital Voted				
11	XV Public Works	320.11	272.50	47.61
12	XVII Education, Sports, Art and Culture	32.58	14.69	17.89
13	XVIII Medical and Public Health	39.01	21.53	17.48
14	XXV Social Welfare including Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes	53.20	16.39	36.81
15	XXXIII Fisheries	32.96	13.15	19.81
16	XXXVIII Irrigation	173.77	141.79	31.98
17	XLI Transport	41.40	12.78	28.62
Total		3434.95	2420.86	1014.09

The savings under ‘Heads of States, Ministers and Headquarters Staff’ was due to non-implementation of Modernisation of Government Programmes, undertaking less number of projects by the Kerala Information Technology Mission, restriction in expenditure due to resource constraints.

The savings under ‘Food’ was mainly due to non-payment of subsidy to Food Corporation of India.

The savings under ‘Urban Development’ was due to non-issuance of clearance for the drawal of the amount sanctioned to the Kerala Road Fund Board, non- requirement of funds earmarked for Local bodies since the amount was released directly to Kudumbasree and less release of plan assistance to Municipalities/Corporations for local area plan programmes.

The major heads of account in which huge savings occurred under these 17 grants are given in **Appendix XII**.

In 30 cases savings exceeding Rs 5 crore or more in each case and also by

more than 10 *per cent* of the total provision, amounted to Rs 1250.55 crore (**Appendix XIII**).

Similarly, of the total excess of Rs 1307.85 crore, the major excess of Rs 925 crore (71 *per cent*) occurred due to repayment of Public debt including ways and means advances from Reserve Bank of India (Rs 506 crore), repayment of ways and means advance from Government of India (Rs 210 crore) and of earlier high cost loans under 'Debt Swap Scheme' (Rs 167 crore).

2.3.2 *Persistent savings*

In 15 cases, there were persistent savings in excess of Rs 10 lakh in each case and also 20 *per cent* or more of the provision during the last three years (**Appendix XIV**).

2.3.3 *Excess requiring regularisation*

Excess over provision relating to previous years requiring regularisation

As per Article 205 of the Constitution of India, it is mandatory for a State Government to get the excess over a grant/appropriation regularised by the State Legislature. However, excess expenditure amounting to Rs 2164.30 crore for the years 1983-84 to 1985-86 and 1988-89 to 2002-03 was yet to be regularised as of August 2004 (**Appendix XV**). In addition, excess expenditure of Rs 1307.85 crore that occurred during 2003-04 requires regularisation has been indicated below.

(Amount in Rupees)

Sl. No.	Number and Name of Grant/Appropriation	Total Grant/ Appropriation	Actual expenditure	Excess
Revenue Voted				
1	I State Legislature	168908000	181097740	12189740
2	III Administration of Justice	863924000	910957333	47033333
3	V Agricultural Income Tax and Sales Tax	598688000	628113435	29425435
4	XI District Administration and Miscellaneous	1254707000	1295829987	41122987
5	XVII Education, Sports, Art and Culture	30057947000	31276556617	1218609617
6	XIX Family Welfare	970000000	1120962238	150962238
7	XLIII Compensation and Assignments	705400000	731800000	26400000
Revenue Charged				
8	II Heads of States, Ministers and headquarters Staff	240506000	246077880	5571880
9	Debt Charges	30988655000	33285717290	2297062290
Capital Voted				
10	XII Police	94895000	94907030	12030
Capital Charged				
11	Public Debt Repayment	93970342000	103220387175	9250045175
Total		159913972000	172992406725	13078434725

Debt charges showed persistent excess for the last five years and Public Debt Repayment for the last two years. Though supplementary provision was obtained in the case of nine grants/appropriations during the year, this was inadequate to cover the excess expenditure. This indicated deficiency in budget formulation and failure to obtain adequate supplementary demands.

2.3.4 *Original budget and supplementary provisions*

Supplementary provisions (Rs 7257.19 crore) made during the year constituted 33.30 *per cent* of the original provision (Rs 21777.92 crore) as against 26.1 *per cent* in the previous year.

2.3.5 Unnecessary/excessive/inadequate supplementary provisions

- Supplementary provision of Rs 243.64 crore obtained in 29 cases proved unnecessary in view of aggregate savings of Rs 1044.97 crore (**Appendix XVI**).
- In 18 cases, against additional requirement of Rs 2253.36 crore, supplementary grant of Rs 2705.22 crore was obtained resulting in savings in each case exceeding Rs 10 lakh, aggregating Rs 451.86 crore (**Appendix XVII**).
- In 8 cases supplementary provision of Rs 4298.07 crore proved insufficient by more than Rs 10 lakh each leaving an aggregate uncovered excess expenditure of Rs 1290.10 crore (**Appendix XVIII**).

2.3.6 Persistent excess

Persistent excess occurred under the appropriation ‘Debt Charges’ for the last five years as shown below:

Year	Excess expenditure and percentage (Rupees in crore)
1999-2000	209.66 (12)
2000-01	263.89 (13)
2001-02	76.75 (3)
2002-03	327.00 (12)
2003-04	229.71 (7)

The inability of the Finance Department to provide adequate funds in the Budget under the appropriation or restrict the expenditure to available provision despite persistence of excess continuously reveals deficient financial management.

2.3.7 Excessive/unnecessary reappropriation of funds

Reappropriation is transfer of funds between primary units of appropriation within a grant or appropriation before the close of the financial year. Details of cases where withdrawal or augmentation of provision of funds in excess of Rs 50 lakh proved excessive or resulted in savings by over Rs 50 lakh in each case are mentioned in **Appendix XIX**.

2.3.8 Anticipated savings not surrendered

According to rules, the spending departments are required to surrender the grants/appropriations or portion thereof as and when the savings are anticipated to the Finance Department.

In 16 cases, the amount of available savings of Rs 5 crore and above in each case not surrendered, aggregated to Rs 497.79 crore. Failure of these departments to surrender such huge savings revealed improper monitoring of expenditure against budget provision and poor budgetary management. Details are given in **Appendix XX**.

Out of the total surrendered amount of Rs 1289.60 crore (70 cases), Rs 1280.33 crore (65 cases) was surrendered on 31 March 2004

indicating gross disregard of rules and procedures of financial control over expenditure.

2.3.9 Surrender in excess of actual savings

In 12 cases the amount surrendered was in excess of actual savings indicating inadequate budgetary control. As against the actual savings of Rs 352.02 crore in these cases the amount surrendered was Rs 385.25 crore, resulting in excess surrender of Rs 33.23 crore (**Appendix XXI**).

2.4 Unreconciled expenditure

Departmental figures of expenditure are required to be reconciled every month with those in the books of Accountant General (Accounts and Entitlement) in order to enable the departmental officers to exercise proper control over expenditure and to detect fraud and defalcations, if any, at an early stage. The reconciliation was in arrears in many departments. Out of 156 Controlling Officers who were required to reconcile their accounts for the year 2003-04, only 48 have reconciled the expenditure for the whole year, 31 have partially reconciled the expenditure for the year and 77 have not reconciled the accounts of even a single month of 2003-04. As of September 2004, 2437 monthly reconciliation certificates were due from 122 Controlling Officers for the period 1997-98 to 2003-04, as detailed in **Appendix XXII**.

2.5 Rush of expenditure

Under 16 Major Heads of account, more than 51 *per cent* of expenditure was incurred during the last quarter of the financial year. In these cases 34 to 100 *per cent* of the expenditure was incurred only in the last month of the financial year. Details are given in **Appendix XXIII**.

Since State Legislature approves the budget for a financial year for meeting the disbursements during that year and not for subsequent years, large amounts of funds released to implementing departments/agencies in March cannot constructively be spent during the year. Drawal/release of funds at the fag end of the financial year is indicative of deficient financial management.

2.6 Other topics of interest

2.6.1 Double drawal of Rs 2.64 crore

Government released Rs 70.54 crore (27 March 2004) towards Vehicle tax compensation for the year 2003-04 to be distributed among the local bodies. It was specified in the order that the Director of Panchayats (DP) and Director of Urban Affairs (DUA) would draw the amounts and transfer credit the same to the accounts of the respective local bodies in the treasuries. DUA drew Rs 14.93 crore payable to the 53 Municipalities, 5 Corporations and Kannur Cantonment from Sub Treasury, Vellayambalam on 31 March 2004 and kept it in his Personal Deposit Account, pending ways and means clearance from Government. Out of Rs 14.93 crore, Rs 2.64 crore was the share of the Cochin Corporation. In May 2004, DUA obtained ways and means clearance and sent the amount by Demand Drafts to the local bodies, including Cochin Corporation.

The Secretary, Cochin Corporation, however, withdrew Rs 2.64 crore from the District Treasury, Ernakulam by transfer credit to Personal Deposit (PD) Account of the Corporation on 31 March 2004 disregarding the instructions of Government that the amounts would be drawn and distributed by the DP and DUA. Thus there was a double drawal of Rs 2.64 crore.

As the Secretary, Cochin Corporation was not authorised to draw the amount, the action of the Treasury Officer in allowing the drawal and transfer credit of the amount to PD Account was irregular. The amount thus unauthorisedly drawn from the treasury in March 2004 has not been refunded by the Secretary so far (September 2004).

The DUA stated (September 2004) that the Secretary, Cochin Corporation had been instructed to refund the amount at once and that action would be taken against the officer responsible for the irregular withdrawal of the amount from the treasury. Further developments are awaited (September 2004).

2.6.2 Functioning of Treasuries

The Treasuries in Kerala are functioning under the administrative control of the Director of Treasuries (Director). During 2003-04 there were 23 District Treasuries and 166 Sub Treasuries and Accountant General (Accounts and Entitlement) (AG) conducted inspection of 22 District Treasuries and 116 Sub Treasuries during the year. The major irregularities noticed are mentioned below.

Excess payment of pension

Excess payment of pension of Rs 6.90 lakh in 337 cases in 80 treasuries were noticed during 2003-04 due to (i) wrong calculation of revision of pension based on orders issued in 1998 (Rs 1.05 lakh), (ii) non-reduction of family pension after expiry of stipulated period (Rs 2.50 lakh), (iii) non-reduction of commuted value of pension from basic pension, payment of ineligible festival allowance, incorrect calculation of dearness relief, etc., (Rs 3.35 lakh). Details are given in **Appendix XXIV**.

Fraudulent withdrawal

According to the provisions of Kerala Account Code, the Treasury Officer should send the List of Payments to AG with all the supporting vouchers and schedules. While compiling the accounts for December 2003 it was seen that one GPF voucher was missing and the matter was referred to the Sub Treasury Officer (STO), Vellayambalam. The STO reported (February 2004) that the missing voucher related to a fraudulent withdrawal of Rs 9.65 lakh. The case is under police investigation.

Non-reconciliation of Savings Bank Accounts

As per Treasury Savings Bank Rules, ledger balance of each month has to be reconciled with the balance in the extract register in respect of Savings Bank Accounts so as to detect wrong posting, unauthorised credit/debit, etc. The inspection conducted during 2003-04 revealed that the reconciliation was not done in District Treasuries at Cherpalassery, Kasaragod, Kannur and Muvattupuzha and Sub Treasuries at Koothuparamba, Chelakkara and Chengannur.

Retention of cash in excess of maximum limit

The maximum amount of cash which can be retained per day in each treasury is prescribed by Government from time to time. Out of the 138 treasuries inspected during 2003-04, cash balance retained in excess of the prescribed limits in 59 treasuries ranged from Rs 1.54 lakh to Rs 1.20 crore as detailed in **Appendix XXV**.

Improper maintenance of Appropriation Control Registers

According to Rule 444 of Kerala Treasury Code (KTC) Volume I Appropriation Control has to be exercised at treasury level for specified items in respect of 15 departments. Improper maintenance of Appropriation Control Register resulted in payment of Rs 33.83 lakh in excess over the allotment in 75 cases as indicated in **Appendix XXVI**.

Departmental Inspection

According to the provisions of KTC, the Director has to inspect each District Treasury at least once every year and arrange inspection of Sub Treasuries at least once in two years by any other officer not below the rank of District Treasury Officer. During 2003-04, the Director conducted inspection of 8 District Treasuries and arranged inspection of 39 Sub Treasuries as against the requirement of 23 District Treasuries and 83 Sub Treasuries. Thus there was shortfall in inspection of 65 *per cent* in District Treasuries and 53 *per cent* in Sub Treasuries.