



सत्यमेव जयते

**Report of the
Comptroller and Auditor General of India
on
State Finances
for the year ended March 2014**



Government of Karnataka

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PREFACE

1. This Report has been prepared for submission to the Governor of Karnataka under Article 151 of the Constitution of India for being placed in the Karnataka Legislature.
2. Chapters I and II of this Report contain audit observations on matters arising out of examination of Finance Accounts and Appropriation Accounts respectively, of the State Government for the year ended 31 March 2014. Information has also been obtained from the Government of Karnataka, wherever necessary.
3. Chapter III on 'Financial Reporting' provides an overview and status of the State Government's compliance with various financial rules, procedures and directives during the financial year 2013-14.
4. The Report containing the findings of performance audit and audit of transactions in various departments and observations arising out of audit of Statutory Corporations, Boards and Government Companies, Local Bodies, Panchayatraj Institutions and the Report containing observations on Revenue Receipts are presented separately.

Executive Summary

Background

In Karnataka, fiscal reforms and consolidation were brought to the forefront with the State Government formulating the first Medium Term Fiscal Plan (MTFP) for the period 2000-05, based on broad parameters of fiscal correction laid down by the Eleventh Finance Commission (EFC). MTFP became a rolling annual document and the fiscal targets and policies set out in MTFP were dovetailed to the annual budgetary exercise to operationalise the restructuring plan. Karnataka was the first State to enact (September 2002) the Fiscal Responsibility Act (FRA) providing statutory backing to MTFP. The Act aims at ensuring fiscal stability and sustainability, enhancing the scope for improving social and physical infrastructure and human development by achieving revenue surplus, reducing fiscal deficit, removing impediments to effective conduct of fiscal policy and prudent debt management through limits on borrowings, debt and deficits and greater transparency in fiscal operations by the use of medium-term fiscal framework.

The Report

Based on the audited accounts of the Government of Karnataka for the year ended 31 March 2014, the report provides an analytical review of the annual accounts of the State Government. The financial performance of the State has been assessed based on the FRA, budget documents, Thirteenth Finance Commission Report (XIII FC) and other financial data obtained from various Government departments and organizations. The report is structured in three chapters.

Chapter I is based on the audit of Finance Accounts and makes an assessment of Government of Karnataka's fiscal position as at 31 March 2014. It provides an insight into trends in committed expenditure and borrowing pattern and certain accounting adjustments that have a bearing on the fiscal parameters.

Chapter II is based on the audit of Appropriation Accounts and gives description of appropriations and the manner in which the allocated resources were managed by the service delivery departments. Issues of budgeting affecting transparency of transactions are also brought out in this Chapter.

Chapter III is an inventory of Karnataka Government's compliance with various reporting requirements and financial rules.

The report also includes appendices of additional data collected from several sources in support of these findings. A glossary of selected terms has been given at the end of the Report.

Audit findings and recommendations

Fiscal position

The State continued to maintain revenue surplus during 2009-14 and maintained the fiscal deficit relative to Gross State Domestic Product (GSDP) below the limit laid down under FRA as amended from time to time. During 2013-14, the State had a revenue surplus of ₹ 353 crore, a decrease of ₹ 1,530 crore over previous year. Compression of revenue expenditure (₹ 906.60 crore), failure to carry out adjustments to the Consolidated Sinking Fund account (₹ 583.83 crore) and non-adjustment of ₹ 22.68 crore (net) to the Karnataka Silk Worm Cocoon and Silk Yarn Development and Price Stabilisation Fund had a bearing on the achievement of revenue surplus and maintaining of the fiscal indicators as per the Fiscal Responsibility Act (FRA). There was an increase in revenue expenditure by 17 *per cent* over previous year, while the growth rate of revenue receipts was 15 *per cent*.

Fiscal deficit during the year was ₹ 17,092 crore, an increase of ₹ 2,585 crore over the previous year. Primary deficit was at ₹ 9,065 crore, an increase by ₹ 2,012 crore over the previous year.

Incremental non-debt receipts of ₹ 11,372 crore was less than the incremental primary expenditure of ₹ 13,384 crore and could not cover the incremental interest burden (₹ 573 crore).

State's own resources

The ratio of the State's tax revenue to GSDP has shown an increasing trend since 2009-10. It increased from 9.10 *per cent* in 2009-10 to 10.40 *per cent* during the year.

Ratio of non-tax revenue to revenue receipts has significantly reduced from 6.78 *per cent* in 2009-10 to 4.50 *per cent* during the year. Its ratio to GSDP (₹ 6,01,633 crore) was insignificant (0.67 *per cent* in 2013-14), implying the need for mobilizing non-tax revenue in the coming years by revising user charges, as recommended by Expenditure Reforms Commission. Non remittance of user charges escapes the scrutiny by the Legislature. Therefore, a system for remittance/release of such money needs to be put in place for tracking the revenues/expenditure and assurance to indicate that the money generated from the sector is ploughed back into the same sector for development.

Revenue expenditure

Expenditure under social and economic sector registered growths of seven and 23 *per cent* respectively over the previous year, while the growth in general services was 24 *per cent*. The share of plan expenditure in total revenue expenditure increased from ₹ 21,212 crore in 2012-13 to ₹ 26,970 crore in 2013-14. Eighty four *per cent* of revenue expenditure consisted of committed expenditure on salaries, pensions, interest payments, subsidies administrative expenses, grants-in-aid and financial assistance and devolutions to Local Bodies. The committed expenditure consumed 93 *per cent* of uncommitted revenue receipts. Explicit subsidy increased from ₹ 10,709 crore in 2012-13 to ₹ 13,323 crore

during the year where as implicit subsidy decreased from ₹ 1,849 crore in 2012-13 to ₹ 1,690 crore during the year. As per the recommendation of Twelfth Finance Commission, expenditure forming implicit subsidy should be brought out in Finance Accounts for transparency. However, this is not being done.

Quality of expenditure

The share of capital expenditure to total expenditure during the current year was 17 *per cent* as against 18 *per cent* the previous year. Funds aggregating ₹ 645 crore were blocked in incomplete projects as at the end of 2013-14. The return from investment of ₹ 55,048 crore as of 31 March 2014 in Companies / Corporations was negligible (₹ 55.49 crore). The investment included ₹ 22,341 crore (41 *per cent*) in Companies/ Corporations under perennial loss. During the year the Government invested ₹ 2,543 crore in these Companies and the cumulative loss had increased by ₹ 51.24 crore.

Funds and other Liabilities

Contribution to Consolidated Sinking Fund was not made during the year. The interest accrued on the investment of ₹ 964 crore made during 2012-13, did not form the part of assets of the State Government as the transaction did not pass through the Government books. The transactions relating to Karnataka Silk Worm Cocoon and Silk Yarn Development and Price Stabilisation Fund (₹ 22.68 crore) were not carried out during the year due to lack of budget provision. The Guarantee Redemption Fund has not been revived. Funds which have remained dormant over a period of time are required to be analyzed for their continuation or otherwise.

Debt sustainability

Fifty two *per cent* of the open market borrowings are in the maturity bracket of above seven years. The borrowing programme of the State Government has to be need based, as the accumulated borrowing has a bearing on future generation. Parking of funds either in nationalized bank/deposit account should be avoided as it reflects poor cash management.

Financial Management and Budgetary Control

Against total provision of ₹ 1,37,314 crore during 2013-14, an expenditure of ₹ 1,13,717 crore was incurred. This resulted in an unspent provision of ₹ 23,598 crore (17 *per cent*). Excess expenditure of ₹ 355 crore under Demand number 8 and ₹ 20 crore in Demand number 26 for the year 2013-14 are required to be regularized under Article 205 of the Constitution. Expenditure aggregating ₹ 83.90 crore in 16 cases which should have been treated as 'New Service/New instrument of service' was incurred without the approval of the Legislature. While, supplementary provision of ₹ 2,045.49 crore in 16 cases was unnecessary, re-appropriation of funds in 74 cases was made injudiciously, resulting in either un-utilised provision or excess over provision. In eight grants, ₹ 3,722 crore was surrendered in the last two working days of the financial year. Contingency Fund transactions were not in accordance with the rules governing the fund (three cases).

Budgetary control should be strengthened in all departments to avoid cases of provision remaining unutilized as huge unutilised provisions were observed across several grants. The budgetary exercise should be more realistic and cases of persistent non-utilisation of funds, excessive provision of funds should be avoided, as huge provisions remaining unutilised, excessive were observed.

The budget/expenditure suffered on account of operation of incorrect budget lines for release and accounting of ULB grants. Distinct heads to be opened for accommodation of budget/expenditure of the ULB sector which should indicate them merely as grants to ULBs. The budget document brought out for devolutions to ULBs should be reviewed for its classification of expenditure being getting merged with the State budget.

Financial Reporting

Detailed bills, against abstract contingent bills, were wanting since long and large sums of money were being retained in Personal Deposits Accounts against the principle of Legislative financial control. Non-reconciliation of expenditure and receipts was to the extent of 41 *per cent* of total expenditure and one *per cent* of total receipts, respectively. There were adverse balances under certain Debt, Deposit and Remittance (DDR) heads which required remedial action for their clearance.

Chapter-I

Finances of the State Government

Profile of the State

The State of Karnataka is the eighth largest State in terms of geographical area (1,91,791 Sq. Km.) and the ninth largest by population. The State's population increased from 5.28 crore in 2001 to 6.11 crore in 2011 recording a decadal growth of about 16 *per cent*. The percentage of population below the poverty line was 20.91 compared to the All India Average of 21.92¹ during 2011-12. The State's Gross State Domestic Product (GSDP) in 2013-14 at current prices was ₹ 6,01,633 crore. The State's literacy rate increased from 66.64 *per cent* in 2001 to 75.6 *per cent* in 2011. The per-capita income of the State stands at ₹ 86,788 against the country average of ₹ 74,380. General data relating to the State is given in **Appendix 1.1**.

Gross State Domestic Product (GSDP)

GSDP is the market value of all officially recognized final goods and services produced within the State in a given period of time. The growth of GSDP of the State is an important indicator of the State's economy, as it indicates the standard of living of the State's population. The trends in the annual growth of India's Gross Domestic Product (GDP) and that of the State, at current prices, are indicated in **Table 1.1** below.

Table 1.1: Annual Growth Rate of GDP and GSDP at current prices

Year	2009-10	2010-11	2011-12 (QE)	2012-13 (AE)	2013-14 (P)
India's GDP (₹ in crore)	61,08,903	72,48,860	83,91,691	93,88,876	104,72,807
Growth rate of GDP (percentage)	15.2	18.7	15.8	11.9	11.5
State's GSDP (₹ in crore)	3,35,747	3,80,871	4,34,270	5,22,650	6,01,633
Growth rate of GSDP (percentage)	8.2	13.4	14.0	20.3	15.1

Source: MTFP of relevant years.

QE: Quick Estimates, AE: Advance Estimates, P: Projected.

In the year 2012-14, Karnataka's GSDP growth rate at current prices, was more than that of the nation's average growth rate.

¹ Economic Survey Government of India 2013-14.

1.1 Introduction

This chapter provides a broad perspective of the finances of the Government of Karnataka during 2013-14. It analyses important changes in the major fiscal indicators compared to the previous year, keeping in view, the overall trends during the last five years. The analysis is based on the Finance Accounts and information obtained from the State Government. The structure of the Government Accounts and the layout of the Finance Accounts have been explained in **Appendix 1.2**.

1.1.1 Summary of fiscal transactions in 2013-14

Table 1.2 and **Appendix 1.3** presents the summary of the State Government's fiscal transactions during the current year (2013-14) *vis-à-vis* the previous year (2012-13), while **Appendix 1.4** provides the details of receipts and disbursements as well as the overall fiscal position during the preceding four years.

Table 1.2: Summary of fiscal transactions in 2013-14

(₹ in crore)

Receipts			Disbursements				
	2012-13	2013-14		2012-13	2013-14		
Section-A: Revenue				Total	Non Plan	Plan	Total
Revenue receipts	78,176.22	89,542.53	Revenue expenditure	76,293.26	62,219.74	26,969.83	89,189.57
Tax revenue	53,753.56	62,603.53*	General services	20,180.85	24,794.03	160.38	24,954.41
Non-tax revenue	3,966.10	4,031.90	Social services	30,419.80	17,813.32	14,808.57	32,621.89
Share of union taxes/ duties	12,647.14	13,808.28	Economic services	21,674.19	16,742.34	9850.49	26,592.83
Grants in aid and contributions from GOI	7,809.42	9,098.82	Grants-in-aid and contributions	4,018.42	2,870.05	2,150.39	5,020.44
Section – B: Capital and others:							
Misc. Capital receipts	33.04	87.94	Capital outlay	15,478.47	326.75	16,620.11	16,946.86
			General services	589.47	27.79	472.95	500.74
			Social services	2,915.99	(-).0.14	3,052.82	3,052.68
			Economic services	11,973.01	299.10	13,094.34	13,393.44
Recoveries of loans and advances	157.61	109.28	Loans and advances disbursed	1,102.37	25.82	669.61	695.43
Public debt receipts**	13,464.66	17,286.81	Repayment of public debt**	3,727.06	3,816.84	---	3,816.84
Contingency Fund	0.51	--	Contingency Fund	--	--	--	---
Public Account receipts	1,07,548.81	1,20,712.85	Public Account disbursements	1,01,877.94	--	--	1,12,971.74
Opening cash balance	9,609.49	10,511.24	Closing cash balance	10,511.24	--	--	14,630.21
Total	2,08,990.34	2,38,250.65	Total	2,08,990.34			2,38,250.65

Source: Finance Accounts 2013-14.

* Tax Revenue include ₹ 1,008.74 crore, being the book adjustment relating to M/s. Hindustan Aeronautics Limited, Bengaluru (HAL) for ₹ 1,008.53 crore treating the same as waiver, and ₹ 0.21 crore being the waiver of tax and interest dues pertaining to ammonium nitrate dealers.

** Excluding net transactions under ways and means advances and overdraft.

The following are the significant changes during 2013-14 over the previous year:

- Revenue receipts grew by ₹ 11,366.31 crore (15 per cent) due to increase in own Tax Revenue (₹ 8,849.97 crore), Grants-in-Aid and contributions from GOI (₹ 1,289.40 crore), Share of Union Taxes/Duties (₹ 1,161.14 crore) and Non-Tax Revenue (₹ 65.80 crore). The revenue receipts for the year 2013-14 exceeded

the projection made in the Medium Term Fiscal Plan (MTFP) 2010-14 by ₹ 12,312 crore.

- Revenue expenditure increased by ₹ 12,896.31 crore (17 *per cent*). Increase was under Economic Services Sector (₹ 4,918.64 crore), General Services Sector (₹ 4,773.56 crore), Social Services Sector (₹ 2,202.09 crore) and Grants-in-Aid and Contributions (₹ 1,002.02 crore). It exceeded the MTFP 2010-14 projections for the year by ₹ 15,923 crore.
- Capital outlay increased by ₹ 1,468.39 crore (nine *per cent*). Increase was mainly under Economic Service Sector (₹ 1,420.43 crore), Social Services Sector (₹ 136.69 crore) offset by decreases under General Service Sector (₹ 88.73 crore).
- Recoveries of Loans & Advances decreased by ₹ 48.33 crore (31 *per cent*) and Disbursement of Loans & Advances decreased by ₹ 406.94 crore (37 *per cent*).
- Public debt receipts (excluding ways and means advances) increased by ₹ 3,822.15 crore (28 *per cent*) while repayments increased by ₹ 89.78 crore (two *per cent*).
- Public Account receipts and disbursements increased by ₹ 13,164.04 crore (12 *per cent*) and ₹ 11,093.80 crore (11 *per cent*), respectively.
- Cash balance of the State Government increased by ₹ 4,118.97 crore (39 *per cent*) over the previous year.

1.1.2 Review of Fiscal situation

In Karnataka, fiscal reforms and consolidation were brought to the forefront with the State Government formulating the first MTFP for the period 2000-05 on the basis of broad parameters of fiscal correction path as laid down by the Eleventh Finance Commission (EFC) and enacted (September 2002), the Fiscal Responsibility Act (FRA), which became operational from April 1, 2003 and provided statutory backup to MTFP.

The State Government had been on a fiscal consolidation path since passing of the FRA and had maintained the guarantees within the limits prescribed under the Karnataka Ceiling on Government Guarantees Act, 1999. It has recorded revenue surplus since 2004-05 and the fiscal deficit was within the limit of three *per cent* of GSDP as prescribed under the Act. However, during 2008-09 and 2009-10, as per the directives of GOI, the State deviated from the fiscal consolidation path and borrowed more money for public spending to tide over economic slowdown, by amending the Act. The Thirteenth Finance Commission (XIII FC) had suggested a roadmap for medium term fiscal correction to the State Government and assigned a new set of ceilings relating to fiscal deficit and outstanding debt as percentage of GSDP for the years 2010-15.

In accordance with the XIII FC recommendations, the State Government, with an amendment to the FRA (May 2011), laid down the following fiscal targets:

- Ensuring that the outstanding debt (including off-budget borrowings) is gradually reduced, and at the end of 2014-15, be at 25.20 *per cent* of the estimated GSDP for the year. During 2013-14, the outstanding debt was to be at 25.4 *per cent*.
- Fiscal deficit during 2013-14 not to exceed more than three *per cent* of GSDP.

By an amendment to the Act, in February 2014, the scope of the total liabilities as defined under Section-2(g), was amplified to include the borrowings by Public Sector Undertakings and the Special Purpose Vehicles (SPVs) and other equivalent instruments, where the principal and/or interest are to be serviced out of the State Budget.

The ratio of outstanding debt (inclusive of off-budget borrowings) and fiscal deficit to GSDP (₹ 6,01,633 crore) during 2013-14 were 22.98 *per cent* and 2.84 *per cent*, respectively, which were well within the prescribed limit.

The FMRC, headed by Chief Secretary to Government, was constituted in July, 2011. The Committee recommended remedial measures for 2013-14 to be adopted to ensure adherence to the parameters stipulated in KFRA, which were as under.

- Moderating the existing commitments by identifying additional savings in the budget provisions. The net additional expenditure during 2013-14 to be met out of expenditure re-prioritization within Budget Estimates 2013-14 and also out of reserves and deposits maintained in the Public Account.
- Limiting approvals in Supplementary Estimates – II Installment to a minimum due to tight fiscal position.
- Better enforcement and continuous review and monitoring of tax efforts to reach the target set out in Budget Estimates and to improve non-tax revenue.
- Taking a re-look into all areas which tend to reduce the tax base of the State like grant of exemptions, since these lead to foregoing large quantum of revenue.
- Approving new initiatives and works requiring implementation over multiple years based on fiscals' sustainability of the total expenditure and its overall impact on fiscal position of the State and moving to medium term appraisal and approval cycle of the schemes.

Scrutiny of certain high end transactions during the year revealed that the surplus on revenue account, fiscal deficit and the liabilities in Public Account were reduced considerably. This was achieved more through certain accounting adjustments than through fiscal management. Such adjustments are discussed

below in brief.

- The grants to PRIs are released under functional heads under the Consolidated Fund and accounted under Public Account. The balances under the ZP Fund-II account as at the end of March every year should be written back to the Consolidated Fund in the next financial year. No such write back had been carried out from 2008-09, which resulted in cumulative unadjusted balance of ₹ 6,408 crore as at 31 March 2013. Write back of ₹ 906.60 crore was made during the current year which had led to suppression of expenditure to the extent of ₹ 906.60 crore, treating the transaction as recoveries of over payments.
- Consolidated Fund expenditure of ₹ 500 crore was adjusted to the Infrastructure Initiative Fund (IIF), maintained in Public Account, thereby compressing capital expenditure to that extent. The cumulative liability in Public Account also got reduced to that extent.
- The Government of Karnataka (GOK) in its Order (March 2014) sanctioned grant-in-aid of ₹ 1,008.53 crore to Hindustan Aeronautics Limited, Bengaluru (HAL), in public interest to enable it to pay its accrued Value Added Tax (VAT) dues and penalty thereon to the Government for the years 2012-14 as per settlement package reached between the Government and HAL, as suggested by the Hon'ble Supreme Court of India. Though book adjustment was contrary to the accounting norms prescribed under Government Accounting Rules, 1990, and provisions under Karnataka Financial Code (KFC), provision for such an adjustment had been approved by the State Legislature through supplementary demand for grants. Accordingly, an adjustment entry debiting major head 2040 – Taxes on sales, trade etc. with contra credit to major head 0040 – Central Sales Tax was passed in order to implement the settlement package. The revenue target was thus achieved through such an adjustment without actual realisation.

1.1.3 Major fiscal variables

Major fiscal variables provided in the budget on the basis of recommendations of the XIII FC and as targeted in the Fiscal Responsibility Act (FRA) of the State, are depicted in **Table 1.3** given below.

Table 1.3: Major Fiscal Variables

Fiscal variables	2013-14			
	XIII FC targets for the State	Targets as prescribed in FR Act	Targets proposed in the budget	Projections made in MTFP (2010-14)
Revenue Deficit (-) / Surplus (+) (₹ in crore)	Surplus on revenue account was required to be maintained during the award period.	---	596	3,964
Fiscal Deficit/GSDP (<i>per cent</i>)	3.00	3.00	2.90	2.90
Ratio of total outstanding debt of the Government to GSDP (<i>per cent</i>)	25.40	25.40	22.62	26.98

1.1.4 Budget Estimates and actuals 2013-14

Budget papers presented by the State Government provide descriptions of projections or estimations of revenue and expenditure for a particular fiscal year. The importance of accuracy in the estimations of revenue and expenditure is widely accepted in the context of effective implementation of fiscal policies for overall economic management. Deviations from budget estimates are indicative of non-attainment/non-optimization of desired fiscal objectives, due to a variety of factors, some of which are within the control of the Government while some are beyond its control.

The budget out-turn for revenue and expenditure has significantly improved over the years, but there are substantial compositional and variances and large savings in budget allocations due to significant adjustments through supplementary budget.

The budget estimates envisaged revenue receipts of ₹ 97,986 crore against which the actual realisation was ₹ 89,542 crore, a shortfall of ₹ 8,444 crore (nine *per cent*). The shortfall was mainly under grants-in-aid and contributions (₹ 7,329 crore) and Central tax transfers (₹ 1,248 crore) and non-tax revenue (₹ Six crore), offset by more realisation under State's own taxes (₹ 139 crore).

Revenue expenditure was projected at ₹ 97,391 crore against which the actual expenditure was ₹ 89,189 crore, a shortfall of ₹ 8,202 crore (eight *per cent*). Shortfalls in the actuals were noticed across all sectors, under social services (₹ 5,113 crore), economic services (₹ 1,365 crore), grants-in-aid and contributions (₹ 1,035 crore) and general services (₹ 689 crore). Further details are available in **Chapter-II** of this report.

Interest payments were projected at ₹ 8,500 crore (excluding off-budget borrowings) shown against Major Head 2049 - Interest payments. The actual payment were ₹ 7,837 crore (exclusive of off-budget borrowings of ₹ 190 crore). According to the Fiscal Responsibility Act, 2002, the interest on off-budget borrowings recorded below various service heads are also to be treated as the interest liability of the State.

Capital outlay/expenditure including loans and advances was projected at ₹ 18,380 crore against which the actual expenditure was ₹ 17,642 crore.

Revenue surplus was projected at ₹ 596 crore, but the actual surplus was ₹ 353 crore. Fiscal deficit was projected at ₹ 17,450 crore, the actual being ₹ 17,092 crore. Primary deficit was projected at ₹ 8,950 crore with actual being ₹ 9,065 crore.

Major source of revenue receipts had been the State's own tax revenue which constituted 70 *per cent*. Including the non-tax revenue, the State's own resources were around 74 *per cent* during 2013-14. The variations between budget estimates and actuals together with the reasons for the same under four major tax revenue heads and two non-tax revenue heads are brought out in the **Table 1.4** below.

Table 1.4: Variation between Budget and Actuals

(₹ in crore)

Source of revenue	Budget estimate	Actuals	Increase(+) Decrease(-)	Reasons for variations according to MTFP 2014-18
Taxes on sales, trades etc.	33,590	33,719	129	The good growth in revenue is primarily attributable to positive response of the tax payers to the extensive computerisation programme embarked upon by the department. A large number of services are being provided electronically at the door step of the tax payer as a result of which the compliance is much better.
State Excise	12,600	12,828	228	Intensive patrolling and surveillance on manufacturing and selling units has resulted in healthy growth of revenue.
Stamps and Registration fees	6,500	6,189	(-)311	The decrease in revenue was attributed to slow growth in the recovery of the real-estate sector.
Motor vehicles tax	4,120	3,911	(-)209	The decrease was attributed to the volume of sales from cars and two-wheelers which had come down.
Royalty on major and minor minerals	1,737	1,471	(-)266	The banning of extraction in some mines and export of iron ore adversely affected the revenue mobilization.
Interest receipts	400	693	293	The major source of revenue was on the investment of surplus cash balance of the State with RBI. To improve cash management, excess cash balance (beyond the immediate requirement) were invested in 91 day Treasury Bills, which yielded more revenue.

Source: Budget documents - 2013-14.

Revenue expenditure was less than the budget estimate mainly on account of non-adjustment of direct transfers by the Union Ministries to the State implementing agencies which are routed outside the State budget. The budget included provision for adjustment for expenditure of ₹ 3,848 crore. The adjustment has not been carried out in the accounts as the accounting procedure was incorrect. Also, due to non-adjustment of expenditure to revenue account (₹ 650 crore - as per IGAS - 2²) for which budget was made under capital section.

1.1.5 Gender Budgeting

Gender budget of the State discloses the expenditure proposed to be incurred within the overall budget on schemes which are designed to benefit women fully or partly. The State had created the Gender Budget Cell (January 2007) and gender budgeting was introduced in 2007-08. Karnataka is one of the three States in India that have implemented gender based budgeting. The year-wise allocations in the gender budget document are detailed in **Table 1.5**.

Table 1.5: Gender budgetary allocations during 2009-14

(₹ in crore)

Year	Outlay			Expenditure			Demands covered
	Category A*	Category B^	Total	Category A*	Category B^	Total	
2009-10	845.10	22,285.31	23,130.41	645.22	21,818.97	22,464.19	27
2010-11	870.70	25,417.95	26,288.65	924.30	25,700.05	26,624.35	27
2011-12	854.54	30,228.05	31,082.59	1,454.15	34,923.16	36,377.31	27
2012-13	1,059.36	44,647.43	46,156.79	2,643.91	41,026.57	43,670.48	27
2013-14	1,915.30	55,032.21	56,947.51	2,539.51	53,597.33	56,136.84	28

* Budgetary allocations to schemes designed to benefit women to the extent of 100 per cent.

^ Budgetary allocations for schemes designed to benefit women atleast to the extent of 30 per cent.

Figures for 2013-14 are Revised Estimate figures and not actuals.

² Indian Government Accounting Standard – 2 – Disclosure relating to Grants-in-aid.

The total number of schemes under Category A and B in 2013-14 was 800, of which 40 schemes were under Category A and 760 schemes were under Category B. The Gender Budget document also gives a brief explanatory note about the schemes indicating the objective of such schemes.

In its compliance report (September 2014) to the recommendation of the PAC, Finance Department (FD) stated that the women oriented schemes were reviewed and monitored through Women and Child Development Department and that the department has entrusted the evaluation of one scheme to the Karnataka Evaluation Authority, whose report is awaited. Besides, the Planning Department has entrusted to Institute for Social and Economic Change (ISEC), Bengaluru, a study and preparation of monograph on the status of women. A task force at Government level has also been constituted to suggest changes and improvements in implementation and monitoring of such schemes.

The Department of Women and Child Development however stated that no monitoring activity is being conducted and they are not consulted for Gender Budgeting activities relating to other departmental programmes.

1.1.6 Major policy initiatives of Budget 2013-14

The results of scrutiny of records of certain schemes which were proposed for implementation in 2013-14, the action taken on such proposals in the Departments of Urban Development, Co-operation and Energy are brought out in **Table 1.6** below.

Table 1.6: Budget assurances and audit analysis thereon

Budget Assurance	Action taken as per Action Taken Report	Audit observations
Under Belaku Yojana Scheme, two incandescent bulbs will be replaced by Compact Fluorescent Lamps for 10.5 lakh Anthyodaya Anna Yojana beneficiaries	₹ 10.00 crore is allocated for Belaku Yojana in 2013-14 to KREDL for distribution of 2 CFL Lamps to beneficiaries.	The purchase order (by M/s. KREDL) for supply of 20.90 lakh CFL at the cost of ₹ 17.91 crore has been issued only during June 2014, resulting in overstatement of capital expenditure by ₹ 10.00 crore during 2013-14.
Solar rooftop project and energy efficiency programme in Government buildings to be implemented.	₹ 3.00 crore released to KREDL (Nov. 2013)	The amount was not utilized for the purpose and proposal to divert the amount to solar water pumping project submitted. Non utilisation has resulted in overstatement of revenue expenditure for 2013-14.
Term Loans availed by SC/STs from PLD Banks and remained unpaid for more than 25 years, it was proposed to be waived with principal portion of the overdue loan, subject to waiving the interest portion of the loan by the concerned banks	Principal portion of the overdue loan of ₹ 36.05 crore have been waived off (Nov.2013)	Out of ₹ 36.05 crore waived, only ₹ 35.50 crore was released for the purpose, of which ₹ 29.87 crore had been adjusted to respective loan account. Balance of ₹ 5.63 crore remained with the Apex Bank, outside Government Account.
Under JnNURM, the entire city of Mysore would be extended 24/7 water supply.	Under Water Supply Scheme 1,74,952 house connections have been given.	Out of 1,74,952 houses stated to have been given water supply connections, only 31,761 house connections were serviced (July 2014) by Karnataka Urban Water Supply Board (implementing agency).

1.2 Resources of the State

1.2.1 Resources of the State as per the Annual Finance Accounts

Revenue and Capital are the two streams of receipts that constitute the resources of the State Government. Revenue Receipts consist of tax revenues, non-tax revenues, States' share of Union taxes and duties and grants-in-aid and contributions from the GOI. Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestment, sale of assets, recoveries of loans and advances, debt receipts from internal sources (market loans, negotiated loans from financial institutions/commercial banks, National Small Savings Fund of the Central Government (NSSF) loans from RBI) and loans and advances from GOI. Besides, the net Public Account receipts are also utilised by the Government to finance its deficit. **Chart 1.1** depicts the composition of resources of the State during the current year.

Chart 1.1: Components and sub-components of Resources

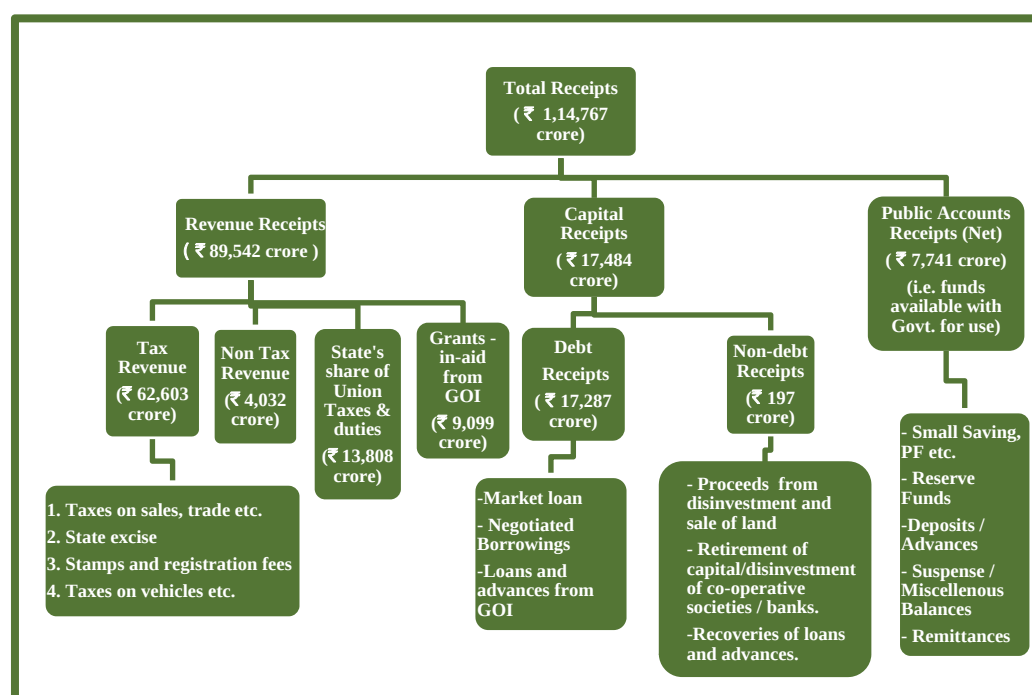
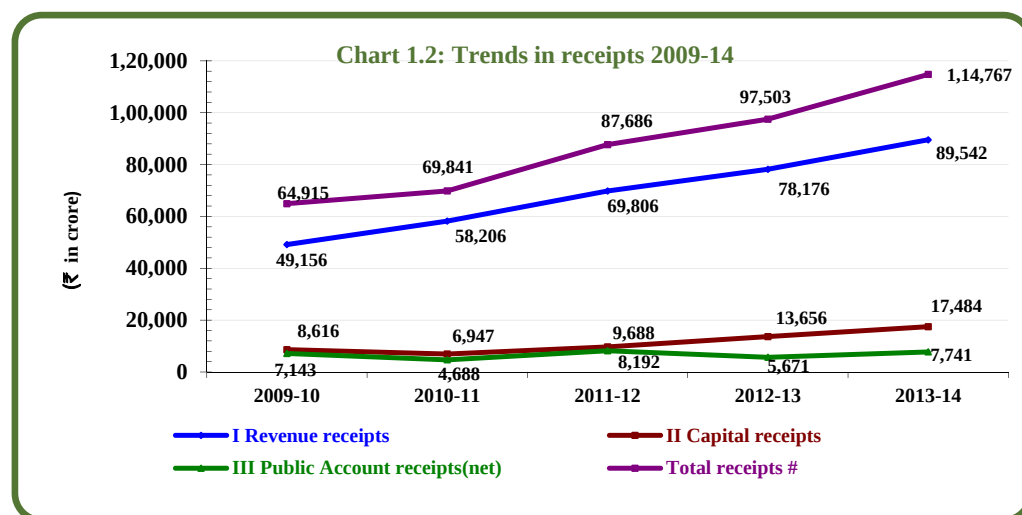
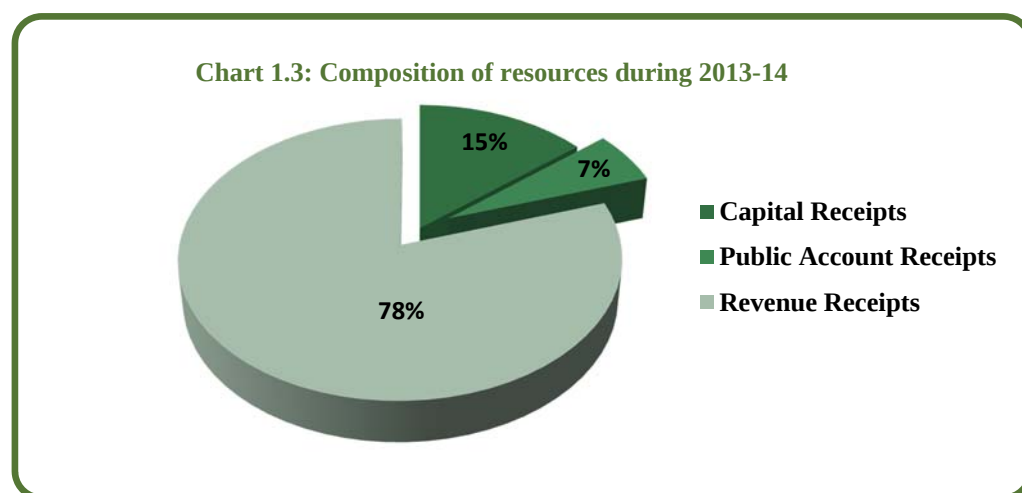


Chart 1.2 depicts the trends in various components of receipts during 2009-14, while **Chart 1.3** depicts the composition of resources of the State during the year 2013-14.

Total receipts (excluding Contingency Fund receipts) increased by 77 per cent from ₹ 64,915 crore in 2009-10 to ₹ 1,14,767 crore in 2013-14. Compared to the previous year, there was an increase by ₹ 17,264 crore (18 per cent).



Excluding Contingency Fund receipts.



Source: Finance Accounts.

The share of revenue receipts in total receipts during 2013-14 was at 78 per cent. Further details are provided in paragraph 1.3.

Capital receipts increased by 103 per cent from ₹ 8,616 crore in 2009-10 to ₹ 17,484 crore in 2013-14. During 2013-14, the capital receipts accounted for 15 per cent of total receipts. Debt receipts, the main constituent of capital receipts, increased by ₹ 3,822 crore during the year. Internal Debt and Loans and Advances from GOI are the two components of debt receipts whose share was 93 per cent and seven per cent of the total debt receipts respectively (₹ 17,287 crore). In 2013-14, there was a growth of 33 per cent in internal debt receipt. Loans and advances decreased by 14 per cent over the previous year.

Apart from debt receipts, capital receipts include non-debt receipts such as recovery of loans and advances and receipts through sale of land (miscellaneous capital receipts & retirement of capital/disinvestment of co-operative societies/banks) etc. During 2013-14, non-debt capital receipts showed a growth of three per cent over the previous year.

Public Account receipts refer to those receipts for which the Government acts as a banker/trustee for the public money. On an average, it constituted eight

per cent of the total receipts during 2009-14. Net Public Account receipts which totaled ₹ 7,143 crore in 2009-10 increased to ₹ 7,741 crore in 2013-14.

1.2.2 Funds transferred to State Implementing Agencies outside the State budget

The Central Government has been transferring sizable quantum of funds directly to the State Implementing Agencies³ for implementation of various schemes/ programmes in social and economic sectors, which are recognized as critical. In the present system, these funds are not routed through the State Budget/State Treasury system, hence these do not find mention in the Finance Accounts of the State. To present the holistic picture on the availability of aggregate resources, funds directly transferred to State Implementing Agencies, implementing three major Centrally Sponsored Scheme, are presented in **Table 1.7**. During the year 2013-14, Central funds amounting to ₹ 7,811 crore were transferred directly to the State Implementing Agencies. There was an increase in transfer of such funds compared to the previous year (17 per cent). An Appendix giving details of funds transferred directly to State Implementing Agencies outside State budget is included in Finance Accounts by capturing data from Controller General of Accounts (CGA) website (unaudited figures).

Table 1.7: Funds transferred directly to the State Implementing Agencies for major plan schemes

Programme / scheme	Scheme Objective	Implementing agency in the State	(₹ in crore)		
			Funds transferred directly by GOI during		
			2011-12	2012-13	2013-14
Mahatma Gandhi National Rural Employment Guarantee Scheme	Aims at enhancing livelihood security by providing guaranteed 100 days' unskilled employment in a financial year to every rural household.	Zilla Panchayats	662.57	1,481.94	1,596.07
Sarva Shiksha Abhiyan (SSA)	Seeks universalization of elementary education, provides right of useful and relevant elementary education for all children in the age group of 6-14 years	Sarva Shiksha Abhiyan Samithi	627.88	684.51	653.71
Rural Housing (IAY)	Provides financial assistance to the rural poor for construction of houses and up-gradation of unserviceable kutcha houses to pucca/semi pucca houses	Zilla Panchayats	294.03	217.46	496.81

Source: Information furnished by CPMS, Finance Accounts.

Unless uniform accounting practices are followed by all these agencies with proper documentation and timely reporting of expenditure, it would be difficult to monitor the end use of these direct transfers. During the year, such direct transfer of funds, amounted to nine per cent of revenue receipts for the year.

³ State Implementing Agency is any organization/institution including non-Governmental organization which is authorised by the State Government to receive funds from GOI for implementing specific programmes in the State e.g. State implementation Society for Sarva Shiksha Abhiyan.

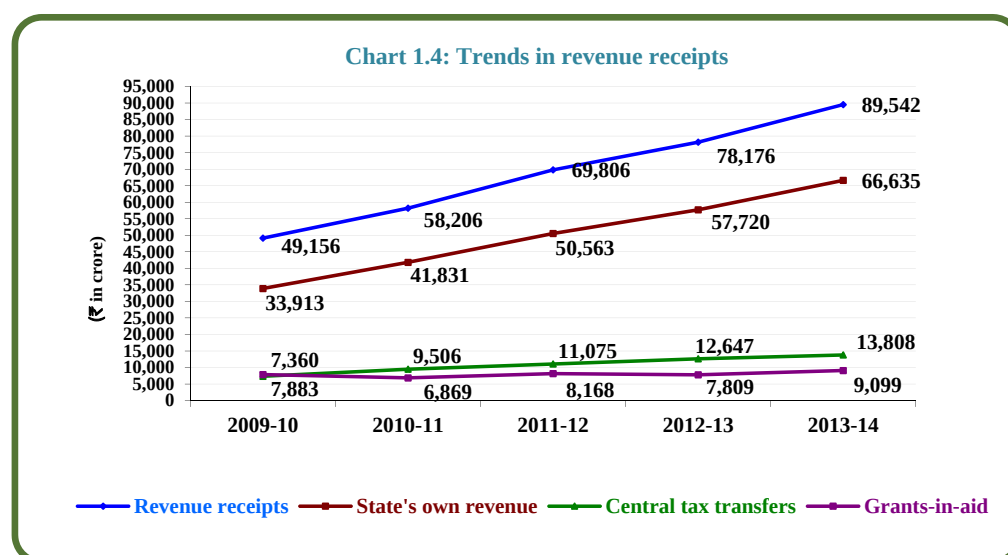
Finance Department stated (November 2014) that direct transfers by GOI to implementing agencies have been dispensed with from 2014-15.

1.3 Revenue receipts

Government of Karnataka's fiscal position is largely influenced by the revenue side as revenue receipts showed progressive increase from ₹ 49,156 crore in 2009-10 to ₹ 89,542 crore in 2013-14. On an average, 72 *per cent* of the revenue came from State's own resources during the period. The balance was transfers from GOI in the form of State's share of taxes and duties and grants-in-aid and contributions.

Simplification and rationalization of tax structure, along with simplification of process of filing tax returns and extensive use of technology, has ensured effective mobilization of resources from various taxes which have helped to maintain better fiscal position. Though, tax revenues have been consistently growing, Government of Karnataka has not improved revenues on non-tax front, which hovered between five to seven *per cent* during 2009-14. The State's Fiscal Reforms and Budget Management Committee has recognized this issue and advised departments to be more pro-active in identification and selection of their non-tax revenue.

Statement No.11 of the Finance Accounts details the revenue receipts of the Government. The trends and composition of revenue receipts over the period 2009-14 are presented in **Appendix 1.4** and are also depicted in **Chart 1.4**.



Source: Finance Account.

The trends in revenue receipts relative to GSDP are presented in **Table 1.8** below:

Table 1.8: Trends in revenue receipts relative to GSDP

	2009-10	2010-11	2011-12	2012-13	2013-14
Revenue receipts (RR) (₹ in crore)	49,156	58,206	69,806	78,176	89,542
Rate of growth of RR (<i>per cent</i>)	13.6	18.4	19.9	12.0	14.5
Rate of growth of State's own tax (<i>per cent</i>)	10.6	25.8	20.8	15.7	16.5
Own tax/GSDP (<i>per cent</i>)	9.1	10.1	10.7	10.3	10.4
R R/GSDP (<i>per cent</i>)	14.64	15.28	16.07	14.96	14.88
Buoyancy ratios ⁴					
Revenue buoyancy w.r.t GSDP	1.6	1.4	1.4	0.6	1.0
State's own tax buoyancy w.r.t GSDP	1.3	1.9	1.5	0.8	1.1
Revenue buoyancy with reference to State's own taxes	1.3	0.7	1.0	0.8	0.9
GSDP (₹ in crore)	3,35,747	3,80,871	4,34,270	5,22,650	6,01,633
Rate of growth of GSDP	8.2	13.4	14.0	20.3	15.1

Source: MTFP 2014-18.

In the Economic Survey for 2013-14 it was admitted that with regard to non-tax revenue, there had not been increase on anticipated lines and that Government is committed to rationalising the user charges and reviewing the same regularly. Further, the action is also guided by the recommendations of the Expenditure Reforms Commission.

1.3.1 State's own resources

The tax revenue of the State in 2013-14 was more than the projection made in MTFP by ₹ 9,628 crore and budget estimates by ₹ 139 crore. Non-tax revenue was significantly more than the MTFP projections (₹ 602 crore), was however, marginally lower than the budget estimates by ₹ six crore, as detailed in **Table 1.9** below.

Table 1.9: Projections of Tax and Non-tax Revenue

	(₹ in crore)		
	Budget estimates	MTFP projections	Actual
Tax revenue	62,464	52,975	62,603
Non-tax revenue	4,038	3,430	4,032

1.3.1.1 Tax revenue

Taxes on sales, trade, etc. were the main source of the State's tax revenue with a contribution (54 *per cent*) followed by State Excise (21 *per cent*), Stamps and Registration Fees (10 *per cent*) and Taxes on Vehicles (six *per cent*) during

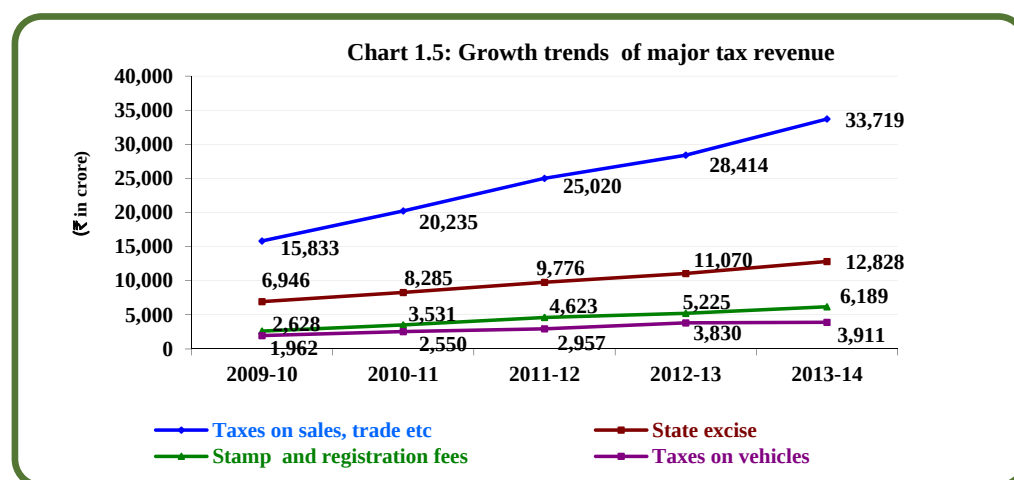
⁴ Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. For instance, revenue buoyancy at 0.4 implies that revenue receipts tend to increase by 0.4 percentage points, if the GSDP increases by one *per cent*.

the year. The trends in the major constituents of tax revenue during the period 2009-14 are shown in **Table 1.10** and **Chart 1.5** below.

Table 1.10: Components of State's own tax revenue

(₹ in crore and growth rate in per cent)					
Revenue head	2009-10	2010-11	2011-12	2012-13	2013-14
Taxes on sales, trade, etc.	15,833	20,235	25,020	28,414	33,719
Rate of growth	8.27	27.80	23.65	13.57	18.67
State excise	6,946	8,285	9,776	11,070	12,828
Rate of growth	20.82	19.28	18.00	13.24	15.88
Stamp and registration fees	2,628	3,531	4,623	5,225	6,189
Rate of growth	(-)10.21	34.36	30.93	13.02	18.45
Taxes on vehicles	1,962	2,550	2,957	3,830	3,911
Rate of growth	16.72	29.97	15.96	29.52	2.11
Land revenue	128	177	215	205	199
Rate of growth	(-)50	36.06	20.79	(-)4.65	(-)2.93
Taxes on goods and passengers	1,291	1,526	1,690	2,181	2,626
Rate of growth	18.99	18.20	10.75	29.05	20.40
Other taxes ⁵	1,791	2,169	2,195	2,829	3,131
Rate of growth	35.27	21.11	1.2	28.88	10.68
Total	30,579	38,473	46,476	53,754	62,603

Source: Finance Accounts for the respective years.



During the period 2009-14, the rate of growth of taxes on sales, trade, etc., was between 8.27 and 27.80 *per cent*. During the current year, it grew by 19 *per cent*.

State excise has shown a steady increase since 2009-10. Being the second largest contributor to State's own tax revenues, the enforcement of excise law by the department has led to better compliance. As a result of these measures there was a sizeable growth of revenue from sale of Indian Made Foreign Liquor (IMFL). The growth rate was between 13.24 to 20.82 *per cent* during 2009-14.

⁵ Other taxes include taxes on Agricultural Income, taxes and duties on Electricity, Other taxes on Income and Expenditure and other taxes and duties on Commodities and Services.

Motor vehicle taxes contribute sizably to own tax revenues. The major share of tax is collected from cars and two wheelers which constitute more than 75 per cent of the total strength of motor vehicles in the State. The growth rate of revenue under the head was 29.52 per cent during 2012-13, reduced to two per cent during the current year.

Cost of collection

The gross collection of taxes on motor vehicles, taxes on sales, trade etc., stamp and registration fees and State excise, expenditure incurred on their collection and its percentage to gross collection during the years 2011-14 along with their All-India average cost of collection for the respective previous years are indicated in the **Table 1.11** below:

Table 1.11: Cost of collection

Receipt	Year	Gross collection	Expenditure on collection @	Percentage of cost of collection to gross collection	All India average percentage for the preceding year
		(₹ in crore)			
Motor vehicles	2011-12	2,958.43	57.64	1.95	3.71
	2012-13	3,832.78	98.48	2.57	2.96
	2013-14	3,913.64	90.88	2.32	4.17
Taxes on sales, trade etc.	2011-12	26,203.81	192.76	0.74	0.75
	2012-13	29,848.75	248.14	0.83	0.83
	2013-14	35,096.71	1,238.94*	3.53	0.73
Stamp and registration fees	2011-12	4,644.46	58.70	1.26	1.60
	2012-13	5,288.12	94.07	1.78	1.89
	2013-14	6,240.21	86.92	1.39	3.25
State Excise	2011-12	9,778.38	79.77	0.82	3.05
	2012-13	11,074.38	106.29	0.96	1.89
	2013-14	12,833.71	110.57	0.86	2.96

@ The figures in this column vary from those mentioned in the earlier reports. In the earlier reports expenditure booked under the minor head, 101 - Collection charges only was considered for arriving at the cost of collection. However, this year, the expenditure booked under 001-Direction and Administration also has been considered as cost of collection.

* Expenditure on collection include ₹ 1,008.53 crore being the book adjustment entry of grants-in-aid in respect of M/s. HAL brought under collection charges.

The percentage of cost of collection to the gross collection was significantly less than the All India average for the period 2011-14.

1.3.1.2 Non-tax revenue

Non-tax receipts (fees, user charges, interest receipts, etc.) are generally raised through non-statutory mandates and usually a reciprocal benefit accrues to the citizens from whom such receipts are collected. The sources of non-tax receipts included receipts from fiscal services like interest receipts from the outstanding advances, dividends and profits from the equity investments, royalty fees for allowing use of assets held as custodian like minerals, forests and wild life, or other such services and user charges for various social and economic services provided through the apparatus of the Government.

The trend in collection of non-tax revenue under certain important heads of accounts is given in the **Table 1.12** below:

Table 1.12: Trends in collections of non-tax revenues

Revenue head	2009-10	2010-11	2011-12	2012-13	2013-14	(₹ in crore)
						% (+) increase/ (-) decrease over previous year
Interest receipts	383.86	575.07	434.23	778.55	693.17	(-)10.97
Dividend and profits	29.48	43.44	60.56	56.29	55.49	(-)1.42
Other non-tax receipts	2,920.45	2,739.77	3,592.07	3,131.26	3,283.24 ⁶	4.85
Total	3,333.79	3,358.28	4,086.86	3,966.10	4,031.90	1.66

Interest receipts, Dividends and Profits

Apart from the regular source of interest receipts on account of repayment of loans, the other major source is interest proceeds out of investment of surplus cash balance of the State. As per RBI's regulations, the cash balance maintained by the State is invested in GOI's 14 day Treasury Bills (TBs). However, the average rate of interest on these TB is around five to six *per cent*. To improve cash management, excess cash balance (beyond the immediate requirement) is being invested in GOI's 91 day TBs. Against budgeted estimate of ₹ 300 crore during the year, the revenue realized was ₹ 458.63 crore of which 14 day TB yielded ₹ 217.43 crore and 91 day TB yielded ₹ 241.20 crore.

The interest realized on loans and advances given by the Government to its Companies/Corporations etc. stood at ₹ 234.67 crore working out to 1.8 *per cent* of the outstanding balances of loans at the end of the year. The receipts also include ₹ 0.60 crore being the interest on capital at charge of departmentally run commercial undertaking, an adjustment of which is by book transfer.

The return on investment in the form of dividends declared by the Companies/Corporations and credited to Government account during the year was ₹ 55.49 crore. Considering the magnitude of Government investment (₹ 55,048 crore), the return works out to meagre 0.10 *per cent*.

Other Non-tax receipts

The other non-tax revenues included royalty on major and minor minerals. The major revenue in the department of Mines and Geology is royalty on these minerals. The banning of extractions in some mines and export of iron ore

⁶ Includes ₹ 20 crore, the amount refunded, and accounted under Major Head 0425 - relating to unutilized amount for the year 2013-14 treated as revenue receipt instead of reduction of expenditure, resulting in overstatement of non-tax revenue.

while positively checked illegal mining in the State, has on the other hand adversely affected revenue mobilization. Since clearances for operationalization of mines have been slow, MTFP 2014-18 predicted drop in estimated collections of ₹ 1,750 crore. The actual realization was ₹ 1,471.37 crore.

Non-deposit of user charges into the Consolidated Fund of the State - ₹499.50 crore

District level and taluk level hospitals coming under the jurisdiction of the Departments of Health and Family Welfare Services/Medical Education are involved in the service delivery of health by providing healthcare facilities to the patients. The doctors/staff of these hospitals are State Government employees. These hospitals are collecting user charges/fee for providing various services which are generally in the nature of registration fee, lab charges, bed charges, x-ray charges etc. As per an order (August 2003), instructions were issued for establishment of a Society named 'Arogya Raksha Samithi' at all major hospitals for managing the user charges so collected. These charges were asked to be deposited with the society/bank instead of remitting the same to the treasury. The Society was managed by an executive committee/general body. The accounts of the Society are audited by Chartered Accountants.

A test check of audit in seven major hospitals in Bengaluru and based on the information obtained from the Directorates/Department revealed, that the user charges amounting to ₹ 499.50 crore (**Appendix 1.5**) collected for the period 2011-14 were credited to nationalized banks. These funds were utilised to improve the financial stability for delivery of healthcare services at local level.

Article 266(1) of the Constitution of India provides that all revenues received by the State Government, all loans raised by the Government by issue of treasury bills, Loans or Ways and Means and Advances and all moneys received by the Government in repayment of loans shall form one Consolidated Fund to be entitled 'the Consolidated Fund of the State'. No moneys out of the Consolidated Fund of the State shall be appropriated except in accordance with law and for the purposes and in the manner provided in the Constitution.

As the user charges realised were not remitted to the Consolidated Fund of the State and it was in contravention to the provisions of Article 266(1) cited supra, the Principal Secretary to the Government of Karnataka, Health and Family Welfare Department replied (October 2014) that it was a policy decision to constitute the Society for specific purpose and empower the committee to manage the expenditure of local healthcare facility out of the funds generated to improve quality in that specific area, as budgetary allocation was not upto the demand raised. Audit observed that there was unutilised provision under the demand – Health and Family Welfare Services to the extent of ₹ 1,285 crore under revenue section and ₹ 134 crore under capital section during the year.

Finance Department replied (November 2014) that remittance of user charges for purchase of medicines and maintenance of hospitals was based on an

executive decision and that an amendment to use such revenues without routing it through the Consolidated Fund would be made in the Karnataka Financial Code (KFC).

Non remittance of user charges escapes the scrutiny by the Legislature. Therefore, a system for remittance/release of such money needs to be put in place for tracking the revenues/expenditure and assurance to indicate that the money generated from the sector is ploughed back into the same sector for development.

1.3.2 Grants-in-aid from GOI

Grants-in-aid and contributions from GOI increased from ₹ 7,883 crore in 2009-10 to ₹ 9,099 crore in 2013-14 as shown in **Table 1.13**. As compared to the previous year, there was an increase of ₹ 1,289 crore during the year. This was on account of increase in Non-plan grants (₹ 684 crore), Grants for State Plan Schemes (₹ 432 crore), Grants for Centrally Sponsored Schemes (₹ 106 crore) and Grants for Central Plan Schemes (₹ 67 crore).

The budget estimate of ₹ 16,428 crore included an amount of ₹ 3,848 crore (23 *per cent*) for accounting adjustment relating to direct release of central funds to State implementing agencies. The accounting adjustments was not proper as the transactions did not pass through Government books, the provision made was overpitched to that extent.

Table 1.13: Grants-in-aid from GOI

Particulars	(₹ in crore)				
	2009-10	2010-11	2011-12	2012-13	2013-14
Non-plan grants	3,429.68	2,256.86	2,129.42	2,455.43	3,139.79
Grants for State plan schemes	2,972.78	2,838.81	3,626.00	2,908.74	3,341.15
Grants for Central plan schemes	61.09	144.43	76.14	124.59	191.70
Grants for Centrally sponsored scheme	1,419.76	1,628.41	2,336.85	2,320.66	2,426.18
Grants for special plan schemes	---	---	---	---	---
Total	7,883.31	6,868.51	8,168.41	7,809.42	9,098.82
% of increase/decrease over previous year	47.84	(-12.87)	18.93	(-)4.39	16.51
Total grants as % of revenue receipts	16.04	11.80	11.70	10.00	10.16

Source: Finance Accounts.

1.3.3 Central tax transfers

The XIII FC had recommended that the State's share of Central Taxes be increased to 32 *per cent* from 30.50 *per cent* as recommended by Twelfth Finance Commission (TFC). The State's share in the net proceeds of Central Taxes (excluding Service Tax) and net proceeds of Service Tax has been fixed at 4.33 and 4.40 *per cent*, respectively. The share of Union taxes received during 2013-14 was ₹ 13,808 crore, an increase of ₹ 1,161 crore over the previous year, under Service Tax (₹ 403 crore), Taxes on Income other than Corporation Tax (₹ 338 crore), Union Excise Duties (₹ 163 crore), Customs Duty (₹ 151 crore), Corporation Tax (₹ 101 crore) and Wealth Tax (₹ 5 crore).

1.3.4 Utilisation of XIII FC grants

The Commission had recommended ₹ 2,536.83 crore as transfer to the State (excluding State specific grants) in the areas indicated in **Table 1.14** during 2013-14.

Table 1.14: Transfers recommended and actual release of Grants-in-aid during 2013-14

(₹ in crore)

Sl. No.	Transfers	Releases due as per Recommendation of FC for 2013-14	Actual Releases	Expenditure under relevant revenue heads of account	Unutilized amount €
1	Local Bodies				
	(a) Grants to PRIs	673.54	688.96\$	1,200.76	852.22*
	(b) General Performance Grant to PRIs	460.12	864.81#		
	(c) Grants to ULBs	297.86	304.68\$		
	(d) General Performance Grant to ULBs	203.48	194.53#		
2	Disaster Relief				
	(i) Disaster Relief Fund	139.75	139.75	139.75	-
	(ii) Capacity Building	4.00	4.00	2.99	6.66
3	Improving outcome grants				
	(i) Improvement in Justice Delivery	53.94	11.73	24.98	-
	(ii) Incentive for issuing UIDs	27.78	-	-	13.89@
	(iii) Statistical Systems Improvement	5.80	5.80	3.73	3.28
	(iv) Employee and Pension Data Base	7.50	-	2.50	2.50
	(v) District Innovation Fund	5.80	-	5.76	-
4	Environment Related Grants				
	a) Forest	55.26	55.88	43.47	13.13
	b) Water Sector Management	32.00	-	-	-
5	Elementary Education	152.00	152.00	152.00	-
6	Roads and Bridges	418.00	418.00	385.38	436.40
7	Additional incentive for reduction in Infant Mortality Rate (IMR) for the period 2009-12	-	70.37	-	-
	Total	2,536.83	2,910.51	1,961.32	1,328.08

€ Taking into account previous year's unutilized money.

* Amount unutilised for the current year only.

Includes the grants forfeited by non-performing States released to GOK.

\$ Includes unreleased grants of earlier years, released during the current year.

@ First release of upfront instalment for which UC is yet to be furnished.

As the GOI released funds (₹ 1,010 crore) during the last working day of the financial year, the amount, was released to PRIs/ULBs during the financial year 2014-15, after obtaining the supplementary demand for the purpose. This was one of the reason for savings under revenue section which is discussed in **para 2.2.4**.

One of the schemes which was aimed at improving the outcomes viz., incentive grants for issuing Unique Identification (UIDs) is discussed below.

Incentive for issuing UIDs: The total allocation to the State of Karnataka was fixed at ₹ 138.90 crore. This grant was fixed at ₹ 27.78 crore per annum and would be released in five annual instalments with two tranches per year on July 1 and January 1, of each year. The first tranche amounting to 1/10th of the State's allocation was to be released on July 1, 2010. All subsequent instalments would be released on reimbursement basis as per the procedure

prescribed. Fifty *per cent* of the first instalment of the annual grant amounting to ₹ 13.89 crore was released during 2010-11. Further instalments were not released as the State Government had not preferred claims against the Union Government.

As of 31 March 2014, the State Government had received grants aggregating ₹ 2,911 crore against recommendation of ₹ 2,537 crore. The receipt of more revenue was mainly under performance grants to PRIs (₹ 405 crore), additional incentive for reduction in infant mortality (₹ 70 crore) offset by nil releases under water sector management, incentive for issuing UIDs, improvement of justice delivery etc. (₹ 102 crore).

State specific grants

To facilitate implementation of the release of State specific grants XIII FC recommended that States enactment/amendment of their FRAs by incorporating the targets of fiscal consolidation path. The State of Karnataka adhered to the conditionality prescribed for release of such grants.

The State was entitled to receive grants towards State specific needs amounting to ₹ 325 crore against which the actual amount received was ₹ 292.23 crore only. The details of the funds earmarked vis-à-vis the actual amount received during the year and expenditure thereagainst are indicated in the **Table 1.15** below.

Table 1.15: Details of receipt of State specific grants during 2013-14
(₹ in crore)

Scheme head	Amount earmarked by XIII FC	Actual receipt	Expenditure
Restoration of tanks and traditional bodies	87.50	87.50	87.41
Drinking water	75.00	89.09	75.00
Infrastructure in Bengaluru	100.00	NIL	NIL
Heritage	25.00	25.00	24.99
Police training	37.50	90.64	38.64
Total	325.00	292.23	226.04

Source: XIII FC recommendations/Finance Accounts.

The grants under drinking water and Police training were more on account of grants relating to earlier years being released during current year.

1.3.5 Foregone revenue

As per the requirements under Section 5(2)(c) of the FRA, additional statements are brought out in the MTFP 2014-18 detailing the tax expenditure/revenue foregone by exemption or deferment of VAT, CST and Entry Tax. The details of such exemptions/revenue foregone during the years 2012-14 are indicated in **Table 1.16**.

Table 1.16: Details of exemptions/revenue foregone

Particulars	(₹ in crore)	
	2012-13	2013-14
Value of exemption/concession – interest free loan	37.80	5.14
Value of exemption under CST/VAT/Entry Tax	902.82	907.14
Tax waivers through reimbursement/loan route	14.44	1,008.74
Interest free VAT loan	18.66	---
Tax exemption / reduction through notification	1,106.01	1,371.39
Deferment of VAT and CST	531	339.42
Total	2,610.73	3,631.83

Source: MTFP 2014-18.

PAC in its 13th report, while recommending a system to oversee the collection of revenue had suggested to the State Government to discontinue the practice of giving discounts, waivers and exemptions while collecting taxes.

Finance Department replied (December-2013) that the tax concessions in the form of waiver/discount/exemptions are conscious decisions taken by the State as a matter of policy for promoting certain sectors of the economy. Such concessions are provided with the objective of enabling a conducive environment to attract more industries to the State. It has other benefits of providing employment to locals and boosting the economy. It is expected that it will ultimately compensate the revenue foregone by way of improvements in overall tax collection and faster growth of GSDP.

1.4 Capital Receipts

Capital receipts of the State Government include non-debt and debt receipts, whose composition has been discussed in **para 1.2.1**. The Public Debt receipts during the year (₹ 17,287 crore) comprised internal debt of ₹ 16,132 crore (93 *per cent*) and Loans and Advances from GOI ₹ 1,155 crore (seven *per cent*). Market borrowings had a predominant share under internal debt, comprising 87 *per cent* followed by NSSF loans (four *per cent*) and negotiated loans (three *per cent*). Loans from GOI comprised Plan loans only. The trends in composition of capital receipts during the period 2009-14 are indicated in **Table 1.17**.

Table 1.17: Trends in growth and composition of capital receipts

Sources of State's capital receipts	(₹ in crore and growth rate in <i>per cent</i>)				
	2009-10	2010-11	2011-12	2012-13	2013-14
Capital Receipts (CR)	8,616	6,947	9,688	13,656	17,484
Misc. Capital Receipts	70	72	89	33	88
Recovery of Loans and Advances.	555	161	241	158	109
Public Debt receipts	7,991	6,714	9,358	13,465	17,287
Rate of growth of debt capital receipts	(-)6.99	(-)15.98	39.38	43.89	28.38
Rate of growth of non-debt capital receipts	162.61	(-)62.72	41.63	(-)42.12	3.14
Rate of growth of GSDP	8.2	13.4	14.0	20.3	15.1
Rate of growth of capital receipts (%)	(-)2.42	(-)19.37	39.46	40.96	28.03

Overall, capital receipts increased from ₹ 8,616 crore in 2009-10 to ₹ 17,484 crore in 2013-14. Debt receipts had a predominant share in capital receipts which were between 93 and 99 *per cent* during 2009-14. The recovery towards loans and advances was very meagre during the period. Recovery amounted to less than one *per cent* of the outstanding loans and advances as at the end of 2013-14. It also included book adjustment of ₹ 16.77 crore being the dues of Electricity Supply Companies (ESCOMs), treated as subsidy on revenue account.

1.5 Public Account Receipts

Receipts and disbursements in respect of certain transactions, such as small savings, Provident Fund, Reserve Funds, Deposits, Suspense, Remittances etc. which do not form part of the Consolidated Fund are kept in the Public Account set up under Article 266(2) of the Constitution and are not subject to vote by the State Legislature. Here, the Government acts as a banker trustee for custody of public money, mere pass through transactions. The net transactions under Public Account covering the period 2009-14 are indicated in **Table 1.18** below.

Table 1.18: Net transactions under Public Account

Resources under sectors of Public Account (Net)	(₹ in crore)				
	2009-10	2010-11	2011-12	2012-13	2013-14
I. Small Savings, PF etc.	1,467	1,607	1,398	1,732	2,107
J. Reserve Funds	3,201	1,374	2,761	1,362	135
K. Deposits and Advances	1,909	2,037	1,410	2,511	2,840
L. Suspense and Misc.	602	(-)296	2,634	98	2,671
M. Remittances	(-)36	(-)34	(-)11	(-)32	(-)12
Total	7,143	4,688	8,192	5,671	7,741

The net receipts from Public Account increased from ₹ 7,143 crore in 2009-10 to ₹ 7,741 crore (eight *per cent*) in 2013-14. Net availability of funds under Small Savings, PF, Reserve Funds and Deposits and Advances had a predominant share in financing the deficit, reasons for which are discussed in **para 1.11.2**. Under suspense and miscellaneous sector, there was an increase in transactions relating to un-encashed cheques which amounted to ₹ 2,676 crore during the year. An analysis of the transaction is brought out in **para 1.8.6**.

1.6 Application of resources

Analysis of the allocation of expenditure at the State Government level assumes significance since major expenditure responsibilities are entrusted with them. Within the framework of fiscal responsibility legislations, there are budgetary constraints in raising public expenditure financed by deficit or borrowings. It is, therefore, important to ensure that the ongoing fiscal correction and consolidation process at the State level is not at the cost of expenditure, especially the expenditure directed towards development of social and economic sectors.

Prudent fiscal management should aim at creating savings by raising revenue receipts in excess of revenue expenditures. The revenue balance is called Government's savings, which is used to finance capital expenditure. Use of borrowed funds for either directly revenue yielding activities or indirectly productive uses creates returns by way of tax or non-tax revenues which can be used for debt servicing and repayment of loans.

1.6.1 Growth and composition of expenditure

The basic parameters of total expenditure, growth rate and comparison with GSDP etc., are furnished in the **Table 1.19**.

Table 1.19: Total expenditure – Basic parameters

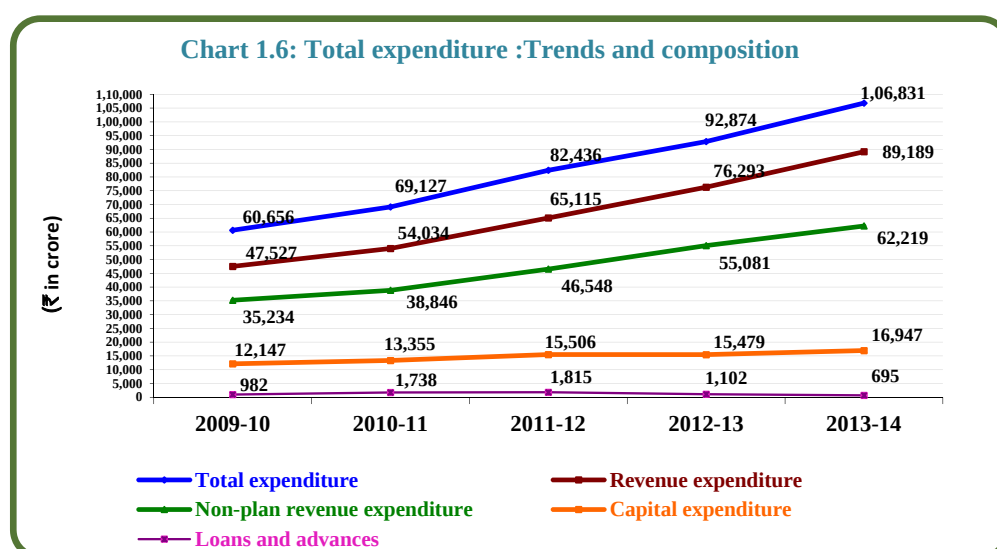
(₹ in crore and growth rate in per cent)

	2009-10	2010-11	2011-12	2012-13	2013-14
Total expenditure (TE)*	60,656	69,127	82,436	92,874	1,06,831
Rate of growth	16.1	14.0	19.2	12.7	15.0
GSDP	3,35,747	3,80,871	4,34,270	5,22,650	6,01,633
Rate of growth	8.2	13.4	14.0	20.3	15.1
TE/GSDP	18.06	18.14	18.98	17.76	17.75
Revenue receipts/ TE	81.0	84.2	84.7	84.2	83.8
Revenue expenditure	47,527	54,034	65,115	76,293	89,189
Rate of growth	14.1	13.7	20.5	17.2	16.9
Capital expenditure (including loans and advances)	13,129	15,093	17,321	16,581	17,642
Rate of growth	23.8	14.9	14.8	(-)4.3	6.4
Buoyancy of total expenditure with					
GSDP	2.0	1.0	1.4	0.6	1.0
Revenue receipts	1.2	0.8	1.0	1.1	1.0
Buoyancy of revenue expenditure with					
GSDP	1.7	1.0	1.5	0.8	1.1
Revenue receipts	1.0	0.7	1.0	1.4	1.2

* Total expenditure includes revenue expenditure, capital expenditure including loans and advances

Source: Finances Accounts.

Chart 1.6 presents the trends in total expenditure over a period of five years (2009-14) and its composition under revenue, capital and loans and advances.



Source: Finance Accounts.

Total expenditure increased by 76 *per cent* from ₹ 60,656 crore in 2009-10 to ₹ 1,06,831 crore in 2013-14 due to increase in revenue expenditure (₹ 41,662 crore), capital outlay (₹ 4,800 crore) and offset by decrease in disbursement of loans and advances (₹ 287 crore).

During the period 2009-14, on an average, 80 *per cent* of the total expenditure was on revenue account. During the current year, it was 83 *per cent*. The share of capital expenditure (including loans and advances) was 17 *per cent*.

The Expenditure Reforms Commission (ERC) in their first report (February 2010) had recommended capital investments to be stepped up and protected from fiscal uncertainties through prudent allocations. It had also recommended maintaining the capital expenditure (excluding debt servicing) at five *per cent* of GSDP. The ratio of capital expenditure to GSDP which was at four *per cent* during 2010-11, however, dropped to three *per cent* during 2013-14.

The misclassification between revenue and capital leading to understatement of revenue expenditure is discussed in **Chapter-II**.

1.6.2 Revenue expenditure

Revenue expenditure comprises of day-to-day expenditure of the Government, wages and salaries, pensions, interest payments, expenditure on operation and maintenance of capital works, subsidies and transfers to local bodies, co-operatives, NGOs and others. Expenditure can also be classified into various functional categories such as administrative services, social services and economic services. Expenditure on social and economic services is incurred to create physical infrastructure and human resource development and, therefore, is considered productive, whereas expenditure on general administration and debt servicing are considered unproductive.

Revenue expenditure increased from ₹ 47,527 crore in 2009-10 to ₹ 89,189 crore in 2013-14, an increase of 88 *per cent*. The revenue expenditure buoyancy during the year was 1.1 times compared to GSDP. Compared to previous year, the increase was by 17 *per cent*, due to increase in salary expenditure (₹ 1,719 crore), interest payments (₹ 573 crore), pensions (₹ 1,925 crore), social security pension (₹ 545 crore) and devolution to local bodies (₹ 2,125 crore), subsidies (₹ 2,614 crore) etc.

The revenue expenditure during 2013-14 also included ₹ 2,196 crore provided to HAL as grants (₹ 1,008.53 crore), waiver of tax and interest dues in respect of ammonium nitrate dealers (₹ 0.21 crore), ESCOMs (₹ 911 crore) being the dues of electricity tax etc. treated as subsidy, Road Transport Corporations (₹ 253 crore) being the dues of road tax, treated as subsidy through book adjustment.

1.6.3 Committed expenditure

Most of revenue expenditure is in the nature of committed expenditure like salaries, pension, interest, subsidy etc. which affects the maneuverability of the State to prioritize the expenditure in this space and in meeting capital investments to meet growing needs of social and economic infrastructures. **Table 1.20** and **Chart 1.7** exhibit the expenditure on these components and also certain other expenses like pensions under social security schemes, administrative expenses, implicit subsidies arising under various schemes of the Government, devolution to local bodies etc. which are treated as committed expenditure in the MTFP 2013-17. The position of such expenditure covering the period 2009-14 is depicted in **Table 1.20** below.

Table: 1.20: Trends in committed expenditure

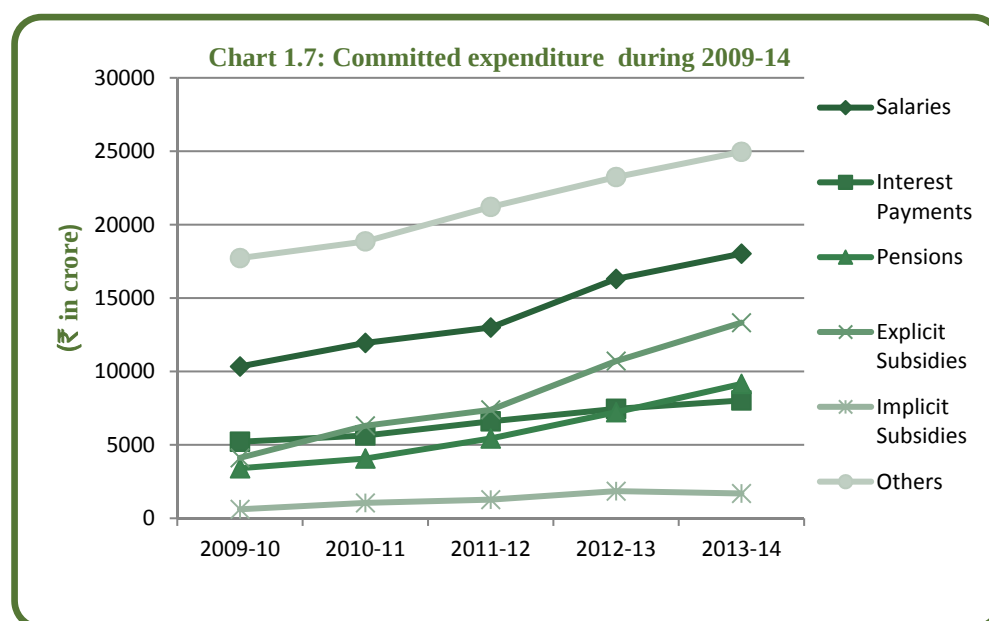
Sl. No.	Particulars	2009-10	2010-11	2011-12	2012-13	2013-14	
						BE	Actuals
1	Salaries*, of which	10,342	11,948	12,996	16,308	20,629	18,027
	Non-plan head	9,501	10,593	11,446	8,324		15,211
	Plan head**	841	1,355	1,550	7,984		2,816
2	Interest payments	5,213	5,641	6,604#	7,454 #	8,500	8,027 #
3	Expenditure on pensions	3,408	4,070	5,436	7,227	8,500	9,152
4	Social Security Pensions	1,657	1,944	2,244	1,880	2,334	1,870 ^
5	Subsidies, of which						
	a. Explicit	4,118	6,303	7,390	10,709	12,391	13,323
	b. Implicit	614	1,048	1,270	1,849	2,414	1,690
6	Grants-in-aid and Financial Assistance	7,171	7,106	5,309	6,560	6,302	5,972
7	Administrative Expenses	901	944	1,029	1,358	2,068	1,549
8	Devolution to Local Bodies	7,995	8,866	12,628	13,445	17,103	15,570
9	Total committed expenditure	41,419	47,870	54,906	66,790	80,241	75,180
10	Revenue receipts, of which	49,156	58,206	69,806	78,176	97,986	89,542
11	Tied grants from Centre linked to State Specific Schemes	7,485	6,486	7,744	7,342	15,918	8,597
12	Uncommitted revenue receipts (10-11)	41,671	51,720	62,062	70,834	82,068	80,945
13	Committed expenditure as % of uncommitted revenue receipts (9/12)	99	93	88	94	98	93

* Includes salaries paid out of grants-in-aid released to PRIs and other.

** Includes the salaries paid under centrally sponsored schemes.

Includes interest on off-budget borrowings and amount released to ULBs under the Major Head 3604 (₹ 542 crore in 2011-12, ₹ 621 crore in 2012-13 and ₹ 190 crore in 2013-14).

^ Social Security Pension in respect of 'Pension to physically challenged' (₹ 554.98 crore) is included in 'Financial assistance and grants-in-aid'.



Source: Finance Accounts.

There is also increasing demand on the public resources in the light of statutory legislations like Right to Education, Food Security Act and Employment Guarantee measures etc. These emerging concerns necessitate a review of public resources as a whole to access their allocative and technical efficiency.

As brought out in the above table, the ratio of uncommitted revenue receipts to the committed expenditure has been steadily increasing. Medium term correction on the expenditure side is required to moderate such committed expenditure.

Expenditure on salaries

Expenditure on salaries increased from ₹ 10,342 crore in 2009-10 to ₹ 18,027 crore during the year. The expenditure included the salary expenditure relating to the employees of Panchayat Raj Institutions (PRIs) also (₹ 9,962 crore). The salary expenditure in the Finance Accounts captured data in respect of State sector only. The salaries in respect of district sector (Employees of PRIs) are released as grants-in-aid to PRIs. Thus, the total salary expenditure is not captured in the accounts. The salary expenditure excluding the salary grant relating to Urban Local Bodies (ULBs) of the State was 22 per cent of revenue expenditure net of interest payment and pensions, within the norms of 35 per cent fixed by TFC.

The FD replied (November-2014) that grants to PRI/ULBs are released as lump sum grants as per constitutional requirement. Further, scheme wise breakup of salary and non-salary items is available in the link volumes. As such, the information is already being captured as part of PRI/ULB accounts.

Also, the salary expenditure relating to the employees of ULBs overlapped with those under the State sector (Constitutional dignitaries). This has been discussed in **paras 2.3.5 and 3.11.2** of the report.

In addition, misclassification of expenditure relating to salaries under capital head (₹ 20.40 crore) was also noticed during the year, as discussed in **para 2.3.2.**

Pension payments

Expenditure on pension (₹ 9,152 crore) was about 10 *per cent* of total revenue receipts of the State during the year. The expenditure on pension during the year exceeded MTFP (2010-14) projection by ₹ 2,308 crore. Increase of ₹ 1,925 crore in expenditure over the previous year was on account of increase in the number of retirements of employees.

Defined Contribution Pension Scheme for all employees, who joined the State Government service on or after 01 April 2006, became fully operational from 01 April 2010. A dedicated New Pension Scheme (NPS) Cell has been created under the Directorate of Treasuries to implement and operationalise the NPS in the State. The State Government has adopted the NPS architecture designed by Pension Fund Regulatory Development Authority (PFRDA) and appointed National Securities Depository Limited (NSDL) as the Central Record Keeping Agency (CRA) for NPS. Bank of India is the Trustee Bank in charge of operation of Pension Funds. The security of investment of pension corpus is also given primacy by mandating that 85 *per cent* of corpus be invested in bonds and fixed maturity investments. The employees are given an option to pay their backlog⁷ either in lump sum outside salary or in multiple installments through salary deductions.

There were 1,40,474 officials registered and allotted Permanent Retirement Account Number (PRAN) as on 31 March 2014. An amount of ₹ 282.57 crore was contributed towards the scheme by the Government through revenue account. Employees' contribution of ₹ 270.46 crore for the current year were also accounted against the scheme. The accounting of employees and Government contributions towards NPS was made under Minor Head 120 - Miscellaneous Deposit under Public Account (Major Head 8342), instead of the prescribed Minor Head 117 - Defined Contribution Pension Scheme. Uniform accounting heads are required to be opened by the Government for proper identification of transactions.

The payment of pension and other retirement benefits to All India Service officers prior to 01 April 2008, was a liability to be borne by the State Government. The liability on account of pension payments are to be borne by GOI (from April 2008), are to be booked under suspense head - 8658 and a demand raised for reimbursement. A sum of ₹ 24.65 crore was outstanding settlement, implying that the State Government was yet to receive amount due to it.

⁷ Refers to the contribution the employee has to make from the date of his entry into service to the date of implementation of the scheme.

Interest payments

Interest payments increased by ₹ 2,814 crore from ₹ 5,213 crore in 2009-10 to ₹ 8,027 crore in 2013-14. Interest payments during 2013-14 constituted interest on internal debt (₹ 5,598 crore), interest on small savings, provident fund etc., (₹ 1,484 crore), interest on loans and advances from Central Government (₹ 755 crore) and interest on off-budget borrowings (₹ 190 crore).

The interest on internal debt increased by 16 *per cent* from ₹ 4,823 crore in 2012-13 to ₹ 5,598 crore in 2013-14 on account of increase in payment of interest on market loans by ₹ 802.09 crore (31 *per cent*), partly offset by decrease in interest on special securities by ₹ 52 crore (three *per cent*) issued to NSSF of the Central Government by the State Government. This was on account of the recommendations of XIII FC, which stated that all loans contracted till 2006-07 and outstanding at the end of 2009-10 be re-set at a common rate of interest of nine *per cent* per annum in place of 10.5 or 9.5 *per cent*. While the XIII FC had projected interest relief of ₹ 110 crore, the actual relief was ₹ 52 crore.

The interest on small savings, provident funds etc. increased by ₹ 239 crore (19 *per cent*) from ₹ 1,246 crore during 2012-13 to ₹ 1,485 crore in 2013-14, mainly on account of increase in interest on State provident funds and insurance and pension funds by 18 and 14 *per cent*, respectively, relative to the previous year.

Misclassification of ₹ 54.65 crore being the repayment of principal amount in respect of Rajeev Gandhi Rural Housing Corporation Ltd. (RGRHCL) was booked to the revenue account, overstating the revenue expenditure.

The ratio of interest payments to revenue receipts determines the debt sustainability of the State. During the year, the ratio of interest payments to total revenue receipts of the State was nine *per cent*, was well within the TFC norm of 15 *per cent*.

Subsidies

In any welfare State, it is not uncommon to provide subsidies to disadvantaged sections of the society. Subsidies are dispensed not only explicitly but also implicitly by providing subsidised public services to the people. Budgetary support to financial institutions, inadequate returns on investments and poor recovery of user charges from social and economic services provided by the Government fall in the category of implicit subsidies.

Subsidy expenditure has increased from ₹ 4,118 crore in 2009-10 (eight *per cent* of revenue receipts) to ₹ 13,323 crore during the year, which was 15 *per cent* of revenue receipts.

Explicit Subsidies

In MTFP (2013-17), Government had stated that subsidies provided by the State could be of two kinds – explicit and implicit subsidies. Explicit subsidy is that which provides for expenditure in nature of subsidy or interest subvention for certain schemes of the Government. It was stressed that the challenge lies in ensuring that these subsidies do not become a permanent source of additional support and thereby deter these sectors from undertaking reforms. The three largest explicit subsidy outgoes for the State was power subsidy provided for supply of free electricity to farmers for usage of agricultural pump sets, food subsidy and interest subsidy for crop loans.

Finance Accounts (Appendix-III) showed an explicit subsidy of ₹ 13,323 crore during the year which was ₹ 2,614 crore more than the previous year. The increase was 24 *per cent* over the previous year. The details are given below.

- **Power**

During the year, subsidy to power sector (₹ 5,960 crore) accounted for 45 *per cent* of the total subsidy (₹ 13,323 crore). It included financial assistance to electricity supply Companies to cover loss due to rural electrification (₹ 5,460 crore) and contribution towards pension (₹ 500 crore). The power subsidy included book adjustment of ₹ 910.57 crore against which ₹ 839.16 crore being the tax dues retained by ESCOMS against power subsidy due.

Though FD stated that the Karnataka Power Transmission Corporation Limited (KPTCL) would be reflected as an off-budget entity in the budget documents, this was not complied and subsidy on rural electrification of ₹ 4.88 crore given to the KPTCL for meeting its debt servicing obligations to Power Finance Corporation (PFC) and Rural Electrification Corporation (REC).

- **Food**

Food subsidy to meet the differential cost of food grains under Public Distribution System (PDS), had increased to ₹ 3,046 crore in 2013-14 from ₹ 991 crore in 2012-13.

- **Co-operation**

Subsidy in the co-operative sector predominantly represented waiver of overdue loans (principal as well as interest) given to farmers. Such waiver of loans and interest aggregated ₹ 4,934 crore in 2009-10 (₹ 124 crore), 2010-11 (₹ 335 crore), 2011-12 (₹ 447 crore) 2012-13 (₹ 1,323 crore) and 2013-14 (₹ 2,705 crore)

According to Vaidyanathan Committee Report (March 2008), and as reiterated by the PAC, the Governments both at the Centre and in the States should desist from the practice of waiver of recovery of loans and interest to prevent deterioration of co-operative credit system.

• Transport

Transport subsidy had increased from ₹ 385 crore in 2012-13 to ₹ 691 crore in 2013-14. This was towards fare concession extended to students, freedom fighters, physically challenged, etc.

Implicit subsidies

Implicit subsidies *inter alia* arise when the Government is unable to recover the costs it incurs in the provision of social and economic goods/services, which are mainly private goods/services in nature, even though sometimes these may have extended benefits. It can be indirect, can also be in kind or take the shape of tax concessions. Some of the implicit subsidies extended during 2013-14 are detailed in **Appendix 1.6**.

The implicit subsidies increased from ₹ 614 crore in 2009-10 to ₹ 1,690 crore during the year. They include mainly the financial assistance for supply of seeds, subsidy for fertilizer buffer stock, micro/drip irrigation, minimum floor price scheme, housing for weaker sections, house site for landless etc.

1.6.4 Financial assistance to local bodies and others

The quantum of assistance provided by way of grants to local bodies and others during the year 2013-14, relative to the previous years, is presented in **Table 1.21**.

Table 1.21: Financial assistance to local bodies and other institutions

	(₹ in crore)				
	2009-10	2010-11	2011-12	2012-13	2013-14
Panchayat Raj Institutions	11,406.81	12,554.65	15,211.83	18,532.58	20,512.71
Urban Local Bodies*	2,474.01	2,978.49	4,343.96	4,018.42	5,020.43
Educational Institutions (including universities)	387.57	501.69	630.47	738.69	961.62
Co-operative societies and co-operative institutions	239.41	304.43	357.79	47.04	849.85
Other institutions and bodies (including statutory bodies)	1,914.55	2,704.11	3,486.31	3,850.11	5,267.90
Assistance as a percentage of revenue expenditure	35	35	37	36	37
Total	16,422.35	19,043.37	24,030.36	27,186.84	32,612.51

Source: Finance Accounts.

*the figures under assistance to Urban Local Bodies differs from those shown in the earlier reports on account of inclusion of devolutions under the Minor Head 200 – Other compensations and assignment.

The assistance to PRIs increased from ₹ 11,407 crore in 2009-10 to ₹ 20,513 crore in 2013-14, while the assistance to ULBs increased from ₹ 2,474 crore in 2009-10 to ₹ 5,020 crore in 2013-14.

Out of the total devolution of ₹ 20,513 crore to PRIs during 2013-14, ₹ 9,962 crore (49 per cent) were towards salaries as the State Government's

functions viz., education, water supply and sanitation, housing, health and family welfare etc., were transferred to PRIs. It also included the XIII FC grants released to the State Government (₹ 1,554 crore) which in turn released these grants to PRIs (₹ 797 crore), balance amount was released during 2014-15 citing that the grants were received by the Government on the last day of March 2014.

The assistance to ULBs and co-operatives increased by ₹ 1,002 crore and ₹ 803 crore respectively, as compared to previous year. It increased for educational institutions by ₹ 223 crore and for other institutions by ₹ 1,418 crore during the year. The assistance to ULBs included ₹ 2,699 crore towards creation of capital assets. It also included the XIII FC grants released to State Government (₹ 499 crore) which in turn released the amounts to ULBs (₹ 254 crore), the balance amount was released during 2014-15 citing that these amounts were received on the last working day of financial year.

Assistance to other institutions (₹ 5,268 crore) included assistance to Development Authorities (₹ 633 crore), NGOs (₹ 1,539 crore) and others (₹ 3,096 crore).

1.7 Quality of expenditure

The availability of better social and physical infrastructure in the State generally reflects the quality of its expenditure. The improvement in the quality of expenditure basically involves three aspects, viz., adequacy of the expenditure (i.e. adequate provisions for providing public services), efficiency of expenditure and its effectiveness.

1.7.1 Adequacy of public expenditure

The expenditure responsibilities relating to social sector and economic infrastructure, assigned to the State Governments, are largely State subjects. Enhancing human development levels requires the States to step up their expenditure on key social services like education, health, etc. Low fiscal priority (ratio of expenditure category to aggregate expenditure) can be stated to have been attached to a particular sector if the priority given to that particular head of expenditure is below the General Category States' average for that year.

Table 1.22 analyses the fiscal priority of the State Government with regard to development expenditure, social expenditure and capital expenditure relative to General Category States in 2010-11 and the current year 2013-14.

Table 1.22: Fiscal priority of the State in 2010-11 and 2013-14

(₹ in crore)

Fiscal Priority by the State	AE/ GSDP	DE#/ AE	SSE/ AE	CE/ AE	Education/ AE	Health/ AE
*General Category States Average (Ratio) 2010-11	15.78	65.09	36.88	13.49	17.48	4.37
Karnataka State's Average (Ratio) 2010-11	18.06	74.68	37.92	21.83	16.22	4.05
*General Category States Average (Ratio) 2013-14	15.92	66.45	37.56	13.62	17.20	4.51
Karnataka State's Average (Ratio) 2013-14	17.75	71.45	33.79	16.51	15.50	4.24

AE: Aggregate Expenditure, DE: Development Expenditure, SSE: Social Sector Expenditure
CE: Capital Expenditure.
Development expenditure includes Development Revenue Expenditure, Development Capital Expenditure and Loans and Advances disbursed.

Source: For GSDP, data is as per the Government of India conveyed figures, adopted by the State Government in its budget documents.
*General category States excludes three States i.e., Delhi, Goa and Puducherry.

Comparative analysis reveals the following:

- The State's spending ratio of aggregate expenditure to GSDP decreased marginally during 2013-14 compared to 2010-11.
- Development expenditure as a proportion of aggregate expenditure in the State has been higher than the General Category States' average. Development expenditure consists of both economic and social service sector expenditure. The social sector expenditure as a proportion of aggregate expenditure in the State, which was higher than that of the General Category States in 2010-11, has decreased in 2013-14. As observed from the **Table 1.22**, adequate priority needs to be given to both education and health sectors as the ratio under both these sectors are well below the General Category States' average during 2013-14.
- Priority has been given by the State Government to capital expenditure in 2010-11 and 2013-14, as the ratio of capital expenditure to aggregate expenditure has been higher than the average ratio of General Category States.

1.7.2 Efficiency of expenditure

In view of the importance of public expenditure on social and economic development, it is imperative for the State Government to take appropriate expenditure rationalization measures and lay emphasis on provision of core public and merit goods⁸. Apart from improving the allocation towards

⁸ Core public goods are those which all citizens enjoy in common in the sense that each individual's consumption of such goods leads to no subtractions from any other individual's consumption of those goods, e.g. enforcement of law and order, security and protection of citizen's rights; pollution free air and other environmental goods and road infrastructure etc.

Merit goods are commodities that the public sector provides free or at subsidized rates because an individual or society should have them on the basis of some concept of need, rather than ability and willingness to pay the Government and therefore wishes to encourage their consumption. Examples of such goods include the provision of free or subsidized food for the poor to support nutrition, delivery of health services to improve quality of life and reduce morbidity, providing basic education to all, drinking water and sanitation etc.

development expenditure⁹, the efficiency of expenditure use is also reflected by the ratio of capital expenditure to total expenditure and proportion of revenue expenditure being spent on operation and maintenance of the existing social and economic services. The higher the ratio of these components to total expenditure, the better would be the quality of expenditure. While **Table 1.23** presents the trends in development expenditure relative to the aggregate expenditure of the State during the year 2013-14 *vis-à-vis* that of previous years, **Table 1.24** provides the details of capital expenditure and the components of revenue expenditure incurred on the maintenance of the selected social and economic services.

Table 1.23: Development expenditure

(₹ in crore)

	2009-10	2010-11	2011-12	2012-13	2013-14
Development Expenditure (DE)	44,925	51,626	60,930	68,067	76,328
Percentage of DE to total expenditure	74	75	74	73	71
Components of DE					
Revenue	32,291	37,000	44,326	52,094	59,215
	(72)	(72)	(73)	(76)	(77)
Capital	11,657	12,890	14,880	14,889	16,446
	(26)	(25)	(24)	(22)	(22)
Loans and advances	977	1,738	1,724	1,084	667
	(2)	(3)	(3)	(2)	(1)

Source: Finance Accounts. Figures in brackets indicate percentage to development expenditure.

Development expenditure increased from ₹ 44,925 crore in 2009-10 to ₹ 76,328 crore in 2013-14. As a percentage of total expenditure, it increased from 74 in 2009-10 to 75 in 2010-11 and thereafter decreased to 74 *per cent* in 2011-12, to 73 in 2012-13 and further to 71 *per cent* during the current year. On an average, 74 *per cent* of the development expenditure was on revenue account while capital expenditure including loans and advances accounted for the balance during 2009-14.

In 2013-14, expenditure on salary (₹ 13,328 crore) and subsidy (₹ 13,303 crore) formed two major components of development revenue expenditure.

Table 1.24: Efficiency of expenditure in selected social and economic services(ratios in *per cent*)

Sector	2012-13			2013-14		
	Ratio of capital expenditure to total expenditure	Revenue expenditure		Ratio of capital expenditure to total expenditure	Revenue expenditure	
		Salaries and wages	Operation and Maintenance		Salaries and wages	Operation and Maintenance
Social Services						
Education, sports, art and culture	0.39	10.25	0.02	0.36	9.73	0.01
Health and family welfare	0.39	2.38	0.01	0.41	2.20	0.04

⁹ The analysis of expenditure data is segregated into development and non-development expenditure. All expenditure relating to revenue account, capital outlay and loans and advances is categorized into social, economic and general services. Broadly, the social and economic services constitute development expenditure, while expenditure on general services is treated as non-development expenditure.

Water Supply, sanitation, housing and urban development	2.77	0.05	0.17	1.5	0.04	0.14
Others	0.47	0.69	0	0.98	0.71	0.05
Total (SS)	4.02	13.37	0.20	3.25	12.68	0.24
Economic Services						
Agriculture and allied activities	0.32	1.33	0.06	0.28	1.24	0.07
Irrigation and flood control	5.51	0.20	0.14	5.98	0.18	0.25
Power and energy	1.35	0	0	0.36	--	--
Transport	5.04	0.08	0.88	4.96	0.08	0.86
Others	0.96	0.87	0	1.18	0.75	0.02
Total (ES)	13.18	2.48	1.08	12.76	2.25	1.20
Total (SS+ES)	17.20	15.85	1.28	16.01	14.94	1.44

Source: Finance Accounts.

Expenditure on social services

Capital expenditure on social services decreased from ₹ 3,731 crore in 2012-13 to ₹ 3,481 crore in 2013-14 and there was decrease in the ratio of capital expenditure to total expenditure from four *per cent* in 2012-13 to three *per cent* 2013-14.

The share of salary expenditure (under social services) in total revenue expenditure remained at 13 *per cent* in 2013-14.

Expenditure on economic services

Capital expenditure on economic services increased from ₹ 12,242 crore in 2012-13 to ₹ 13,632 crore in 2013-14.

The priority sectors identified by the Government in respect of economic services were agriculture, rural development, irrigation and flood control and transport, industries and minerals. In 2013-14, capital outlay was higher by ₹ 1,269 crore, ₹ 615 crore, ₹ 62 crore and ₹ 51 crore under irrigation and flood control, transport, industries and minerals, and agriculture respectively, while under energy and rural development, it was lower by ₹ 856 crore and ₹ 157 crore respectively compared to the previous year.

The share of salary expenditure (under economic services) in total revenue expenditure was two *per cent* during 2013-14.

1.8 Financial Analysis of Government expenditure and investments

In the post-FRA framework, the Government is expected to keep its fiscal deficit (borrowing) not only at low levels but also meet its capital expenditure/investment (including loans and advances) requirements. In addition, the State Government needs to initiate measures to earn adequate return on its investments and recover cost of borrowed funds rather than bearing the same in the form of implicit subsidy and take requisite steps to

infuse transparency in financial operations. This section presents the broad financial analysis of investments and other capital expenditure undertaken by the Government during 2013-14 vis-à-vis previous years.

1.8.1 Incomplete projects

Locking up of funds on incomplete works include works stopped due to reasons like litigation, etc., impinge negatively on the quality of expenditure. The department-wise information pertaining to incomplete projects as of 31 March 2014 is given in **Table 1.25**.

Table 1.25: Incomplete projects

Table 123: Incomplete projects					(₹ in crore)
Department	Incomplete projects*				Cumulative expenditure as of March 2014
	Number	Budgeted cost	Cost over run		
			Number	Amount	
Public works					
Buildings	70	221.13	7	7.35	143.86
Roads & bridges	203	667.49	43	13.42	431.71
Irrigation	53	99.26	7	3.96	69.25
Total	326	987.88	57	24.73	644.82

Source: Finance Accounts.

* Projects scheduled to be completed on or before 31 March 2014 have been included.

Against the initial budgeted cost of ₹ 987.88 crore in respect of 326 works, stipulated to be completed on or before March 2014, the progressive expenditure was ₹ 645 crore as of 31 March 2014, out of which, in 57 cases, the cost overrun aggregated ₹ 25 crore. No reasons for delay in completion of the works were given by the Public Works and Irrigation Departments.

The ERC in its report (2010) has recommended that infrastructure projects above ₹ 10 crore should be subjected to detailed social cost benefit analysis. Further, it recommended that projects in progress required to be subjected to effective monitoring and evaluation for timely course correction. It also proposed to introduce investment appraisal mechanism for all large projects in a phased manner.

1.8.2 Investment and returns

The investment of the Government in the share capital of Companies/Corporations etc., as brought out in Finance Accounts include the expenditure under the heads of account 4225-107 - Investment in Credit Cooperatives, 4225-108 - Investment in other Cooperatives, 4405-00-191 - Fishermen Cooperatives and 4851-00-108-01 - Share Capital Assistance to Power Loom Cooperative Societies and the minor head 190 – Investments in Public Sector and Other undertakings and 195 - Investment in Cooperatives under the various Capital Outlay heads.

Sick/non-working PSEs/Departmentally managed organizations.

As of 31 March 2014, Government had invested ₹ 55,048 crore, in 85 Government Companies (₹ 50,896 crore including investment of ₹ 63 crore in 17 non-working Government Companies), nine statutory Corporations (₹ 2,251 crore), 43 joint stock Companies (₹ 1,562 crore) and co-operative institutions, local bodies and regional rural banks (₹ 339 crore). The return from investment was negligible (**Table 1.26**).

Table 1.26: Return on investment

	2009-10	2010-11	2011-12	2012-13	2013-14
Investment at the end of the year (₹ in crore)	32,483.28	38,420.70	44,294.86	49,463.80	55,048.00
Return (₹ in crore)	29.48	43.47	60.56	56.29	55.49
Return (<i>per cent</i>)	0.1	0.1	0.1	0.1	0.1
Average rate of interest on Government borrowings (<i>per cent</i>)	6.7	6.4	6.8	6.8	6.3
Difference between interest rate and return (<i>per cent</i>)	6.6	6.3	6.7	6.7	6.2

Source: Finance Accounts.

The State Government in MTFP (2012-16) has accepted the fact that the return on these investments was negligible. It was also stated that though the efforts of Government to get due returns out of its investments did not yield satisfactory results, it could not shy away from investing in social infrastructure involving long gestation and pay back periods. It further stated that Government would continue to make efforts to ensure due returns. However, the MTFP 2014-18 had no mention regarding the efforts made to ensure proper return on investments.

In addition, investment of ₹ 1,441.51 crore in respect of five¹⁰ Companies/Corporations has been lying in Public Account as at the end of March 2014 without actual utilisation by the institutions. This has resulted in locking up of funds in the Public Account.

Finance Department replied (November 2014) that funds are being released to these Companies through the deposit accounts as part of routine procedure throughout the financial year. Actual drawal of these funds is done by respective Companies in due course based on their expenditure requirements. Hence, at any point of time, there would be a certain amount lying unutilised in the concerned deposit account. Release of money into the deposit account ensure that it is still part of overall cash pool of the Government.

The reply is not tenable as such releases inflate the expenditure under the Consolidated Fund, giving scope for borrowings, as such releases are treated

¹⁰ Krishna Bhagya Jala Nigam (₹ 648.51 crore), Karnataka Urban Infrastructure Development and Finance Corporation (₹ 424.67 crore), Karnataka Neeravari Nigam Ltd. (₹ 306.98 crore), Karnataka Rural Infrastructure Corporation Ltd. (₹ 54.22 crore), Karnataka Slum Development Board (₹ 7.13 crore).

as capital expenditure of the Government. Audit observed that in respect of certain Companies/Corporations, there were substantial balances carried forward from year to year. Therefore, a mechanism to ascertain the requirement of funds before release from out of the Consolidated Fund may be put in place.

Out of the total investment of ₹ 55,048 crore up to the end of March 2014, investment of ₹ 52,993 crore (96 *per cent*) was in 60 Government Companies and Statutory Corporations under irrigation sector (₹ 32,123 crore), transport sector (₹ 4,979 crore), infrastructure sector (₹ 2,654 crore), power sector (₹ 8,073 crore), industries sector (₹ 612 crore), housing sector (₹ 1,327 crore), financing sector (₹ 2,526 crore), construction sector (₹ 2 crore) and social sector (₹ 697 crore).

The investment included ₹ 22,341 crore (41 *per cent*) in the following Companies/Corporations, which were having / running perennial loss where the investments were substantial (**Table 1.27**).

Table 1.27: Investment in Companies/Corporations under perennial loss

Company/Corporation	Investment upto 2013-14	Cumulative loss	(₹ in crore)
			Cumulative loss to the end of
North Western Karnataka Road Transport Corporation	252	442.30	2012-13
North Eastern Karnataka Road Transport Corporation	169	377.90	2012-13
The Karnataka Minorities Development Corporation Limited, Bengaluru	295	31.04	2011-12
Rajiv Gandhi Rural Housing Corporation Limited	130	58.33	2011-12
Krishna Bhagya Jala Nigam Limited	21,278	307.84	2012-13
The Mysore Sugar Company Limited, Bengaluru	217	258.36	2012-13
Total	22,341	1,475.77	

Source: Finance Accounts.

During the year, the Government invested ₹ 2,543 crore in these Companies and the cumulative loss had increased by ₹ 51.24 crore.

Krishna Bhagya Jala Nigam was established (in 1994) as a wholly owned Government Company under the provisions of Companies Act, 1956, mainly for execution, operation and maintenance of Upper Krishna Project, works in the Krishna River Basin and such other projects allocated to it by the Government from time to time. The cumulative loss of the company to the end of 2012-13 was ₹ 308 crore.

During the year, Government invested ₹ 5,624.77 crore, in Statutory Corporations (₹ 96.93 crore), Government Companies (working) (₹ 5,526.81 crore), Joint Stock Companies (₹ 0.08 crore) and co-operative institutions (₹ 0.95 crore). The investment included ₹ 20 crore being the conversion of working capital into loan in respect of M/s. Mysore Paper Mills Limited (MPM).

While reviewing the performance of State Public Sector Undertakings with respect to Government investments, the XIII FC had recommended that the State Government should draw up a road map by March 2011 for closure of non-working Companies in consultation with the PAG (Audit). Action taken by the Government in this regard is awaited.

1.8.3 Investment in Public Private Partnership (PPP) Projects

Recourse to the PPP mode for project financing is encouraged because it frees valuable fiscal space for the provision of public goods in areas where such financing may not be forthcoming. PPP projects are in the sectors of transport, agro-infrastructure, education, health, tourism, urban and municipal infrastructure and energy. Infrastructure Development Department was established to play a significant role in the areas of developing air, train and maritime connectivity for the State and in promoting increased private investment in public infrastructure through PPP.

The summary of PPP projects in the pipeline, under implementation and operation are detailed in **Table 1.28**.

Table 1.28: Sector and stage-wise status of PPP projects in the State
(₹ in crore)

Sector	Completed		Under implementation / construction		Under planning / pipeline		Grand Total	
	No	Cost	No	Cost	No	Cost	No	Cost
Agri-Infrastructure	-	-	1	105.90	-	-	1	105.90
Education	1	2.50	-	-	5	1,450.00	6	1,452.50
Energy	-	-	-	-	8	12,131.00	8	12,131.00
Healthcare	1	40.80	3	3.27	17	70.44	21	114.51
Industrial Infrastructure	-	-	-	-	11	41,643.00	11	41,643.00
Tourism	1	32.00	1	108.00	28	618.98	30	758.98
Transportation & Logistics	8	3,744.47	10	965.58	86	95,472.18	104	1,00,182.23
Urban and Municipal Infrastructure	7	276.50	3	56.00	36	5,257.44	46	5,589.94
Total	18	4,096.27	18	1,238.75	191	1,56,643.04	227	1,61,978.06

Source: Department of Infrastructure Development.

From the table, it could be seen that 18 projects worth ₹ 4,096 crore have been completed while another 18 projects worth ₹ 1,239 crore are under implementation and 191 projects ₹ 1,56,643 crore were under planning/pipeline. There was no progress in the activities when compared to previous year.

1.8.4 Departmental undertakings

Nineteen undertakings of certain Government departments performed activities of quasi-commercial nature. According to the latest accounts furnished by six undertakings, the State Government's investment was ₹ 9.75 crore. The total loss incurred by these undertakings was ₹ 7.63 crore. Details are furnished in **Appendix 1.7**.

In view of the continued losses sustained by these undertakings, there is a need for reviewing their working so as to wipe out their losses in the short term and make them self-sustaining in the medium to long term.

State Government replied (December 2013) that the departments would be advised to expedite the conduct of review on the working of these undertakings and submit the findings of the review to the FD and PAC. The outcome of the review is yet to be received.

1.8.5 Loans and advances by the State Government

In addition to investments in Companies, Corporations and Co-operative Institutions, Government also provided loans and advances to many institutions. **Table 1.29** presents the position of outstanding loans and advances as of 31 March 2014 and interest receipts vis-à-vis interest payments during the last five years.

Table 1.29: Average interest received on loans advanced by the State Government

(₹ in crore)

	2009-10	2010-11	2011-12	2012-13	2013-14
Opening balance	7,620	8,047	9,623	11,198	12,142
Amount advanced during the year	982	1,737	1,816	1,102	695
Amount repaid during the year	555	161	241	158	109
Closing balance	8,047	9,623	11,198	12,142	12,729@
Net addition	427	1,576	1,575	944	586
Interest receipts	74	180	52	247	235
Interest receipts as <i>per cent</i> to outstanding loans and advances	1.0	2.2	0.5	2.2	1.9
Interest payments as <i>per cent</i> to outstanding fiscal liabilities of the State Government.	6.2	6.1	6.4	6.3	5.8
Difference between interest receipts and interest payments(<i>per cent</i>)	-5.2	-3.9	-5.9	-4.1	-3.9

Source: Finance Accounts.

@ differs from the figures shown in Appendix 1.9 by ₹1 crore due to rounding.

Loans outstanding as of 31 March 2014 aggregated to ₹ 12,729 crore. Interest spread of Government borrowings was negative during 2009-14 which meant that the State's borrowings were more expensive than the loans advanced by it.

The amount advanced during 2013-14 was ₹ 695 crore. Repayment of loans during 2013-14 aggregated ₹ 109 crore. This included ₹ 20 crore being the conversion of working capital into loan in respect of M/s. Mysore Paper Mills Limited.

Detailed accounts of recovery of loans which are maintained in the office of PAG (A&E) indicated arrear in recovery of loans and advances aggregating

₹ 4,993 crore (principal: ₹ 3,248 crore and interest: ₹ 1,745 crore) was overdue as of 31 March 2014 from 21 institutions¹¹ (**Appendix 1.8**).

Information in respect of overdue Principal and Interest contained in Statement No.7 of Finance Accounts is incomplete, as only 21 out of 842 institutions in respect of whom the detailed accounts are maintained by the Heads of Departments /Chief Controlling Officers of the Government of Karnataka, have furnished the required information. Indian Government Accounting Standards (IGAS)-3¹² requires disclosure of loans that were sanctioned without specific terms and conditions governing such loans. Out of the 44 loans valued at ₹ 876.98 crore sanctioned by the State Government in 2013-14, 42 loans valued at ₹ 628.86 crore were sanctioned without specifying any terms and conditions. Details are available as additional disclosures under Statement No.16 of the Finance Accounts.

Finance Department replied (November 2014) that department of Treasuries will be directed to categorically check whether GOs pertaining to release of loan amounts adhere to the instructions delineated in general loan GO issued by FD in November 2013. It was observed in audit that even after the issue of instructions, compliance was poor.

1.8.6 Cash balances and investment of cash balances

Table 1.30 depicts the cash balances and investments made there from by the State Government during the year.

Table 1.30: Cash balances and their investments

	(₹ in crore)	
	Opening Balance on 01.04.2013	Closing Balance on 31.03.2014
a) General cash balance		
Cash in treasuries	-	-
Deposits with RBI	67.94	86.21
Deposits with other banks	-	-
Remittance in transit-Local	0.01	0.01
Sub Total	67.95	86.22
Investments held in cash balance Investment account	6,872.36	10,973.07
Total (a)	6,940.31	11,059.29
(b) Other cash balances and investments		
Cash with departmental officers viz. PWD officers, Forest Department, DCs	2.11	2.09
Permanent Advances for contingent expenditure with departmental officers	1.65	1.66
Investment of earmarked funds	3,567.17	3,567.17
Total (b)	3,570.93	3,570.92
Grand Total (a+b)	10,511.24	14,630.21

Source: Finance Accounts.

Claims against Government are settled by preferring bills at treasuries, against which cheques are issued (by debit to the Consolidated Fund), to the claimants

¹¹ Source: Finance Accounts 2013-14.

¹² IGAS-3 - Disclosure relating to Loans and Advances given by the Government.

and with this, the Government relinquishes the claims. The Major Head 8670 – Cheques and Bills is credited with the amount of each of the cheque and paired off with its encashment at the Agency Banks. Thus, the credit balances under this head indicate the value of cheques that remained un-encashed. Article 75(1) of Karnataka Financial Code 1958 prescribes that the Treasury Officer should propose an Alteration Memorandum for the value of cheques outstanding for more than 12 months from the date of issue on the 15th of May each year. Due to non-compliance with these instructions by the treasury officers, the credit balance under this head increased from ₹ 6,812 crore in 2012-13 to ₹ 9,488 crore during the year.

Finance Department (November 2014) stated that, the progressive balance include cheques issued in the last quarter of financial year 2013-14, most of which would have been encashed in the first quarter of financial year 2014-15.

Audit observed that the net credit under the account during 2013-14 was ₹ 2,676 crore. Action is required to be taken for analysis of data for cleaning up of the balances.

The cash balance of the State at the end of the year was ₹ 14,630.21 crore. The increase in cash balances was 39 *per cent* over the previous year.

Surplus cash balance was mainly due to market borrowings of ₹ 14,997 crore raised during 2013-14. There was an increase of ₹ 4,101 crore in the investments held in cash balance investment account with RBI at the end of the year.

The surplus cash balance was invested partly in 14 day intermediate Treasury Bills of RBI with an average interest rate of five *per cent* per annum and partly in 91 day intermediate Treasury Bills of RBI with an average interest rate of 9.3 *per cent* against an average rate of 9.5 *per cent* per annum at which the borrowings were made. The interest received from investment in 91 day Treasury bill during the current year was ₹ 241.20 crore.

In MTFP (2013-17), the State Government had stated that cash surpluses above the minimum prescribed limit by RBI are automatically invested in GOI 14 day Treasury Bills. However, these have very low yields varying from five to six *per cent*. Hence, as advised by RBI and recommended by XIII FC and the C&AG of India, additional cash balance available over and above anticipated requirement, is not kept idle and is being invested in 91 day GOI Treasury Bills. It further stated that efforts are to be made for better forecasting of exact requirement of funds and timely release of funds so as to maintain prudent level of cash balance. State Government further stated that it would work towards having in place a real time cash flow estimation model based on the advice and guidance of RBI. It was also admitted that efforts were required to be made for better forecasting of exact requirement of funds and timely release of funds so as to maintain prudent level of cash balance.

1.9 Assets and Liabilities

1.9.1 Growth and composition of assets and liabilities

In the existing Government accounting system, comprehensive accounting of fixed assets like lands and buildings owned by the Government is not done. However, the Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. **Appendix 1.9** gives an abstract of such liabilities and assets as on 31 March 2014 compared with the corresponding position as on 31 March 2013.

Total liabilities, as defined in the Karnataka Fiscal Responsibility Act, 2002 are the liabilities under the Consolidated Fund and the Public Account of the State. By an amendment to section 2(g) of the Karnataka Fiscal Responsibility Act, 2002, brought out in February 2014, the scope of the total liabilities was enlarged to include borrowings by PSUs and Special Purpose Vehicles (SPVs) and other equivalent instruments where the principal and /or interest are to be serviced out of the budget of the Government of Karnataka.

The internal debt includes market loans, special securities issued to RBI and other negotiated loans. The Public Account liability includes small savings, provident funds etc., reserve funds and other deposits. The liabilities of the State as depicted in Finance Accounts, however, did not include pension, other retirement benefits payable to retired/retiring State Government employees/guarantees/letters of comfort issued by the State Government and borrowings through SPVs, termed off-budget borrowings.

Assets comprise assets under Consolidated Fund and cash. The assets under Consolidated Fund consist of capital outlay on fixed assets – investments in shares of Companies and Corporations and loans and advances which in turn consist of loans for power projects and other development loans.

The growth rate of components of assets and liabilities are summarized in the **Table 1.31**.

Table 1.31: Summarised position of Assets and Liabilities

(₹ in crore)

Liabilities				Assets			
	2012-13	2013-14	(per cent)		2012-13	2013-14	(per cent)
Consolidated Fund	75,052	88,522	18	Consolidated Fund	1,31,656	1,49,148	13
a. Internal Debt	63,418	76,428	21	i. Capital outlay	1,19,513	1,36,419	14
b. Loans and advances from GOI	11,634	12,094	4	ii. Loans and advances	12,143	12,729	5
Public Account*	41,715	46,796	12	Cash	10,511	14,630	39
a. Small savings, Provident funds, etc.	15,914	18,021	13				
b. Reserve Funds	12,184	12,318	1				
c. Deposits	13,617	16,457	21				

* The liabilities are on net basis. It does not include investments from out of earmarked funds of ₹3,567 crore (2012-13) and (2013-14).

The growth rate of assets, which was 14 *per cent* during 2012-13 decreased to 13 *per cent* during 2013-14, while that of liabilities increased from 13 *per cent* in 2012-13 to 16 *per cent* in 2013-14.

The Finance Accounts reflected an amount of ₹ 76,428 crore as internal debt outstanding as at the end of 2013-14 after taking into account the difference of ₹ 548.83 crore in the accounts of LIC, GIC, NABARD, NCDC etc. Further, Reserve Bank of India in its quarterly statement of outstanding balances of Government of Karnataka as on 31 March 2014 reflected closing balance of Market Loans – not bearing interest as ₹ 0.15 crore. However, the Finance Accounts reflected an amount of ₹ 0.71 crore, indicating that reconciliation of loan balances (capital account) was required. It was also observed that certain loan balances which figure in Finance Accounts had not been reckoned in the RBI books (three cases). In respect of seven cases, there were differences which require reconciliation. In respect of six cases, the balances as per the books of accounts of PAG (A&E) tallied with those of RBI. Further, as per the communication from the Reserve Bank, there still exists a balance of ₹ 0.40 crore to be discharged in respect of Compensation bonds, the transactions of which are accounted under the minor head 106. However, in the Finance Accounts, these loans do not figure in the outstanding balances. The loans and advances from GOI reflected an amount of ₹ 12,094 crore as at the end of 2013-14.

In the furtherance of the recommendations of the XIII FC, Ministry of Finance, GOI, in a series of orders, all dated 29 February 2012, wrote off loans advanced to the State Government by various Ministries (except those advanced by the Ministry of Finance itself) as on 31 March 2010 (limited to current balances outstanding in the records of the Ministries) towards Central Plan and Centrally Sponsored Schemes. Ministry of Finance permitted the State Governments to adjust the excess repayments of principal and interest made from the effective date of the order (31 March 2010) and its implementation against future repayments to the Ministry of Finance. In respect of the Government of Karnataka, this excess payment amounted to ₹ 68.66 crore, of which, Ministry of Finance has adjusted ₹ 17.32 crore (June 2013) against the dues payable to the Ministry of Finance to end of March 2013 and ₹ 5.48 crore (May 2014) against the dues payable to end of March 2014. The balance amount pending for adjustment was ₹ 45.87 crore (Principal ₹ 23.66 crore and Interest ₹ 22.21 crore) had resulted in adverse balance (net debit) of ₹ 23.66 crore against the loans of the Ministries other than the Ministry of Finance in the books of the State Government.

The assets shown in the Finance Accounts (Statement No. 1 - Investment from earmarked funds - ₹ 3,567.17 crore) is understated atleast to the extent of ₹ 83.33 crore. This is on account of the interest accrued on the investment of sinking fund account made during 2012-13 had not passed through the Government books.

1.9.2 Off - budget borrowings

The borrowings of the State Government are governed by Article 293 (1) of the Constitution of India. In addition to the contingent liabilities shown in **Table 1.31**, the State stood as guarantor for loans availed by Government Companies/Corporations/Societies. These Companies/Corporations/Societies borrowed funds from the market/financial institutions for implementation of various State plan programmes projected outside the State budget. Funds for these programmes were to be met out of resources mobilized by these Companies/Corporations/Societies outside the State budget but in reality the borrowings of these concerns ultimately turn out to be the liabilities of the State Government termed 'off-budget borrowings' and the Government hitherto had been repaying the loans availed of by these Companies/Corporations/Societies including interest through regular budget provision under capital account.

During 2013-14, capital expenditure of ₹ 16,947 crore included ₹ 352 crore towards servicing of principal amount of off-budget borrowings. It also included ₹ 55 crore towards repayment of principal in respect of the borrowing of M/s. RGRHCL misclassified in the revenue budget. The beneficiary entity replied that the erroneous classification has been resolved in the budget for 2014-15. The misclassification has resulted in overstatement of revenue expenditure to the extent brought above.

Table 1.32 captures the trend in the off-budget borrowings of the State during 2009-14 while **Table 1.33** gives the entity-wise position of borrowings to the end of 2013-14.

Table 1.32: Trend in off-budget borrowings

(₹ in crore)

Year	2009-10	2010-11	2011-12	2012-13	2013-14
Amount as furnished by entity [▲]	Nil	Nil	512	18.16	1,914.50

Source: As reported by the concerned entities.

▲ Figures are yet to be reconciled with those indicated in Budget Overview.

Table 1.33: Entity-wise position of off-budget borrowings

(₹ in crore)

Company/Corporation/Board	Outstanding Off-budget borrowings*	Borrowings during the year	Repayment during the year	
			Principal	Interest
Krishna Bhagya Jala Nigam Limited	716.40	679.50	204.39	72.29
Karnataka Neeravari Nigam Limited	---	480.00	---	2.97
Karnataka Road Development Corporation Limited	180.15	55.00	42.31	18.07
Rajiv Gandhi Rural Housing Corporation	269.05	600.00	53.97	25.70
Karnataka Slum Development Board	30.58	---	8.75	3.10
Karnataka Rural Infrastructure Development Corporation Ltd.	33.85	---	12.55	30.41
Karnataka State Police Housing Corporation	117.69	---	24.81	12.83
Cauvery Neeravari Nigam Limited	57.50	100.00	57.50	2.58
Karnataka Residential Education Institution Society	14.72	---	5.45	1.68

Company/Corporation/Board	Outstanding Off-budget borrowings*	Borrowings during the year	Repayment during the year	
			Principal	Interest
Karnataka State Industrial Infrastructure Development Corporation Limited	27.35	---	10.90	1.91
Sarva Shiksha Abhiyan Samithi	1.81	---	1.81	---
Karnataka Power Transmission Corporation Limited [^]	6.67	---	4.42	0.46
Total	1,455.77	1,914.50	426.86	172.00

Source: As reported by the concerned entities.

[^] The entity does not find a place in overview of budget 2013-14.

* At the beginning of the year.

It was observed in audit that there were differences in the outstanding balances as shown in the table above and those reflected in the overview of budget.

Finance Department replied (November 2014) that it was perhaps on account of mixing up of Internal Extra Budgetary Resources (IEBR) with off-budget borrowings and action is being initiated for reconciliation.

In compliance with the commitment made in MTFP 2009-13, off-budget borrowings were eliminated from 2008-09 to ensure transparency in fiscal performance. In MTFP 2011-15 it has been stated that as the State Government was well advanced on the fiscal consolidation road map set in the FRA and, as recommended by XIII FC, the Government has decided in future to allow off-budget borrowings in a limited manner. Further, it has been stated that the quantum of the borrowing would be limited to the repayments of the previous off-budget borrowings i.e., stock of off-budget borrowings would be maintained at the same level as it was at the end of financial year 2009-10. The limit projected as per MTFP 2012-16 was ₹ 3,249 crore. However, in the MTFP (2014-18), the stock of off-budget borrowings has been projected to increase to ₹ 4,234 crore, thus going back on the commitment made before the Legislature in the earlier MTFP.

By an amendment to section 2(g) of the Karnataka Fiscal Responsibility Act, 2002, brought out in February 2014, the scope of the total liabilities were enlarged to include borrowings by PSUs and SPVs and other equivalent instruments where the principal and /or interest are to be serviced out of the budget of the Government of Karnataka. The said amendment came into being from 2013-14. However, due to non-availability of the information, the liability on these borrowings has not been brought into Finance Accounts for the year 2013-14. Thus, the liability is understated to the extent brought out above.

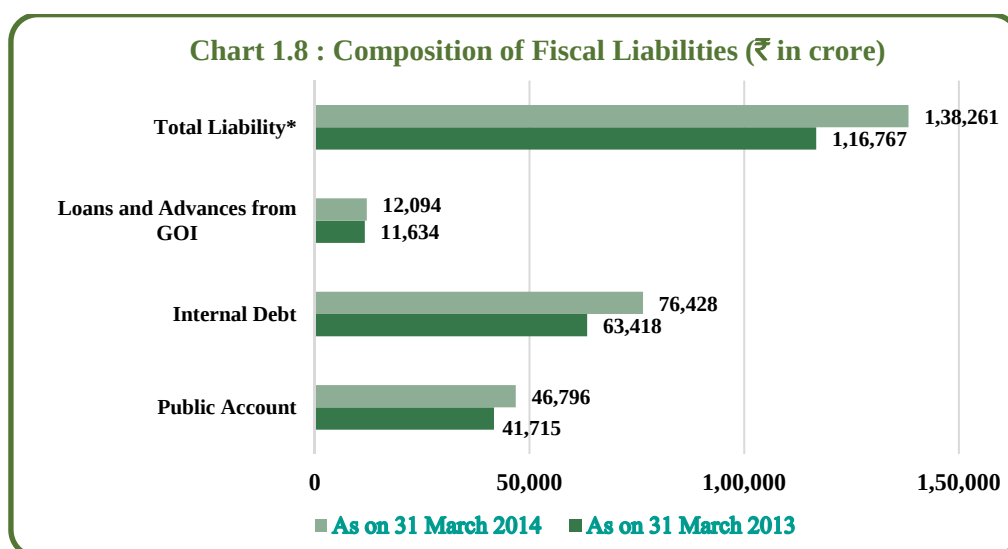
Taking into account the off-budget borrowings of the State, the total liabilities at the end of March 2014 worked out to ₹ 1,38,261 crore¹³ against ₹ 1,35,318 crore shown in **Table 1.34**. The ratio of fiscal liabilities (inclusive of off-budget borrowings) to GSDP thus worked out to 22.98 *per cent* at the end of the year. In the MTFP 2013-2017, it was stated that the State has taken over the long term debt of ₹ 1,050 crore from KPTCL on to its account and

¹³ Total fiscal liabilities: ₹ 1,35,318 crore plus balance of off-budget borrowings: ₹ 2,943 crore.

was expected to repay all the dues by 2016-17. However, this transaction has not been brought to account.

1.9.3 Fiscal liabilities

The trends in outstanding fiscal liabilities of the State are presented in **Appendix 1.4**. The composition of fiscal liabilities during the year 2013-14 vis-à-vis the previous year is presented in **Chart 1.8**.



Source: Finance Accounts.

* Total Liabilities (2013-14) includes outstanding off-budget borrowings (₹2,943 crore).

Fiscal liabilities of the State, their rate of growth, ratio of these liabilities to GSDP, revenue receipts and own resources as well as buoyancy of fiscal liabilities with respect to these parameters are brought out in **Table 1.34**.

Table 1.34: Fiscal liabilities – basic parameters

	2009-10	2010-11	2011-12	2012-13	2013-14
Fiscal liabilities (₹ in crore)	83,482	91,943	1,03,030	1,16,767	1,38,261*
Rate of growth (per cent)	16.7	10.1	12.0	13.3	15.9#
Ratio of fiscal liabilities to					
GSDP	0.25	0.24	0.24	0.22	0.23
Revenue receipts	1.70	1.58	1.47	1.49	1.54
Own resources	2.46	2.20	2.04	2.02	2.07
Buoyancy ratio of fiscal liabilities to					
GSDP	2.04	0.75	0.86	0.66	1.05
Revenue receipts	1.23	0.55	0.60	1.11	1.10
Own resources	1.66	0.43	0.57	1.00	1.03

Source: Finance Accounts.

* Includes outstanding off-budget borrowings (₹2,943 crore).

Growth rate is arrived at considering the off-budget borrowings for previous year also.

Fiscal liabilities of the State increased by 66 per cent from ₹ 83,482 crore in 2009-10 to ₹ 1,38,261 crore in 2013-14 comprising Consolidated Fund liabilities (₹ 88,522 crore), Public Account liabilities (₹ 46,796 crore) and off-

budget borrowings (₹ 2,943 crore). In 2012-13 and 2013-14, due to increased borrowings, the growth rate of fiscal liabilities was 13 *per cent* and 16 *per cent* respectively. Further, the ratio of fiscal liabilities to GSDP during 2013-14 remained at 22.98 *per cent* and the buoyancy of fiscal liabilities to revenue receipts remained the same at 1.1 in 2012-13 and 2013-14. Also, the buoyancy ratio of fiscal liabilities to own resources gradually increased from 0.4 in 2010-11 to 1.0 in 2013-14.

1.9.4 Transactions under Reserve Fund

Reserves and Reserve Funds are created for specific and well defined purposes under the Sector 'J' in the accounts of the State Government (Public Account). These funds are fed by contributions or grants from the Consolidated Fund of India or State or from outside agencies. The contributions are treated as expenditure under the Consolidated Fund. These form debits to the Consolidated Fund. The expenditure relating to the fund is initially accounted under the Consolidated Fund itself for which the vote of the legislature is obtained. At the end of the year, at the time of closure of accounts, the expenditure relating to the fund is transferred to Public Account under the concept of gross budgeting through operation of deduct entry in accounts, forming debit to the Fund. The funds may further be classified as 'Funds carrying interest' and 'Funds not carrying interest'. Generally, the Reserve Funds are classified under the following three categories based on the sources from which they are fed.

- Funds accumulated from grants made by another Government and at times aided by public subscriptions, e.g. Fund formed from subventions from the Central Road Fund.
- Funds accumulated from sums set aside by the Union/State from the Consolidated Fund of India or Consolidated Fund of State, as the case may be, to provide reserves for expenditure to be incurred by them for particular purposes, e.g., Depreciation Fund.
- Funds accumulated from contributions made by outside agencies to the State Government.

As brought out in 'Notes to Accounts' for the year, there were 44 reserve funds, of which nine were active and 33 have been dormant for over 30 years. In addition, PAG (A&E) had requested (June 2011) the State Government to review the necessity to continue two reserve funds, namely;

- (i) State Renewable Fund which has not recorded any transaction under it since 1999-2000.
- (ii) Guarantee Reserve Fund which needs to be replaced by Guarantee Redemption Fund in the light of recommendations of the TFC.

Funds which have remained dormant/inoperative under the major heads 8115 – depreciation/renewal reserve funds and 8229 - development and welfare funds with balances (credit) are indicated in **Appendix 1.10**. Action is needed to be initiated for examination for the required continuation or otherwise of these funds so as to clean up the balances.

Finance Department replied (November 2014) that action has been initiated for clearance of balances, for which necessary additionalities for adjustment account are being sought in SE-II for 2014-15.

The transactions relating to certain funds are discussed in the following paragraphs.

1.9.4.1 Consolidated Sinking Fund (CSF)

Non-provision of committed contribution to the Consolidated Sinking Fund.

The Twelfth Finance Commission recommended that all States should set up Sinking Fund for amortization of all loans including loans from banks, liabilities on account of National Small Savings Fund, etc.. Further, the fund should be maintained outside the Consolidated Fund of the States and the Public Account and should not be used for any other purpose, except for redemption of loans. The working group set up by the Reserve Bank of India to explore the ways for strengthening the Consolidated Sinking Fund in their report (January 2012) also recommended the need to build up a minimum corpus of three to five *per cent* of the State's liabilities within a period of three to five years and thereafter maintain it on a rolling basis. Accordingly, a notification was issued (January 2013) for setting up a Consolidated Sinking Fund in the Public Account of the State Government with an initial investment of ₹ 1,000 crore during 2012-13. Later, another notification was issued (February 2013) for the constitution and administration of the Consolidated Sinking Fund fixing the Government's contribution to the fund at a modest scale of at least 0.5 *per cent* of the outstanding liabilities at the end of the previous year beginning with the financial year 2012-13.

During the year (2013-14), no provision had been made for accounting of fund transactions at the time of approval of the general budget. However, a token provision of only ₹ 0.01 lakh was made in the Second Supplementary Demand for the year with a condition that the investment would be dependent upon the fiscal position of the State. The liabilities of the State Government at the end of 31 March 2013 were ₹ 1,16,767 crore and as per the notification of February 2013, ₹ 584 crore should have been provided for investment during the year in the Budget and the fiscal variables worked out accordingly.

Finance Department stated (April-2014) that provision for transfer to Consolidated Sinking Fund and carrying out the same was contingent upon the State being able to balance its other revenue expenditure needs. Therefore, the commitment to contribute 0.5 *per cent* of outstanding liabilities is contingent on available revenue/fiscal space and is not independent of it.

The reply of the FD was not acceptable as the commitment on account of investment should form part of the budgetary exercise at beginning of the year itself. Further, prudent financial management requires that the fund is built up through regular contribution on a year to year basis so as to reach a minimum corpus of three to five *per cent* of outstanding liabilities within a time-frame of three to five years as recommended by RBI.

1.9.4.2 Forest Development Fund

The revenue realized from Forest Development Tax and money recovered for raising compensatory plantations in lieu of the forest areas converted for non-forestry purposes are credited as revenue of the Government and an equal amount is transferred to the Forest Development Fund.

The actual expenditure incurred on certain works of forest conservation and development initially accounted for under this grant is transferred to the fund account.

There was a balance of ₹ 1,673.86 crore as on April 1, 2013. During the year 2013-14, an amount of ₹ 775.45 crore was credited to the Fund. An expenditure of ₹ 247.70 crore was met out of the fund leaving a balance of ₹ 2,201.61 crore as on 31 March 2014. Progressive increase in balances indicates that the expenditure on the conservation work were not commensurate with the revenue realised from Forest Development Tax.

1.9.4.3 Karnataka Silk Worm Cocoon and Silk Yarn Development and Price Stabilisation Fund

This fund was created in the year 1979 for the purpose of stabilizing the prices of cocoons and silk yarn and for the development of rearing of silk worm seed, reeling and twisting of silk yarn and matters connected therewith. The fund is credited with all moneys received by way of market fees, license fees and contribution made by the Government. The amount at the credit of Fund is particularly utilized for the following purposes:

- a) The construction of buildings required to locate cocoon markets and silk exchanges;
- b) For providing necessary facilities in the cocoon markets and silk exchanges;
- c) Fixation of the floor price of silk yarn by the fund authority from time to time, and
- d) Providing of testing and grading of silkworm seed, cocoon and silk yarn.

During the year 2013-14, an amount of ₹ 35.90 crore was realized from Market Fees and License Fees required to be transferred as resources to this fund and an amount of ₹ 13.22 crore was expenditure on Sericulture Development Programmes required to be met out of this fund. Due to lack of budget provision under this grant, no amounts were transferred to this fund. The balance in the fund as on 31 March 2014 was ₹ 127.46 crore. The non-adjustment of receipt/expenditure to the fund resulted in the retention of the receipt and expenditure in Consolidated Fund leading to distortion of fiscal indicators.

1.9.5 *Contingent liabilities*

1.9.5.1 *Status of guarantees - Introduction*

The Reserve Bank of India constituted a Technical Committee of Finance Secretaries to examine the issue of State Government guarantees in all its aspects. The Committee recommended (February 1999) to the State Governments to fix a ceiling on Government Guarantees. The following four parameters were suggested for fixing the ceiling on Guarantees.

- Linking the guarantees to a dynamic variable such as Net State Domestic Product (NSDP). Total outstanding debt plus one third of outstanding guarantees should not exceed, 50 *per cent* of NSDP. A modification of this parameter was also suggested to such States, where guarantees have been raised for infrastructure, so as to give equal weight to guarantees and debt.
- Linking the guarantees to revenue receipts with each State Government working out the flexible cash available with it each year after deducting the obligatory expenditure such as salary, pension, amortization and interest payments from Central tax devolutions, State's own tax revenue and non-tax revenues.
- Linking the guarantees and debt to the Consolidated Fund of the State - guarantees plus debt together do not exceed twice the receipts in the Consolidated Fund.
- To ensure that the ratio of incremental guarantees to incremental net market borrowings is kept constant or brought down.

1.9.5.2 *Karnataka Ceiling on Government Guarantees Act, 1999*

In order to give effect to the proposals made in the Budget Speech and for implementing the recommendations of the Technical Committee of State Finance Secretaries, a legislation was provided in the form of an Act titled the "Karnataka Ceiling on Government Guarantees Act, 1999" fixing the limits of Government Guarantees issued on behalf of Government Departments, Public Sector Undertakings, Local Authorities, Statutory Boards and Corporations, Co-operative Institutions etc., for promoting fiscal discipline in the State. The Karnataka Ceiling on Government Guarantees Act, 1999, came into force with effect from April 29, 1999. The salient features of the Act are:

- The total outstanding Government Guarantees on 1st day of April of any year shall not exceed 80 *per cent* of the State Revenue Receipts of the second preceding year as in the books of the Accountant General of Karnataka.
- No Government guarantee shall be given in respect of a loan of any private individual, Institution or Company.

- No Government guarantee shall be extended to Co-operation Sector unless the share capital contribution from the non-government sources is not less than 10 *per cent* of the total equity proposed.
- The Government shall charge a minimum of one *per cent* as Guarantee Commission which shall not be waived under any circumstances.

The Government however, has not yet framed rules to implement the provisions of the Act.

The State Government did not adopt the parameters completely as prescribed by the committee in its legislation.

1.9.5.3 Administrative set-up and process

Sanctions for giving Government guarantee are accorded by the Administrative Department concerned on the recommendations of the Heads of the departments in concurrence with FD. The proposals for giving Government guarantee should be approved by the Cabinet. Finance Department monitors the system, maintains the database of guarantees and compliance to the Act.

1.9.5.4 Audit Approach

Audit conducted (June/September-2014) a test check of records for the period from 2009-10 to 2013-14 relating to Government guarantees in FD, Administrative Departments of five selected sectors (Irrigation, Housing, Roads & Transport, State Financial Corporation and Power) and concerned borrowing institutions. The objectives of the audit were to:

- Examine the procedures adopted by the Government in respect of granting and monitoring of guarantees.
- Verify the existence and completeness of the database relating to guarantees.
- Evaluate the correctness of Statement No.9 of Finance Accounts – Guarantees given by the Government.
- Examine the book adjustments in guarantee fees collection.

1.9.5.5 Outstanding Guarantees

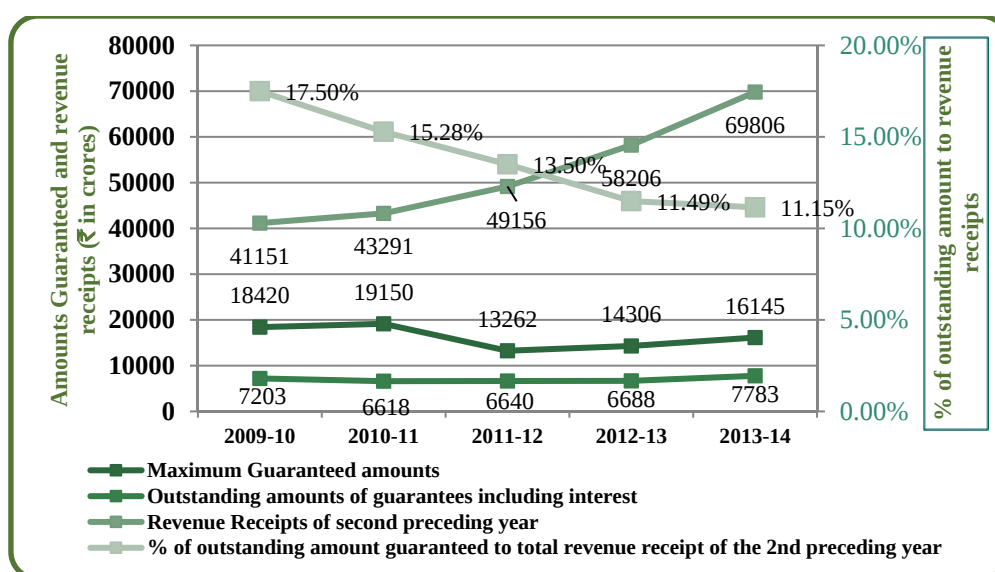
The details of Guarantees outstanding, invoked and guarantee fee during the period 2009-10 to 2013-14 is shown in **Table 1.35**.

Table 1.35 Details of Guarantees and Guarantee fee during the period from 2009-14.

											(₹ in crore)
Year	Maximum amount guaranteed (Principal only)	Guarantees outstanding at the beginning of the year		Net of additions(+) / deletions (-) (other than invoked) during the year, including principal and interest	Invoked during the year		Outstanding at the end of the year		Guarantee fee at the end of the year		% of outstanding amount guaranteed to total revenue receipts of the second preceding year
		Principal	Interest		Discharged	Not discharged	Principal	Interest	Received	Receivable	
2009-10	18420	8073.19	213.36	(-)1083.50	--	--	6953.88	249.17	159.39	436.41	17.50
2010-11	19150	7019.69	223.02	(-)625.01	24.83	--	6448.40	169.30	142.80	317.62	15.28
2011-12	13262	6437.33	140.44	61.75	--	--	6490.70	148.83	99.51	308.83	13.50
2012-13	14306	6392.80	122.40	172.61	--	--	6564.95	122.86	148.93	360.35	11.49
2013-14	16145	6564.96	124.74	1093.02	--	--	7670.51	112.21	30.05	272.14	11.15

Source: Finance Accounts of respective years.

Chart 1.9 Details of amount guaranteed and its percentage to revenue receipts



Source: Finance Accounts of respective years.

From the above table/chart, it could be seen that the percentage of outstanding guarantees as at 1st April of each year was well within the limits prescribed under the Act.

1.9.5.6 Adequacy of disclosure about Guarantees

Government of India notified “IGAS - 1 - Guarantees given by Governments”, in December 2010. This standard required disclosure of information relating to Guarantees as part of financial statement and provided formats for disclosure. Statement No.9 of Finance Accounts contains information on guarantees. The following inaccuracies were observed.

1.9.5.7 Guarantee to GESCOM

The Gulbarga Electricity Supply Company (GESCOM) was issued with a Guarantee for a maximum amount of ₹ 172.80 crore during May 2011. The Company was unable to avail the Guarantee as validity of the loan sanctioned

by State Bank of India had expired. It requested the FD (December 2012) for the cancellation of Government Guarantee and to withdraw the Government Order issued in this regard. However, the Statement on Guarantees continued to feature this Company during the year 2012-13 and 2013-14 as well.

1.9.5.8 Discrepancies in the number of guarantees disclosed in Statement No.9 of the Finance Accounts.

The Karnataka State Financial Corporation (KSFC) had nine and ten guarantees respectively as of 2011-12 and 2012-13. However, these have been reported as 15 and 17 respectively in Statement No.9. Similarly, in respect of Krishna Bhagya Jala Nigam Ltd., (KBJNL) as per Statement No.9 for the years 2011-12 and 2012-13, there were eight guarantees outstanding in both the years. However, as per the information obtained from KBJNL, there were four guarantees outstanding in both the years.

In this connection, the FD confirmed (October 2014) that the discrepancy has arisen due to inclusion of old closed guarantees in the statement which will be rectified and only live guarantees will be included.

1.9.5.9 Inconsistencies of information in the Budget Memorandum

According to section 5.2 (b) of the Karnataka Fiscal Responsibility Act, 2002, the State Government *inter alia*, is required, at the time of presentation of the annual budget, to disclose in a statement the contingent liabilities created by way of guarantees. This is presented in a document titled “Budget Memorandum” and laid before the Legislature. The information presented in the Budget Memorandum suffered from the following inconsistency.

- In respect of M/s. Krishna Bhagya Jala Nigam Limited (KBJNL), whereas Government has stood as Guarantor for ₹ 100.00 crore, the memorandum (2014-15) indicated the same as ₹ 275.50 crore. Further, the guarantees issued for ₹ 100.00 crore on two other occasions had not been brought out. FD replied (October 2014) that figures furnished by KBJNL were incorporated in the absence of related Government Orders and that in future, action will be taken to incorporate the figures furnished by KBJNL after cross verification with the Government Orders issued.

Thus, it may be seen from the above, that the reports on guarantee as furnished in the accounts were not accurate.

1.9.5.10 Disclosure of Structured payment arrangements

The disclosure requirement as per IGAS-1 specifies that the details concerning automatic debit mechanism and structured payment arrangement, if any, and details of tracking unit or the designated authority in the Government be brought out. However, test check of seven agreements revealed that structured payment arrangements provided in the agreements had not been disclosed in

Statement No.9. Thus, the statement suffered from incompleteness in disclosure requirement. The department replied that in future, the structure payment arrangements, details of tracking unit and designated authority for guarantees will be disclosed in the notes to accounts pertaining to guarantees.

1.9.5.11 Database on the guarantees

Finance Department, Government of Karnataka issued a Government order (April 2010) *inter-alia* entrusting the responsibility for monitoring of guarantees to the Directorate of Pensions, Small Savings and Asset – Liability Monitoring (ALM). The existence of complete database about guarantees is prerequisite for effective monitoring of guarantees. The Asset Liability Monitoring (ALM) Section maintains the database of guarantees and information from this database is furnished to FD during the preparation of Statement No.9 of Finance Accounts. However, Government Orders sanctioning guarantees were not marked to ALM section by the Expenditure Sections and Investment Sections. The register of guarantees kept in the Investment Section of FD was showing information only with effect from the year 2011 onwards. There was no account of cancelled/withdrawn/expired guarantees in the register. This resulted in incomplete information in the Guarantee Register in Investment Section and lack of upto date information in the ALM section. Finance Department replied (August 2014) that action will be initiated to ensure that relevant Government Orders, Notifications and Guarantee deeds are made available to the ALM and Investment Sections by Expenditure Sections concerned.

1.9.5.12 Criteria for granting guarantees

Finance Department in its circular (July 2003) listed certain parameters such as quick ratio, debt service coverage ratio, internal rate of return etc. to be reviewed while processing the cases of guarantee in respect of administrative departments. The values of these parameters reflect the financial health of the institution concerned. No guideline ratio ranges were notified for reference in processing the proposals for giving guarantee. This resulted in subjectivity in decision making on guarantee proposals as noticed in the case of guarantees to MPM as shown below.

The MPM, is a Government of Karnataka Company engaged in the business of manufacture and sale of paper and sugar. The Company has been incurring both operating as well as cash losses since 2009-10.

Finance Department approved a Government guarantee (Jan 2010) for ₹ 100.00 crore to MPM with the help of which ₹ 50.00 crore was raised in July 2010 by way of bonds. MPM violated the terms of issue of bonds guaranteed by the Government and diverted ₹ 40.46 crore out of ₹ 50.00 crore into fixed deposits. Government also converted loans of ₹ 101.05 crore (Dec. 2011) into equity investment in the Company. This was done to mobilize the remaining ₹ 50.00 crore from the market on Government guarantee. These actions were taken at the request of the Company to avoid reference to Board for Industrial and Financial Reconstruction (BIFR). In spite of knowledge about the adverse

financial position of the Company, the Government used Government guarantees to secure the interests of the Company and its credit rating.

The FD stated (August 2014) that the Government was aware of the adverse financial position of the Company, but was silent on the prudence in extending guarantees to this loss making commercial undertaking, by way of conversion of its outstanding loans into equity.

1.9.5.13 Policy on Guarantees

Government of India took policy decision (September 2010) for streamlining and improving the methodology for approval of guarantees. As brought out in MTFP 2013-17, since guarantees result in increasing in contingent liability, these should be examined in the same manner as proposal for a loan, taking into account, the credit worthiness of the borrower and the amount and risks to be covered by a sovereign guarantee, the terms of the borrowing, justification in the public purpose served. It was however, admitted that there is no Government policy in place to guide the department while recommending/ giving such guarantees. FD stated (December 2013) that the GOI policy would be examined and attempts made to formulate State specific guarantee policy.

1.9.5.14 Guarantee Commission

The Act prescribes for a minimum guarantee fee at the rate of one *per cent*. It was observed that substantial portion of guarantee fee was through book adjustments in the accounts during the period 2009-14, which is detailed below. These adjustments related to receipts from Companies/Corporations, adjusted as guarantee fee received on the Consolidated Fund on one side, with an equivalent amount being provided as grants etc., out of the Consolidated Fund with the approval of the Legislature.

Table 1.36 : Receipt of Guarantee Fee through book adjustment

(₹ in crore)

Year	GC receipts by way of book adjustment	Total GC receipts	Percentage of GC received by way of book adjustment
2009-10	55.53	159.39	35%
2010-11	94.00	142.80	66%
2011-12	43.86	99.51	44%
2012-13	101.50	148.93	68%
2013-14	3.65	30.05	12%
Total	298.54	580.68	

Source: Finance Accounts of respective years.

These adjustments, though, not made in cash, are accounted as cash transactions for working out borrowing requirements of the Government. These book adjustments were being resorted due to the fact that these Companies/ Corporations were not in a position to pay guarantee dues and it was being done merely to clean up the guarantee revenues due to Government from Statement No.9. It was also seen that certain Companies/Corporations though were working on commercial lines (M/s. Karnataka Road Development Corporation Ltd.) and earning profit, the guarantee dues from these entities

were also adjusted through book adjustments, without intimating specific reasons for the same. It was also observed that in respect of M/s. Karnataka State Police Housing Corporation, the guarantee fee collected was reimbursed to them. Book adjustment of guarantee dues, though revenue neutral, inflate revenues/expenditure on Government account, being carried out on cash basis.

1.9.5.15 Understatement of debt position

Guarantees extended to Companies like M/s. KBJNL, M/s. Karnataka Neeravari Nigam Ltd. (KNNL) etc. for borrowings are literally the Government borrowings as these companies do not have their own stream of revenue to meet their debt servicing. The servicing is done through the budgetary support by the Government. In this context, group of Finance Secretaries, had recommended that the guarantees which are met out of budgetary support may be identified separately and treated as equivalent to debt. The KFRA, 2002 was amended to include the borrowings by SPVs to count for the liabilities of the Government. The amended enactment came into being with effect from 2013-14 itself. However, the borrowings of the Government reflected in the Finance Account do not bring out these cases and thus lacks transparency. The FD admitted (August 2014) that the data on these guarantees would be reflected in the Finance Accounts with effect from 2014-15.

1.9.5.16 Guarantees to KSIIDC

Karnataka State Industrial Infrastructure Development Corporation (KSIIDC) availed a loan of ₹ 150.00 crore on Government Guarantee from HUDCO to meet the cost of land acquisition and other land related expenses for Bangalore International Airport Limited (now Kempegowda International Airport Limited). The budgetary support for repayment was through the Government.

It was noticed that payment of service charges of ₹ 186.62 lakh (2009-10 to 2012-13) has been made to KSIIDC at their request, at the rate of 0.5 per cent per annum over the actual interest rate that becomes payable to HUDCO on the loan. The payment was made by adjusting it against Guarantee Commission dues. The payment of service charges was not intended as per the original order sanctioning the Government guarantee.

In this connection, the FD replied (August 2014) that payment of service charges to KSIIDC was considered in the light of fee based activities being taken up by them to augment their resources and considering that KSIIDC's intervention resulted in substantial lowering of interest rate and resultant savings for Government.

The reply is not acceptable as KSIIDC is the nodal agency through which State support for the construction of International Airport at Bengaluru was being provided and as such payment of service charges was not in order.

1.9.5.17 Guarantee Redemption Fund

To provide for sudden discharge of States' obligations on guarantees, Twelfth Finance Commission recommended that States should set up Guarantee Redemption Fund through earmarked guarantee fees. The State had set up a Guarantee Reserve Fund in 1999-2000 with a corpus of ₹ one crore. The FD replied (August 2014) that setting up of the fund was only a recommendation of the Commission. Neither the Commission nor GOI have made it mandatory to transfer the guarantee fee receipts to the fund and expenditure on invoking guarantees to be met out of such fund. The existing investment policy does not allow Government to invest fund in other debt/equity market, but the investment is limited to GOI treasury bills or RBI treasury bills. It was observed that during 2010-11, in respect of three cases, where the guarantee was invoked, the adjustment was carried out (₹ 24.83 crore) to Fiscal Management Fund. The rules governing this fund are yet to be framed by the Government.

The reply of the Government is not tenable in the context of the adjustment being carried out to a fund head for which rules have not been prescribed and that there is necessity to evolve an investment strategy for prudent fiscal management.

Conclusion

- There were no benchmarks prescribed for guidance to the administrative departments/FD at the time of finalisation of guarantees.
- Absence of policy on Government guarantees and procedures to implement the same gave rise to the following:
 - i. Lack of accountability in giving guarantees.
 - ii. Inconsistencies in management of guarantee commission receivables
- Ineffective sharing of information between various wings of FD and administrative departments impacted situational awareness (database) and affected accuracy of disclosures regarding guarantees.

Recommendations

- ***Government may announce policy prescriptions on guarantees to be given.***
- ***The Database on guarantees may be updated at regular intervals and cross checked at the time of finalisation of the Statements.***
- ***Benchmarks are required to be prescribed for the guidance of the administrative departments at the time of processing the guarantees.***
- ***Rules prescribing the adjustment to the Guarantee Redemption Fund be brought out for transparency of such adjustments.***

1.10 Debt Management

1.10.1 Debt Profile

The revenues of the Government are of two types viz. current revenues which are termed as revenue receipts, realised through administration of taxes, user charges and grants received from GOI. The capital receipts comprise borrowings, non-debt receipts and surplus from Public Account. For working out the borrowings, certain book adjustments are also reckoned as if these are cash transactions. Such transactions are in the nature of subsidy dues of electricity supply Companies, student/elderly concession passes etc., which on one side is shown as expenditure and on the other, as revenues, under relevant receipt heads (tax/non-tax). Such accounting amounted to ₹ 2,200 crore during the year. These transactions also had the impact of showing the tax/non-tax revenues without actual receipt. Such revenue, adjusted through book adjustment was ₹ 60.01 crore (1.5 per cent) and that of tax revenue was ₹ 2,123 crore (3.4 per cent).

Table 1.37 gives details of outstanding fiscal liabilities of the Government under Consolidated Fund and Public Account compared with the per capita liability.

Table 1.37: Debt Profile of the State

Borrowings through	(₹ in crore)				
	2009-10	2010-11	2011-12	2012-13	2013-14
Open market loans	23,525	24,563	30,770	39,920	53,326
Negotiated loans	2,345	2,763	2,972	3,425	3,372
NSSF loans	19,598	21,436	20,591	20,074	19,730
GOI loans	9,902	10,515	10,982	11,634	12,094
Public Account borrowings	28,112	32,666	37,715	41,714	46,796
Total Fiscal liabilities	83,482	91,943	1,03,030	1,16,767	1,38,261*
Population (in crore)	5.85	5.91	6.11	6.11	6.11
Per capita debt ratio (in ₹)	14,270	15,557	16,863	19,111	22,629

*Fiscal Liabilities for the current year include liabilities on off-budget borrowings.

The per capita debt has significantly increased from ₹ 14,270 in 2009-10 to ₹ 22,629 in 2013-14, an increase of 59 per cent.

1.10.2 Debt sustainability

Apart from the magnitude of the debt of the State Government, it is important to analyze various indicators that determine the debt sustainability of the State. The debt sustainability is defined as the ability of the State to maintain a constant debt-GDP ratio over a period of time and also embodies the concern about the ability to service its debt. Sustainability of debt, therefore, also refers to sufficiency of liquid assets to meet current or committed obligations and the capacity to keep a balance between costs of additional borrowings and returns from such borrowings. It means that rise in fiscal deficit should match the increase in capacity to service the debt. This section assesses the sustainability of debt of the State Government in terms of debt stabilization, sufficiency of non-debt receipts, net availability of borrowed funds, burden of interest payments (measured by interest payments to revenue receipts ratio) and

maturity profile of the State Government securities. **Table 1.38** and **Appendix 1.11** analyzes the debt sustainability of the State according to these indicators for the period 2009-14.

Table 1.38: Debt sustainability indicators and trends

Debt sustainability indicators	2009-10	2010-11	2011-12	2012-13	2013-14
Debt stabilization (₹ in crore) (Quantum spread +/- Primary deficit/ surplus)	(-)4,427	1,361	1,583	8,734	3,116
Sufficiency of incremental non-debt receipts (resource gap) (₹ in crore)	(-)2,143	187	(-)1,612	(-)2,207	(-)2,585
Net availability of borrowed Funds (in per cent)	18	9	13	16	18
Burden of interest payments (IP/RR Ratio)	10.6	9.7	9.5	9.5	9.0
Maturity profile of State debt (in years) (₹ in crore)					
0 - 1	0.71(-)				
1 - 3	3,680.86(7)				
3 - 5	8,731.04(16)				
5 - 7	13,417.00(25)				
7 and above	27,497.30(52)				

Source: Finance Accounts. Figures in brackets denote the percentage to market borrowings of ₹53,326.91 crore. Fiscal Liabilities for the current year include liabilities on off-budget borrowings.

1.10.3 Debt stability

Fiscal liabilities are considered sustainable if the Government is able to service these liabilities over the foreseeable future and the debt – GSDP ratio does not grow to unmanageable proportions. A necessary condition for stability is the Domar's Debt Stability Equation. It states that if the rate of growth of economy exceeds the cost of borrowings, the debt-GSDP ratio is likely to be stable provided primary balances are positive /zero/moderately negative. Primary revenue balance is the difference between revenue receipts and primary revenue expenditure and indicates whether the balance of revenue receipts left out after meeting current revenue expenditure is sufficient for meeting the interest expenditure. During 2009-14, the primary revenue balance was positive and sufficient to meet interest expenditure.

Interest spread is the difference between average lending rate and average borrowing rate. Quantum spread is the product of debt stock and interest spread. The interest spread and quantum spread will be positive/negative depending on whether the GSDP growth rate is more or less than the growth rate of interest payments. When the quantum spread and primary deficit are negative, debt-GSDP ratio will be high indicating un-sustainability of public debt and when the quantum spread and primary deficit are positive, debt-GSDP ratio will be low indicating sustaining levels of public debt. In 2013-14, both interest spread and quantum spread were positive.

1.10.4 Sufficiency of incremental non-debt receipts

Another indicator of debt sustainability is the adequacy of incremental non-debt receipts of the State to cover the incremental interest liabilities and

incremental primary expenditure. Debt sustainability could be facilitated if the incremental non-debt receipts could meet the incremental interest burden and the incremental primary expenditure. Negative resource gap indicates non-sustainability of debt while positive resource gap indicates sustainability of debt. The details for the last five years have been indicated in **Table 1.39**.

Table 1.39: Sufficiency of incremental non-debt receipts

(₹ in crore)

Sl. No.		2009-10	2010-11	2011-12	2012-13	2013-14
1	Incremental Non debt Receipts	6,253	8,658	11,697	8,231	11,372
2	Incremental Interest Payments	681	428	963	850	573
3	Incremental Primary expenditure	7,715	8,043	12,346	9,588	13,384
	Resource Gap	(-),2,143	187	(-),1,612	(-),2,207	(-),2,585

The resource gap, which was negative during 2009-10, turned positive in 2010-11, and turned negative during 2011-14. This was mainly on account of growth of revenue receipts being the same as that of growth of total expenditure. This meant that the State had to depend on borrowed funds for meeting current revenue and capital expenditure.

1.10.5 Net availability of borrowed funds

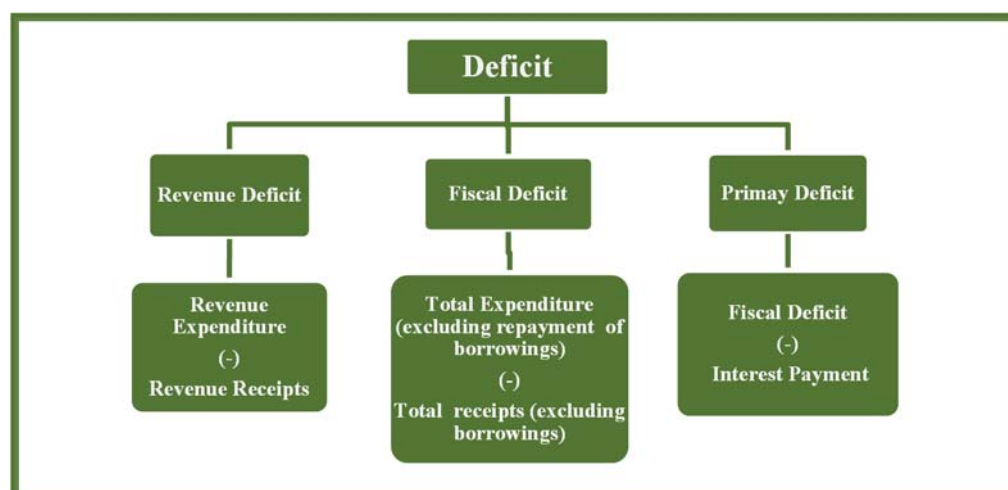
Debt sustainability also depends on the ratio of debt redemption (principal *plus* interest payments) to total debt receipts and application of available borrowed funds. The ratio of debt redemption to debt receipts indicates the extent to which the debt receipts are used in debt redemption indicating the net availability of borrowed funds for capital spending.

Debt redemption ratio continued to be less than one (0.8) in 2013-14 as in the previous three years as debt redemption was lower than debt receipts. Eighteen *per cent* of debt receipts were available for productive/capital expenditure.

1.11 Fiscal imbalances

In an emerging economy, a balanced budget is a difficult task to achieve and the Government has to resort to borrowings to bridge the gap between spiraling expenditure requirement and inadequate non-debt receipts. The gap between receipts and expenditure represents deficit. **Chart 1.10** gives an indication of the various kinds of deficits that occur if the Government borrows to balance the budget.

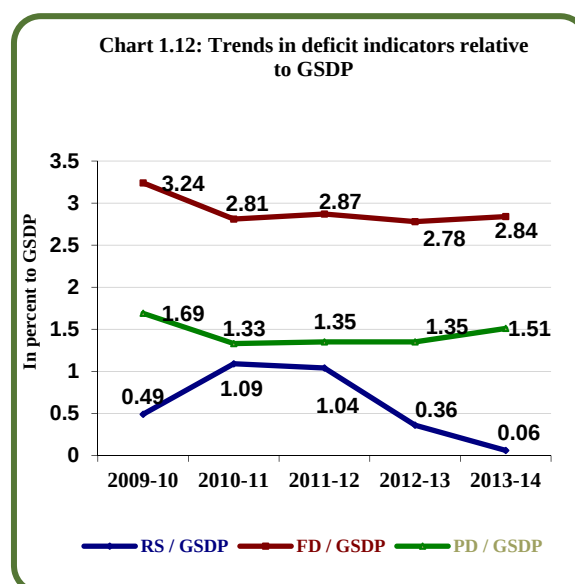
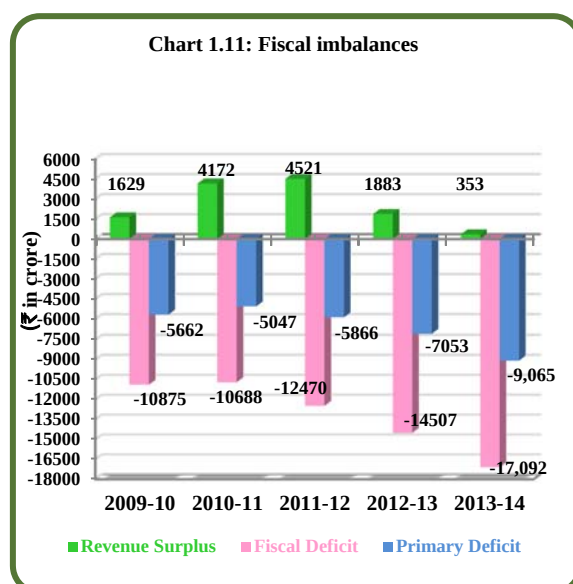
Chart 1.10: Type of deficits



The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further, the ways in which the deficit is financed and the resources raised are applied are important pointers to fiscal health. This section presents the trends, nature, magnitude and the manner of financing these deficits and also the assessment of actual levels of revenue and fiscal deficits vis-à-vis targets set under FRA for the financial year 2013-14.

1.11.1 Trends in deficits

Charts 1.11 and 1.12 present the trends in deficit indicators over the period 2009-14.



The targets for revenue and fiscal deficits set for the TFC and XIII FC periods along with their actual levels are given in **Table 1.40**.

Table 1.40: Outcome vis-à-vis targets under FRA

Period	Revenue deficit		Fiscal deficit (in percentage)	
	Targets as per FRA	Actual	Targets as per FRA	Actual
TFC (2005-10)				
2009-10	Maintain Revenue Surplus	Maintained Revenue Surplus	4.0	3.24
XIII FC (2010-15)				
2010-11	Maintain Revenue Surplus	Achieved the target	3.44	2.81
2011-12			3.00	2.87
2012-13			3.00	2.78
2013-14			3.00	2.84

Source: Finance Accounts.

The Government has been able to maintain revenue surplus during the 2009-14. The fiscal target of wiping out revenue deficit by March 2006, as laid down in FRA, was achieved by the State one year ahead in 2004-05. Thereafter, the State maintained revenue surplus till 2013-14 with inter-year variations. In 2013-14, the revenue surplus decreased by ₹ 1,530 crore over previous year and was ₹ 353 crore. The decrease was mainly on account of compression of revenue expenditure (₹ 906.60 crore) and failure to carry out adjustment to the Consolidated Sinking Fund account (₹ 583.83 crore) and non-adjustment of ₹ 22.68 crore (net) to the Karnataka Silk Worm Cocoon and Silk Yarn Development and Price Stabilisation Fund.

The FRA target of reducing fiscal deficit to GSDP ratio to less than three *per cent* was also achieved. However, the capital expenditure was also compressed to the extent of ₹ 500 crore on account of adjustment of the debit to the Infrastructure Initiative Fund in Public Account.

In 2013-14, there was a moderate increase in the ratio of fiscal deficit to GSDP as compared to the previous year and was 2.84 *per cent* considering the figure of GSDP as communicated by GOI (₹ 6,01,633 crore), which was well within the target of three *per cent*.

Revenue Surplus

Revenue surplus represents the difference between revenue receipts and revenue expenditure. Revenue surplus helps to decrease the borrowings. The revenue surplus has drastically reduced from ₹ 1,629 crore in 2009-10 to ₹ 353 crore during the year. This is on account of increased expenditure (committed) on revenue account under salaries, pensions, interest, subsidies and devolutions affecting the fiscal space.

Against the growth rate of 14.5 *per cent* of revenue receipts, the growth rate of revenue expenditure was 17 *per cent*. This resulted in revenue surplus being brought down during 2013-14. The factors responsible for the surplus on revenue account have been discussed in **para 1.1.2**.

The State Government in MTFP (2013-17) had stated that ‘the high percentage of committed revenue expenditure to uncommitted revenue receipts revealed

that the State has limited flexibility in allocation of resources'. Hence, the State Government needs to do expenditure rationalization by weeding out non-essential schemes, limiting non-development revenue expenditure and streamlining revenue collections.

Fiscal Deficit

Fiscal deficit represents the net incremental liabilities of the Government or its additional borrowings. The shortfall could be met either by additional public debt (internal or external) or by the use of surplus funds from Public Account. Fiscal deficit trends along with the trends of the deficit relative to key components are indicated in **Table 1.41**.

Table 1.41: Fiscal deficit and its parameters

(₹ in crore)

Period	Non-debt Receipts	Total expenditure	Fiscal Deficit	Fiscal Deficit as per cent of		
				GSDP	Non-debt receipt	Total expenditure
2009-10	49,781	60,656	10,875	3.24	21.84	17.93
2010-11	58,439	69,127	10,688	2.81	18.29	15.46
2011-12	70,136	82,436	12,470	2.87	17.78	15.13
2012-13	78,367	92,874	14,507	2.78	18.51	15.62
2013-14	89,739	1,06,831	17,092	2.84	19.05	16.00

Source: Finance Accounts.

In 2009-10, fiscal deficit as a percentage of GSDP, non-debt receipts and total expenditure was the highest due to enhancement of fiscal deficit limit based on the advice of the GOI. During 2013-14, fiscal deficit as a percentage of GSDP once again increased, mainly on account of increase in borrowings/reduced revenue surplus.

Primary Deficit

While fiscal deficit represents the need for additional resources in general, a part of such resources may be needed to finance interest payments in respect of States having deficit on revenue account. Interest payments represent the expenditure of past obligations and are independent of ongoing expenditure. To look at the imbalances of the current nature, these payments need to be separated and deducted from the total imbalances. The primary deficit and its parameters for the last five years are indicated in **Table 1.42**.

Table 1.42: Primary deficit and its parameters

(₹ in crore)

Period	Fiscal Deficit	Interest Payments	Primary Deficit
2009-10	10,875	5,213	5,662
2010-11	10,688	5,641	5,047
2011-12	12,470	6,604*	5,866
2012-13	14,507	7,454*	7,053
2013-14	17,092	8,027*	9,065

Source: Finance Accounts.

*includes interest payment of ₹ 542 crore, ₹ 621 crore and ₹ 190 crore towards off-budget borrowings and others during 2011-12, 2012-13 and 2013-14 respectively.

During 2009-14, the fiscal deficit was almost twice the interest payments. Containing the committed expenditure, which constitutes the major chunk of the revenue expenditure, would enable the State Government to attain surplus on revenue account to a considerable extent. Since the costs of salary, pension and interest are inflexible, the expenditure on subsidies, grants-in-aid other than to local bodies, which are increasing steadily, requires utmost attention by the State Government.

1.11.2 Composition of fiscal deficit and its financing pattern

The financing pattern of fiscal deficit has undergone a compositional shift as reflected in the **Table 1.43**. Breakdown of fiscal deficit reveals the extent of various borrowings resorted to by the State to meet its requirement of funds over and above revenue and non-debt receipts.

Table 1.43: Components of fiscal deficit and its financing pattern

(₹ in crore)

	2009-10		2010-11		2011-12		2012-13		2013-14	
	Amount	% of GSDP	Amount	% of GSDP	Amount	% of GSDP	Amount	% of GSDP	Amount	% of GSDP
Breakdown of fiscal deficit	-10,875	3.24	-10,688	2.81	-12,470	2.87	-14,507	2.78	-17,092	2.84
1 Revenue surplus	1,629	0.49	4,172	1.09	4,521	1.04	1,883	0.36	353	0.06
2 Net capital expenditure	12,077	3.60	13,283	3.49	15,417	3.55	15,446	2.96	16,859	2.80
3 Net loans and advances	427	0.13	1,577	0.41	1,574	0.36	944	0.18	586	0.10
Financing pattern of fiscal deficit*										
1 Market borrowings	4,954	1.48	1,037	0.27	6,207	1.43	9,149	1.75	13,406	2.23
2 Loans from GOI	211	0.06	613	0.16	637	0.15	652	0.12	461	0.08
3 Special securities issued to NSSF	247	0.07	1,838	0.49	-844	-0.19	-517	-0.10	-344	-0.06
4 Loans from financial institutions	272	0.08	419	0.11	208	0.05	454	0.09	-53	-0.01
5 Small savings, PF etc.	1,468	0.44	1,607	0.42	1,398	0.32	1,732	0.33	2,107	0.35
6 Deposits and advances	1,908	0.57	2,037	0.53	1,410	0.32	2,511	0.48	2,840	0.47
7 Suspense and misc.	602	0.18	-296	-0.08	2,634	0.61	98	0.02	2,671	0.44
8 Remittances	-36	-0.01	-35	--	-11	--	-32	--	-12	--
9 Reserve funds	3,201	0.95	1,374	0.36	2,761	0.63	1,362	0.26	135	0.02
10 Increase (-) / decrease (+) in cash balance	-1,954	-0.58	2,106	0.55	-1,942	-0.45	-902	-0.17	-4,119	-0.68
11 Net of Contingency Fund transactions	2	--	-12	--	12	---	--	--	--	--
Total	10,875	3.24	10,688	2.81	12,470	2.87	14,507	2.78	17,092	2.84

Source: Finance Accounts.

* All these figures are net disbursements/outflows during the year.

The components of fiscal deficit are deduct revenue surplus, Net Capital Expenditure and Net Loans and Advances. Since the State had attained revenue surplus in 2004-05 itself, the surplus on revenue account along with market borrowings, loans from GOI etc., were utilized to finance capital expenditure. The capital expenditure could be financed by revenue surplus by 12, 28, 26 and 11 per cent in 2009-10, 2010-11, 2011-12 and 2013-14 respectively. In 2013-14, revenue surplus could finance two per cent of capital expenditure.

There was a steep decrease of nine *per cent* in the extent to which the revenue surplus could finance the capital expenditure over the previous year. This was on account of increase in the revenue expenditure when compared to that of the previous year, the reasons for which are explained in **para 1.6.2**.

In 2013-14, there was substantial increase in market borrowings and its share in financing fiscal deficit increased to 78 *per cent*. There was increase in small savings, PF etc., and deposits and advances over the previous year and considerable decrease in loans from financial institutions. There was considerable increase in suspense and miscellaneous balances which comprised transactions relating mainly to cheques and bills, the net transactions of which were added for financing the fiscal deficit. There were also no receipts during 2013-14 under special securities issued to NSSF.

1.11.3 Quality of deficit/surplus

The ratio of revenue deficit to fiscal deficit and the decomposition of primary deficit into primary revenue deficit and capital expenditure (including loans and advances) indicate the quality of deficit in the State's finances. The ratio of revenue deficit to fiscal deficit indicates the extent to which borrowed funds were used for current consumption. Further, persistently high ratio of revenue deficit to fiscal deficit also indicates that the asset base of the State was continuously shrinking and a part of borrowings (fiscal liabilities) was not having any asset backup. The bifurcation of the primary deficit (**Table 1.44**) indicates the extent to which the deficit was on account of enhancement in capital expenditure which might be desirable to improve the productive capacity of the State's economy.

Table 1.44: Primary deficit/surplus – Bifurcation of factors

(₹ in crore)

Year	Non-debt receipts	Primary revenue expenditure	Capital expenditure	Loans and advances	Primary expenditure	Primary revenue deficit (-) /surplus (+)	Primary deficit (-) /surplus (+)
1	2	3	4	5	6 (3+4+5)	7 (2-3)	8 (2-6)
2009-10	49,781	42,314	12,147	982	55,443	7,467	(-)5,662
2010-11	58,439	48,393	13,355	1,738	63,486	10,046	(-)5,047
2011-12	70,136	58,511	15,506	1,815	75,832	11,455	(-)5,866
2012-13	78,367	68,839	15,479	1,102	85,420	9,528	(-)7,053
2013-14	89,739	81,162	16,947	695	98,804	8,577	(-)9,065

Source: Finance Accounts.

Primary deficit which was ₹ 5,662 crore during 2009-10 increased to ₹ 9,065 crore during 2013-14. The percentage of interest payment to fiscal deficit stood at 47 during the year.

1.12 Follow up

The report of the C&AG of India on State Finances for the year 2009-10 was discussed by the PAC during the period May 2011 to August 2011. The report containing the recommendations was placed before the legislature in December 2011. Compliance to the recommendations of the PAC, the Action Taken Note were placed before the PAC for its consideration during September 2014.

1.13 Conclusion and recommendations

Fiscal Position

The State continued to maintain revenue surplus during 2009-14 and kept fiscal deficit relative to GSDP below the limit prescribed under FRA.

During 2013-14, revenue surplus was ₹ 353 crore mainly on account of compression of revenue expenditure (₹ 906.60 crore) and failure to carry out adjustment to the Consolidated Sinking Fund account (₹ 583.83 crore) and non-adjustment of ₹ 22.68 crore (net) to the Karnataka Silk Worm Cocoon and Silk Yarn Development and Price Stabilisation Fund.

The fiscal deficit during 2013-14 was 2.84 per cent of GSDP (₹ 6,01,633 crore), which was within the limit laid down under the FRA as the capital expenditure was also compressed to the extent of ₹ 500 crore on account of adjustment of the expenditure under the Consolidated Fund to the Infrastructure Initiative Fund in Public Account.

Recommendation: *Timely and proper accounting adjustments need to be carried out to reflect the true and fair picture of the fiscal parameters.*

State's own resources

The ratio of State's tax revenue to GSDP showed an increasing trend since 2009-10 and was at 10.40 per cent during 2013-14 indicating a saturation level. However, there was no improvement in the ratio of non-tax revenue to GSDP and it continued to be less than one in 2013-14 also. User charges from health sector amounting ₹ 499.50 crore did not form part of Consolidated Fund receipts.

Recommendation: *Non-tax revenues require significant thrust. Non-tax revenues collected in the form of user charges should form part of Consolidated Fund revenues and a system of ensuring that the receipts are made available to the respective sectors should be put in place.*

Revenue expenditure

There was seven per cent growth under social sector over the previous year and the share of expenditure on social services to total revenue expenditure decreased by four per cent over the previous year and was at 36 per cent in 2013-14. Also, there was 23 per cent growth in expenditure on economic services in 2013-14 compared to 13 per cent in 2012-13.

The share of plan revenue expenditure to total revenue expenditure increased from 28 per cent in 2012-13 to 30 per cent in 2013-14.

Eighty five per cent of revenue expenditure constituted committed expenditure on salaries, pensions, interest payments, subsidies, grants-in-aid, expenditure

on operation and maintenance of assets, administrative expenditure and State's share of centrally sponsored schemes and centrally planned schemes. Total subsidy of ₹ 13,323 crore reflected in the accounts was explicit subsidy and it excluded implicit subsidy of around ₹ 1,690 crore during 2013-14.

Recommendation: *Since the costs of salary, pension and interest are inflexible, the expenditure on subsidies, grants-in-aid other than to local bodies, which are increasing steadily, requires utmost attention by the State Government. Adequate priority needs to be given to both education and health sectors as the ratio under both these sectors are well below the General Category States' average during 2013-14. Accounting adjustments should be done according to the orders issued and should not be belatedly resorted to distort the expenditure pattern.*

Quality of expenditure

The share of capital expenditure to total expenditure during 2013-14 (17 per cent) decreased by one per cent from that of previous year. The percentage of developmental expenditure¹⁴ to total expenditure decreased to 71 per cent in 2013-14 from 73 per cent in 2012-13.

Funds aggregating ₹ 645 crore were locked up in incomplete projects at the end of 2013-14.

The return from investment of ₹ 55,048 crore as of 31 March 2014 in Companies/Corporations was negligible (₹ 55.49 crore). The investment included ₹ 22,341 crore (41 per cent) to Companies/Corporations which were under perennial loss.

Recommendation: *The State Government should formulate guidelines for quick completion of incomplete projects and strictly monitor reasons for time and cost overrun with a view to take corrective action. The State Government should review the working of State Public Sector Undertakings incurring huge losses and take suitable decisions.*

Monitoring of funds transferred directly from the GOI to the State Implementing Agencies

Government of India directly transferred ₹ 7,811 crore to the implementing agencies of the State during the year. The transfer of funds from GOI to the State implementing agencies directly ran the risk of inadequate monitoring of utilisation of funds by these agencies in the absence of uniform accounting procedures and effective monitoring system.

Recommendation: *Management Information Systems may be established and existing Central Plan Scheme Monitoring System may be utilized effectively for real time accounting and monitoring of funds transferred directly to State Implementing Agencies of Central sector schemes.*

¹⁴ Developmental expenditure is expenditure incurred on social and economic services.

Funds and other Liabilities

Reserve funds of the State viz., corpus fund of Guarantee Redemption Fund was not created/revived. The transactions relating to the Consolidated Sinking Fund, Karnataka Silk Worm Cocoon and Silk Yarn Development and Price Stabilisation Fund was not carried out during the year.

Recommendation: *Rules with regard to administration and investment pattern of various reserve funds require to be framed. Also, schemes/programmes are required to be formulated for utilizing the balances.*

Debt sustainability

Fifty two *per cent* of the open market borrowings are in the maturity bracket of above seven years. The resource gap turned negative during 2011-14. This was mainly on account of growth of revenue receipts being the same as that of growth of total expenditure. This meant that the State had to depend necessarily on borrowed funds for meeting current revenue and capital expenditure.

Recommendation: *The State Government needs to schedule its borrowings in a prudent manner. Parking of funds especially with reference to developmental schemes either in nationalized banks/deposit account should be avoided. The accounting adjustments should be in accordance with the principles governing the adjustments.*

Chapter-II

Financial Management and Budgetary Control

2.1 Introduction

2.1.1 Appropriation Accounts are accounts of the expenditure, voted and charged, of the Government for each financial year compared with the amounts of the voted grants and appropriations charged for different purposes as specified in the schedules appended to the Appropriation Acts, passed by the Legislature. These accounts list the original budget estimates, supplementary grants, surrenders and re-appropriations distinctly and indicate actual capital and revenue expenditure on various specified services *vis-à-vis* those authorized by the Appropriation Act in respect of both charged and voted items of budget. The Karnataka Budget Manual contains the procedures for preparation of the estimates of budget, subsequent action in respect of the budget communication, distribution of grants, watching the progress of revenue and actuals and control over expenditure.

2.1.2 Audit of appropriation by the C&AG of India seeks to ascertain whether expenditure actually incurred under various grants is within the authorization given under the Appropriation Act and that the expenditure required to be charged under the provisions of the Constitution is so charged. It also ascertains whether the expenditure so incurred is in conformity with law, relevant rules, regulations and instructions.

2.2 Summary of Appropriation Accounts

2.2.1 The summarized position of actual expenditure during 2013-14 against 29 grants/appropriations is given in **Table 2.1**.

Table 2.1: Summarized position of actual expenditure vis-à-vis original/ supplementary provision

(₹ in crore)

Nature of expenditure		Original grant/ appropriation	Supplementary grant/ appropriation	Total	Actual expenditure	Unspent provision
Voted	I Revenue	89,501.71	7,752.39	97,254.10	82,071.41	15,182.69
	II Capital	19,639.39	4,302.63	23,942.02	18,128.17	5,813.85
	III Loans and advances	995.93	132.62	1,128.55	902.80	225.75
Total Voted		1,10,137.03	12,187.64	1,22,324.67	1,01,102.38	21,222.29
Charged	IV Revenue	9,138.48	10.84	9,149.32	8,790.89	358.43
	V Public Debt repayment	5,840.42	0.00	5,840.42	3,823.46	2,016.96
	VI Capital	0.00	0.00	0.00	0.00	0.00
Total Charged		14,978.90	10.84	14,989.74	12,614.35	2,375.39
Grand Total		1,25,115.93	12,198.48	1,37,314.41	1,13,716.73	23,597.68

Source: Appropriation Accounts.

2.2.2 The total expenditure (test checked cases) stands inflated/without details of expenditure for at least to the extent of the following:

- Non-submission of detailed account in support of advances drawn through Abstract Contingent bills amounting to ₹ 128.22 crore for the year 2013-14 by the Drawing and Disbursing Officers, as required under paragraph 37 (b) (3) of Manual of Contingent Expenditure, 1958. In the absence of detailed contingent bills, the genuineness of the expenditure could not be vouchsafed. The total number of outstanding bills was 4,134.
- Eleven DDOs, drew an amount of ₹ 92.98 crore during March 2014 utilizing an amount of ₹ 2.94 crore (three *per cent* of the amount drawn) leaving ₹ 90.04 crore unutilized (97 *per cent*).
- The capital expenditure for the month of March 2014 was ₹ 6,138 crore which forms 36 *per cent* of total expenditure of ₹ 16,947 crore for 2013-14. A test check of certain transactions revealed that there were instances of amounts drawn in excess of requirement and lying unutilised by certain entities which resulted in reflecting inflated capital expenditure. Credit balances outstanding in the books of accounts at the end of the year in respect of these entities as shown in **Table 2.2**.

Table 2.2: Capital expenditure outstanding

(₹ in crore)

Sl. No.	Name of the Entity	Net Credit Balance to end of the year	Remarks
1	Krishna Bhagya Jala Nigama Limited	648.51	(includes ₹ 128.78 of previous year)
2	Karnataka Infrastructure Development and Finance Corporation	424.67	(includes ₹ 204.74 of previous year)
3	Karnataka Neeravari Nigama Limited	306.98	(includes ₹ 16.88 of previous year)
4	Karnataka Rural Infrastructure Development Corporation Ltd. (Formerly KLAC)	54.22	(includes ₹ 3.88 of previous year)
5	Karnataka Slum Development Board	7.13	--

Source: DDR Ledger.

- Non utilization of ₹ 2.50 crore which was released by Government towards Employee and pensioners database - Grant-in-Aid for asset creation has resulted in inflating the expenditure. The amount was drawn from treasury (March 2014) for the purpose of up-gradation of HRMS database which has remained unutilized (June 2014).

2.2.3 The total expenditure (test checked cases) stands understated on account of non-adjustment of ₹ 22.68 crore to the Karnataka Silk Worm Cocoon and Silk Yarn Development and Price Stabilization Fund on account of non-availability of provision.

2.2.4 The overall unspent provision of ₹ 23,597.68 crore was the result of unspent provision of ₹ 23,973.49 crore under 29 grants/ appropriations under revenue section offset by excess expenditure of ₹ 355.39 crore over provision under demand No.8 and 27 grants under Capital Section offset by excess expenditure of ₹ 20.42 crore over provision under demand No.26.

The saving under Revenue Section of Voted Grant includes ₹ 3,848.36 crore being the Central Share of direct releases to State Implementing Agencies. However, no adjustment of direct releases was carried out in accounts for the year 2013-14, in view of the fact that the expenditure was not a part of Government Accounts.

Saving of ₹ 1,010.06 crore under Demand No.7 – Rural Development and Panchayat Raj (₹ 756.99 crore) and Demand No.19 - Urban Development (₹ 253.07 crore) was on account of late release of money from Government of India being the second installment of General Basic Grants and General Performance Grants of PRIs/ULBs.

2.2.5 Article 266 (3) of the Constitution of India prohibits withdrawal of money from out of the Consolidated Fund of the State unless relevant Appropriation Acts under Articles 204 and 205 of the Constitution are passed by the Legislature. However, ₹ 186.58 crore covering four grants under Revenue Section, (this is only illustrative), through several executive orders for incurring expenditure not covered by the Budget, were released by FD as additionalities during the year without the authorization of the Legislature as shown in **Table 2.3**.

Table 2.3: Expenditure incurred through Executive Orders

(₹ in crore)			
Sl. No.	Grant No.	Head of Account	Amount
1	04	2015-00-106-2-02-059 (NP) – Expenses for conducting Bye-Election to Karnataka Legislative Council	0.40
2		2070-00-104-0-02(NP) - Administrative Expenses	0.18
3		2070-00-104-0-02 – Salary expenses	2.50
4		2070-00-104-0-03 - General expenses	3.05
5		2012-03-090-0-00-011 - DA	0.05
6		2012-03-103-0-01-002 - Pay of Officers	0.02
7		2012-03-103-0-01-011 - DA	0.04
8		2012-03-105-0-00-003 - Pay of Staff	0.03
9		2012-03-105-0-00-014 – Other Allowances	0.01

Sl. No.	Grant No.	Head of Account	Amount
10	06	3451-00-090-1-11-071 – Building expenses	0.24
11	17	2202-03-103-2-01-051 – Payment of honorarium to Guest Lecturers	30.00
12		2202-01-196-1-01-421 - Salary of Adult Education Officer	0.06
13	19	3604-00-191-3-18-032 – Grants for creation of capital assets	150.00
Total			186.58

Source: Appropriation Accounts.

The expenditure in these cases was incurred first without the authority of the Legislature and then only brought before the Legislature through supplementary demands. Though such instances are pointed out year after year, no remedial action has been taken to set right the procedure followed for such expenditure.

Finance Department (December 2013) had replied that, the orders for additionalities were issued, keeping the urgency for release of funds in emergent cases, for which the executive cannot wait until the Legislature meets.

The reply of the FD is not tenable as in cases of emergency, withdrawal from Contingency Fund, keeping in mind, the rules in force could be resorted to pending authorization by the Legislature. It was also seen that the additionalities were made where the expenditure were routine/administrative in nature, viz., honorarium payments, salaries of Government employees, purchase of vehicle, grants for creation of capital assets etc.

2.3 Scrutiny of Budget Estimates and Supplementary Estimates for the year 2013-14

2.3.1 Injudicious/imprudent changes made to the Budget documents

Budget for 2013-14 was presented twice in view of elections to Karnataka Legislative Assembly held during May 2013. The budget presented on 8 February 2013 was approved for 'Vote on Account' by the Legislature to incur expenditure to the extent of ₹ 40,413.72 crore against 29 Grants, the detailed classification of which were contained in Detailed Estimates (8 volumes). The revised budget presented on 12 July 2013 was approved by the Karnataka State Legislature, wherein 12 schemes having earlier Legislative approval through 'Vote on Account' was made Null, resulting in expenditure without provision of Funds/New Instrument of Service/New Service.

2.3.2 Misclassification between Capital and Revenue Account

Budget provision was obtained under capital section in respect of certain expenditure which should have been classified as revenue according to

IGAS-2¹⁵. On noticing the mistake in obtaining the budget, the error was rectified through supplementary demand during the year. The amount erroneously provided amounted to ₹ 904.19 crore spread across six Major Heads. However, rectification of the transaction was done only to the extent of ₹ 253.70 crore incurred initially under two Major Heads (4215 and 5452) leaving an amount of ₹ 650.49 crore under the capital section.

It was also observed in audit that there was misclassification of expenditure under capital section amounting to ₹ 20.40 crore which related to the salaries.

2.3.3 Misclassification between 'Voted' and 'Charged'

Provision was made under voted section instead of charged both under revenue and capital for discharge of debt service obligations under off-budget borrowings in respect of Companies/Corporations etc. These cases of misclassification amounted to ₹ 721.60 crore. An expenditure of ₹ 591.80 crore stood accounted against provision of funds, which are show in **Table 2.4**.

Table 2.4: Erroneous classification

(₹ in crore)

Sl. No.	Grant No.	Classification	Provision	Expenditure
1	05	2055-00-113-0-03-240	13.00	13.00
2		4055-00-211-0-01-240	24.81	24.81
3	06	5465-01-190-1-04-240	13.20	12.82
4	10	2225-01-277-0-18-240	0.62	0.62
5		2225-03-277-3-01-240	0.62	0.62
6		2225-03-277-3-02-240	0.15	0.15
7		4225-01-277-2-03-240	2.48	2.48
8		4225-03-277-2-04-240	2.50	2.50
9		4225-03-277-2-05-240	0.42	0.42
10	16	2216-03-104-0-02-240	90.00	84.05@
11	17	2202-03-103-2-10-240	5.41	0
12		4202-01-203-1-03-240	2.85	0
13	19	2217-04-191-2-04-240	11.86	11.86
14	20	3054-80-190-0-01-240	17.93	17.93
15		5054-80-190-0-01-240	42.31	42.31
16	21	2701-80-190-0-01-240	231.54	116.33
17		2701-80-190-0-02-240	0.00*	0
18		4701-80-190-3-00-240	261.90	261.90
19		4701-80-190-4-00-240	0.00*	0
Total			721.60	591.80

Source: Finance Accounts.

* A token provision of ₹ 1,000/- was made.

@ Expenditure includes ₹ 54.65 crore, the principal repayment towards off-budget borrowings.

¹⁵ Indian Government Accounting Standards – 2, relates to treatment of grants-in-aid released under revenue account to various entities.

2.3.4 Errors in budgeting

Errors in budgeting of ₹ 1,187.46 crore (**Appendix 2.1**) was mainly due to the following reasons:

- Provision of Funds in the Revenue Section of the Charged appropriation under 'Interest on Internal Debt-Interest on Market Loan- New Loans of 2012-13-Debt Servicing' (₹ 163.30 crore) was made erroneously despite the provision of funds for interest payments of Market Loans raised in 2012-13 under respective detailed heads.
- Provision made under object head level (442 SCP - ₹ 575.15 crore and 443 - ₹ 337.47 crore instead of 422 and 423). However, the expenditure was correctly classified.
- Provision was made under 2245-05-101-06 being the State's additional contribution to State Disaster Response Fund (₹ 100 crore) under inter account transfers. The provision was erroneous as the seed money in respect of SDRF did not form part of the amount to be transferred to the fund as per the guidelines issued by GOI.

2.3.5 Errors in Classification

The budget/expenditure suffered on account of operation of incorrect budget lines for release and accounting of ULB grants. Distinct heads to be opened for accommodation of budget/expenditure of the ULB sector which should indicate them merely as grants to ULBs. Such details which are to be shown distinctly in a separate budget document, are discussed below in **Table 2.5**.

Table 2.5: Details of errors in classification

(₹ in crore)

Item of Expenditure	Amount involved	Remarks
Pension and retirement benefits	10,226.10	This expenditure included grants released to Urban Local Bodies (ULBs) for payment of pension (₹ 36.44 crore) which are not in the nature of pensions paid to Government Servants.
Consolidated salaries	629.46	This object head is intended for recording the salary expenditure of constitutional dignitaries, but includes releases made to ULBs for payment of salary (₹ 601.30 crore).
Maintenance	2,191.52	Includes releases made to ULBs for maintenance of ₹ 522.63 crore. This expenditure out of the Consolidated Fund was not for maintenance but was only a release to ULBs for maintenance.
Subsidy	14,100.21	Includes releases made to ULBs for payment of subsidy (₹ 96.40 crore).

Source: Finance Accounts.

2.3.6 Accounting of inadmissible transactions under the object head prescribed for Compensatory Cost

Budget provision ₹ 9.54 crore was made to capture the data relating to the guarantee of services to the citizens. During the year, it was observed that the expenditure on Compensatory Cost included inadmissible expenditure relating to the scheme like administrative expenses, salaries and wages to contract labourers etc. to the extent of ₹ 0.19 crore recorded under the functional major head 2230 – Labour and Employment.

Finance Department replied (November 2014) that, as there were no prescribed minor head/object head to capture the data, a new object head with code 060 was provided for the purpose. With regard to the inadmissible expenditure pertaining to the Department of Labour, it was informed that the matter is under examination.

2.4 Transactions under fund account

Infrastructure Cess collected under various tax revenues is assigned to Fund accounts (in Public Account) as per the extant procedure which is transferred to IIF, BMRCL Fund and CMRRD Fund.

During the year 2013-14, a sum of ₹ 867 crore was anticipated as collection of cess and a suitable provision was also made in the budget for its transfer to the fund account. Similarly, provision was also made for the transfer of equivalent amount of expenditure to the fund head through accounting adjustment, which was carried out. In the Supplementary Estimates, an additional sum of ₹ 302 crore was obtained to enable a pass through of further anticipated expenditure from the respective fund heads.

Audit however, observed that the expenditure relating to the fund was allowed to remain in the Consolidated Fund instead being transferred to fund heads in the Public Account.

The expenditure by not forming part of Public Account had the effect of influencing the fiscal parameters under Consolidated Fund.

2.5 Lack of transparency in provisioning - budget operation of omnibus Object Head 059 – ‘Other Expenses’

Provision/ expenditure in Government Budget/ Accounts is classified according to Sector/ Sub-sector / Function/ Sub-function / Programme/ Sub/ Detailed/ Object head using 15 digit classification. Expenditure towards the Object head – last tier of classification exhibits the object/ nature of expenditure, required to be prepared by exercising high degree of accuracy/ acumen/ competency. In order to simplify the classification of expenditure, new object heads were formed during the year 2003-04, by merging certain object heads of account. The Object head ‘059 - Other Expenses’, an omnibus head, was to record such provision/ expenditure which could not be classified

under any other object heads devised. According to the Budget Circular, the provision under this head should be the bare minimum.

It was, however, observed that the Budget for the year 2013-14, included provision of ₹ 10,635 crore under revenue and ₹ 2,702 crore under capital account relating to '059 – Other Expenses' constituting about 11 *per cent* under revenue and 15 *per cent* under capital section. The expenditure not forming part of the object head, booked as such has been brought out in **Appendix 2.2**. These are misclassifications and the amount involved is ₹ 142.69 crore.

Finance Department replied (November 2014) that an independent review of provision under the object head was conducted. Fifty three cases (revenue/capital) of provisions were shifted to appropriate/nearest head in 2014-15 budget.

The transaction also included a case of book adjustment in accounts during the year, for an amount of ₹ 1.93 crore. This related to the adjustment of Guarantee commission dues payable by M/s. KRDCCL to GOK and treating it as an expenditure under the said object head.

2.6 Financial accountability and Budget management

2.6.1 Appropriation vis-à-vis allocative priorities

There were 30 cases of unspent provision, each exceeding ₹ 100 crore and above under 21 grants/appropriation, which aggregated to ₹ 23,149.75 crore during 2013-14. Large unspent provisions were in areas of Rural Development and Panchayat Raj, Finance, Urban Development, Water Resources, Debt Servicing, Public Works, Education, Agriculture and Horticulture, Social Welfare, etc., as indicated in **Table 2.6**.

Table 2.6: Grants/appropriations with unspent provision of ₹ 100 crore and above

Sl. No.	Grant/ Nomenclature	Provision			Expenditure	Unspent provision
		Original	Supplementary	Total		
1	01 - Agriculture and Horticulture Revenue - Voted	4,291.72	724.51	5,016.23	3,463.04	1,553.19
2	02- Animal Husbandry and Fisheries Revenue - Voted	1,708.20	137.97	1,846.17	1,639.08	207.09
3	03 - Finance Revenue - Voted	10,494.34	1,011.92	11,506.26	11,389.62	116.64
4	04 – Department of Personnel and Administrative Reforms Revenue - Voted	757.85	123.08	880.93	630.52	250.41
5	05 – Home and Transport Revenue - Voted	4,425.45	263.16	4,688.61	4,168.01	520.60

Sl. No.	Grant/ Nomenclature	Provision			Expenditure	Unspent provision
		Original	Supplementary	Total		
6	06 – Infrastructure Development Capital – Voted	537.20	100.00	637.20	497.16	140.04
7	07 – Rural Development and Panchayat Raj Revenue – Voted	5,347.98	1,265.58	6,613.56	3,652.04	2,961.52
	Capital – Voted	3,061.32	915.38	3,976.70	1,933.77	2,042.93
8	10 – Social Welfare Revenue – Voted	4,690.25	65.01	4,755.26	3,730.19	1,025.07
	Capital – Voted	355.33	964.19	1,319.52	915.21	404.31
9	11 – Women and Child Development Revenue – Voted	3,330.02	9.17	3,339.19	2,882.68	456.51
10	13 – Food and Civil Supplies Revenue – Voted	3,510.42	5.09	3,515.51	3,150.04	365.47
11	14 – Revenue Revenue – Voted	3,987.89	364.74	4,352.63	3,819.20	533.43
12	16 – Housing Revenue – Voted	1,478.16	58.47	1,536.63	1,381.90	154.73
13	17 – Education Revenue – Voted	18,520.67	634.03	19,154.70	16,490.23	2,664.47
	Capital – Voted	470.71	21.10	491.81	356.93	134.88
14	18 – Commerce and Industries Revenue – Voted	666.31	30.34	696.65	561.18	135.47
	Capital – Voted	219.15	161.24	380.39	247.94	132.45
15	19 – Urban Development Revenue – Voted	7,191.63	441.36	7,632.99	5,864.41	1,768.58
	Capital – Voted	1,127.00	0.00	1,127.00	849.63	277.37
16	20 – Public Works Revenue – Voted	2,266.90	353.17	2,620.07	2,330.62	289.45
	Capital – Voted	4,272.56	1,506.08	5,778.64	4,841.41	937.23
17	21 – Water Resources Revenue – Voted	1,033.77	0.02	1,033.79	739.07	294.72
	Capital – Voted	7,576.65	0.00	7,576.65	6,316.03	1,260.62
18	22 – Health and Family Welfare Revenue – Voted	5,111.99	125.97	5,237.96	3,953.24	1,284.72
	Capital – Voted	349.09	225.41	574.50	440.54	133.96
19	23 – Labour Revenue – Voted	564.31	21.02	585.33	422.25	163.08
20	24 – Energy Capital – Voted	1,150.80	0.00	1,150.80	886.62	264.18
21	29 – Debt Servicing Revenue - Charged	8,500.00	0.00	8,500.00	7,840.33	659.67
	Capital - Charged	5,840.42	0.00	5,840.42	3,823.46	2,016.96
Total		1,12,838.09	9,528.01	1,22,366.10	99,216.35	23,149.75

Source: Appropriation Accounts.

The provision included ₹ 1,050 crore under Special Component Plan (SCP), under revenue ₹ 176 crore and Capital ₹ 874 crore. It included provision under Tribal Sub-Plan (TSP) of ₹ 450 crore, (under Revenue ₹ 54 crore and Capital ₹ 396 crore) as Pooled Up-front, indicating that these provisions were allocated to Social Welfare Department, to incur expenditure, with a balancing deduct

entry made against demands, which indicated that these departments were not expected to utilize the provision.

Major Heads of accounts, under which the unspent provision including re-appropriation amount was more than ₹ 25 crore, are detailed in **Appendix 2.3**.

The reasons furnished by 10 departments for part of unspent provisions under a few Major Heads of account, as reported in Appropriation Accounts, are given below:

Agriculture and Horticulture

Unspent provision of ₹ 16.92 crore was partially due to non-receipt of proposals for grants from Karnataka Food Processing and Export Corporation (KFPEC).

Finance

Unspent provision of ₹ 251.60 crore under Major Head '2071' – Pensions and Other Retirement Benefits – Civil– Family Pensions - Other Family Pensions – Karnataka – Pensions and Retirement Benefits was due to less number of pension settlements than expected.

Rural Development and Panchayat Raj

Unspent provision of ₹ 12.66 crore under the Major Head '2515' –Other Rural Development Programme-Assistance to Zilla Parishads/District Level Panchayats-Zilla Panchayats - CSS/CPS –XIII FCG-Performance Grants-Lumpsum-Zilla Parishads was due to non- release of grants from Central Government in time.

Food and Civil Supplies

Unspent provision of ₹ 350.00 crore under the Major Head '2408'- Food Storage and Warehousing – Food - Food Subsidies - Differential Cost of Food grains was due to non-submission of food subsidy bills and transportation bills in time to treasury in respect of all districts.

Revenue

Unspent provision of ₹ 100.00 crore under the Major Head '2245'-Relief on account of Natural Calamities-State Disaster Response Fund-Transfer to Reserve Funds and Deposit Accounts – State Disaster Response Fund-State additional contribution to State Disaster Response Fund was due to error in budgeting.

Education

Unspent provision of ₹ 161.69 crore under the Major Head '2202' – General Education – University and Higher Education Assistance to Non-government Colleges and Institutions – Collegiate Education – Teaching – Grants-in-Aid-Salaries was mainly due to non-approval of pending bills in the six regional offices and non-release of arrears of UGC pay scales.

Urban Development

Unspent provision of ₹ 150.00 crore under the Major Head '2217'- Urban Development – Other Urban Development Schemes - Assistance to Local Bodies, Corporations, Urban Development Authorities, Town Improvement Boards, etc. – Bangalore Metropolitan Regional Development Authority - Karnataka Municipal Reforms Project – EAP - Special Development Plan was due to non-receipt of request for release of funds.

Public Works

Unspent provision of ₹ 32.62 crore under the Major Head '3054'- Roads and Bridges – Highways – XIII FCG - Maintenance of State Highways was due to non-receipt of bills in time and non-achievement of progress due to Lok Sabha Election and enforcement of election code of conduct.

Water Resources

Unspent provision of ₹ 51.02 crore under Major Head '4702' – Capital outlay on Minor Irrigation –Surface Water-Water Tanks-Construction of New Tanks, Pickups etc., AIBP-Major Works was due to Election process and non-approval from Government of India for new major work.

Debt Servicing

Unspent provision of funds of ₹ 1,500.00 crore and ₹ 500.00 crore under the Major Head '6003' – Internal Debt of the State Government was due to non-availing of Ways and Means Advances and Overdraft from RBI respectively during the year. There had been persistent saving under the head for the past nine years.

From the above, it could be observed that reasons given by the department accounted for only a small fraction of eventual savings. This is borne out, as could be seen that in respect of demand No.17 – Education, there was a saving of ₹ 2,664.47 crore, which included unspent provision of ₹ 1,332 crore as saving under Sarva Shiksha Abhiyan etc. under revenue section.

The PAC, in its 13th Report submitted to the Legislature (December 2011), had observed that in order to have control over provision/expenditure, unutilized provision should be surrendered as and when it came to the notice of the grant controlling authority and that specific instructions were required to be issued

in this regard. However, it was observed in audit that large amounts remained unutilised/un-surrendered indicating poor quality of control over expenditure.

2.6.2 Persistent unspent provision

In three grants, there were persistent unspent provisions of more than ₹ 100 crore in each case during the last five years, as detailed in **Table 2.7**.

Table 2.7: Persistent unspent provision

(₹ in crore)

Sl. No.	Grant/Nomenclature Major head	Year				
		2009-10	2010-11	2011-12	2012-13	2013-14
1	03- Finance (Revenue – Voted)	1,731.17	2,925.80	260.68	4,101.04	116.64
	2070-800-11 Filling up of vacant posts	400.00	850.00	849.97	999.98	500.00
2	19 – Urban Development (Revenue – Voted)	1,248.07	522.86	631.46	2,072.54	1,768.58
	2217-05-191-1 Bangalore Metropolitan Regional Development Authority	577.40	245.00	258.00	359.61	203.23
3	29 – Debt Servicing (Capital – Charged)	1,374.74	1,005.76	1,142.23	1,936.98	2,016.96
	6003-110-1 - Clean and Secured Ways and Means Advances	1,000.00	1,000.00	1,000.00	1,500.00	1,500.00

Source: Appropriation Accounts.

2.6.3 Excess expenditure

In 12 cases, expenditure in excess of ₹ 25 crore of the budget provision was incurred under six Major Heads of account pertaining to six grants aggregating to ₹ 2,060.46 crore (**Appendix 2.4**). Of this, ₹ 355.45 crore related to Forestry and Wildlife – transfer of Forest Development Tax to Karnataka State Forest Development Fund, the details of which are discussed in **para 2.6.5** and ₹ 269.60 crore related to Social Security and Welfare - New Social Security (Sandhya Suraksha) programme.

2.6.4 Persistent excess expenditure

Persistent excess expenditure over provision was observed under two Major Heads of accounts pertaining to two grants viz., Grant No.8 – Forest, Ecology and Environment and Grant No.14 – Revenue during the last three years. It was revealed that excess under Grant No.8, under revenue section was on account of transfer of Forest Development Tax to Karnataka Forest Development Fund, transaction involving the transfer of revenue from Consolidated Fund, into Public Account. During the year the excess of revenue realised over budgeted provision was ₹ 355.45 crore. It was also observed that the department had consistently

under-pitched the revenues that were required to be transferred to the Public Account. In respect of Grant No.14, the excess was under pension to destitute widows, where the department failed to assess the requirement of funds adequately, resulting in excess over provision, such excess during the year was ₹ 90.20 crore.

Excess expenditure requiring regularization

As per Article 205 of the Constitution of India, it is mandatory for a State Government to get the excess over a grant/appropriation regularized by the State Legislature. Although no time limit for regularization of expenditure has been prescribed under the Article, the regularization of excess expenditure is done after the completion of discussion of the Appropriation Accounts by the Public Accounts Committee.

2.6.5 Excess expenditure over provision

Excess expenditure of ₹ 355.39 crore against Demand No.8 – Forest, Ecology and Environment and ₹ 20.42 crore against Demand No.26 - Planning, Statistics, Science and Technology during the year 2013-14 are required to be regularized, the details of which are given in **Table 2.8**.

Table 2.8 : Excess expenditure over provision during 2013-14 requiring regularization

(Amount in ₹)				
Sl. No.	Grant	Provision	Expenditure	Excess
1	08 - Forest, Ecology and Environment Revenue – Charged	4,20,16,00,000	7,75,54,76,000	3,55,38,76,000
2	26 - Planning, Statistics, Science and Technology Capital - Voted	6,26,21,00,000	6,46,62,65,000	20,41,65,000

Source: Appropriation Accounts.

Reasons for excess expenditure under the above demands are discussed below:

- Excess under Demand No.8 was on account of transfer of Forest Development Tax to the Forest Development Fund maintained in Public Account. The receipt was more than anticipated collection.
- Excess under Demand No.26 was on account of withdrawal of provision in the budget presented in July 2013 in respect of certain heads for which budget was included in the vote on account presented during February 2013.

2.6.6 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 authorization by the Legislature. The Government has 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 ₹ one crore, whichever is more, should be treated as an item of 'New Service'.

In 16 cases involving four grants, excess expenditure totalling to ₹ 83.90 crore, which should have been treated as 'New Service/New Instrument of Service', was incurred without the approval of the Legislature (**Appendix 2.5**).

Supplementary Provision

The supplementary budgets are not 'fiscally neutral' as required by KFRA; and commitments of significant amounts are included as a part of the estimates, which affect the budget-execution process. Too many supplementary budgets could affect fiscal discipline as over-reliance is placed on the supplementary budget rather than original budget. The Government should aim to reduce the number of supplementary estimates passed through the year to ideally one as recommended by Fiscal Management Review Committee to limit approvals in Supplementary Estimates second instalment to a minimum due to tight fiscal position.

Supplementary provision (₹ 12,198.48 crore) made during the year constituted 10 *per cent* of the original provision (₹ 1,25,115.93 crore).

As per Sub-Section 5 of Section 6 of Karnataka Fiscal Responsibility Act, 2002, whenever one or more supplementary estimates are presented to the houses of Legislature, the State Government shall also present an accompanying statement indicating the corresponding curtailment of expenditure and/or augmentation of revenue to fully offset the fiscal impact of the supplementary estimates in relation to the budget targets of the current year and the Medium Term Fiscal Plan objectives and targets for the future year.

During the year 2013-14, two instalments of Supplementary Estimates (SE) were laid before the Legislature. The first installment of ₹ 7,743.64 crore included a sum of ₹ 4.82 crore for charged expenditure and ₹ 7,738.82 crore for voted expenditure. The second installment of ₹ 4,454.84 crore included a sum of ₹ 6.01 crore for charged expenditure and ₹ 4,448.83 crore for voted expenditure. The statement indicating the corresponding curtailment of expenditure, augmentation of revenue are shown in **Table 2.9**.

Table 2.9: Details of curtailment of expenditure, augmentation of revenue in the Supplementary Estimates**(₹ in crore)**

First Supplementary Estimate ₹ 7,743.64		Second Supplementary Estimate ₹ 4,454.84	
Amount met out of Reserve Funds and PRI Deposits	2,727.50	Amount met out of Reserve Funds	154.25
Amount covered by Central Assistance	811.03	Amount covered by Central Assistance	413.90
Other receipts	0.21		
Amount covered by adjustments	1,848.19	Amount covered by adjustments	1,070.18
Net Cash outgo	2,356.71	Net Cash outgo	2,816.51

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

2.6.7 Unnecessary supplementary provision

Supplementary provision of ₹ 2,045.49 crore made under 16 detailed/object heads relating to nine out of 14 test checked grants proved unnecessary (**Appendix 2.6**).

2.6.8 Excessive supplementary provision

Supplementary grant of ₹ 143.24 crore obtained under nine detailed/object heads relating to five out of 14 test checked grants proved excessive. The resultant unutilized provision in these cases was ₹ 68.40 crore (**Appendix 2.7**).

2.6.9 Inadequate supplementary provision

Supplementary provision of ₹ 164.70 crore obtained under six detailed heads relating to five out of 14 test checked grants proved inadequate. The uncovered excess expenditure in these cases was ₹ 120.75 crore (**Appendix 2.8**).

Re-appropriation of funds

Re-appropriation means the transfer, by a competent authority, of saving from one unit of grant/appropriation to meet excess expenditure under another unit within the same voted grant or charged appropriation. Re-appropriation of funds should be made only when it is known or anticipated that the appropriation for the unit from which funds are to be transferred will not be utilized in full or will result in unspent provision in the unit of appropriation. A grant or appropriation for disbursements is distributed by sub-head / detailed head / object head under which it is accounted for. The competent executive authority may approve re-appropriation of funds between the primary units of appropriation within a grant or appropriation before the close of the financial year to which such grant or appropriation relates.

2.6.10 Injudicious re-appropriation of funds

In 2013-14, 74 cases re-appropriation of funds was made injudiciously resulting either in un-utilized provision or excess over provision of more than ₹ 25 lakh in each case (**Appendix 2.9**), as summarized below:

- In four cases, additional funds of ₹ 121.33 crore, provided through re-appropriation, proved insufficient as the final expenditure exceeded the provision by ₹ 93.92 crore.
- In two cases, withdrawal of ₹ 2.58 crore resulted in excess expenditure of ₹ 1.52 crore.
- In 43 cases, the un-utilized provision was not properly assessed as, even after the withdrawal of ₹ 1,337.78 crore through re-appropriation, ₹ 2,258.63 crore remained un-utilized.
- In 25 cases, additional funds of ₹ 602.43 crore, provided by re-appropriation, resulted in overall un-utilized provision of ₹ 550.48 crore.

2.6.11 Defective re-appropriation

During 2013-14, 402 re-appropriation orders for an amount of ₹ 2,664.37 crore were issued of which 35 re-appropriation orders for ₹ 317.69 crore were not acted upon as they violated the provisions of Article 309, 312 and 315(a) of the Karnataka Financial Code which stipulated the conditions under which the re-appropriation could not be done (**Appendix 2.10**).

The Government should have enhanced control over increasing re-appropriations. The priority should be given to rationalize re-appropriation process to improve predictability of availability of funds by;

- Identifying the reasons for high level of re-appropriation orders (including injudicious and defective) and to develop a strategy to control the rising trend;
- Reviewing and revising re-appropriation delegation to more contemporary levels.

Surrender of unspent provision

Spending departments are required to surrender the grants/appropriations or a portion thereof to the FD as and when the unspent provision is anticipated.

2.6.12 Unspent provision not surrendered

In the case of 15 grants/appropriations, the entire unspent provision, aggregating ₹ 7,781.98 crore, was not surrendered (**Appendix 2.11**).

Further, in the case of 29 grants/appropriations, there was only partial surrender and around 71 *per cent* (₹ 17,057.81 crore) of the total unspent provision (₹ 23,971.02 crore) was not surrendered (**Appendix 2.12**). Besides, in eight grants where surrender of funds was in excess of ₹ five crore, ₹ 3,721.79 crore

were surrendered on the last two working days of the financial year, indicating inadequate financial control (**Appendix 2.13**).

2.6.13 Substantial surrenders

Out of the total provision of ₹ 3,498.21 crore in 19 cases, ₹ 3,048.86 crore (87 *per cent*) were surrendered, which included *cent per cent* surrenders in seven cases (₹ 2,055.60 crore) (**Appendix 2.14**). These surrenders were stated to be due to non-availment of ways and means advances/overdraft, late/non-receipt of grants, non-receipt of claims, non-finalization of tenders/ contracts, etc.

2.7 Contingency Fund

The Contingency Fund of the State has been established under the Contingency Fund Act, 1957 in terms of provisions of Articles 267 (2) and 283 (2) of the Constitution of India. Advances from the fund are to be made only for meeting expenditure of an unforeseen and emergent character, postponement of which till its authorization by the Legislature, would be undesirable. The fund is in the nature of an imprest and its corpus is ₹ 80 crore. Funds drawn out of Contingency Fund are subsequently recouped to the fund through supplementary provisions.

During 2013-14, a scrutiny of vouchers relating to Contingency Fund transactions revealed that three sanctions were issued for withdrawal from Contingency Fund during August 2013 and November 2013. These transactions related to releases for Lok Sabha bye-elections, 2013, payment of Honorarium to Staff of Agricultural Census and payment of compensation to owners who lost their cattle due to foot and mouth disease. Details of drawal are as shown in **Table 2.10**:

Table 2.10: Drawal of amount from Contingency Fund

(₹ in crore)

Govt. order No. and date	Head of Account	Final Head of Account	Amount	Date of Drawal of amount
FD 06 BCF 2013 dated 18/11/2013	8000-00-297-0-00	3454-02-204-0-03-059	2.07	Between December 2013 to February 2014
FD 05 BCF 2013 dated 06/08/2013	8000-00-205-0-00	2015-00-105-0-02-059	10.00	
FD 05 BCF 2013 dated 08/11/2013	8000-00-253-0-00	2403-00-101-0-39-059	5.00	Between January 2014 to February 2014

Further scrutiny revealed that out of ₹ 17.07 crore, an amount of ₹ 7.65 crore was withdrawn from the treasury during the last week of December 2013, January 2014 and February 2014, when the relevant Appropriation Act had already been passed by the Legislature (23 December 2013) which was in contravention of the rules governing the withdrawal from Contingency Fund.

The FD has stated in reply (May/November 2014) that such cases occur more often in final instalment of Supplementary Estimate as the time between issues of sanction order for drawal from Contingency fund and actual passing of Supplementary Estimate would be minimal resulting in drawal from Contingency Fund rather than from Voted Appropriation. It also stated that in future, administrative departments would be intimated to draw such amounts before approval of Supplementary Estimates in Legislature and that the possibility of avoiding such adjustment through Treasury Network Management Centre (TNMC) website would be examined.

2.8 Outcome of review of selected grants

A review of budgetary procedures followed and expenditure controls exercised in respect of two selected grants showed the following:

2.8.1 Introduction

Grant No.22 of the Appropriation Accounts covers the budget and expenditure against provisions pertaining to departments of Medical, Public Health and Family Welfare which are responsible for providing comprehensive health care and a delivery system consisting of curative, preventive, promotive and rehabilitation of health care to the people of Karnataka. The scrutiny of budgetary procedures followed and the expenditure controls exercised during the period 2011-14 by these departments revealed the following.

2.8.2 Budget and expenditure

The overall position of budget provision, actual disbursements and savings under the grant for the last three years is given in **Table 2.11**.

Table 2.11: Budget and expenditure for Grant No.22 – Health and Family Welfare Services.

(₹ in crore)

Year	Section	Budget provision	Expenditure	Unutilized provision and its % in ()
2011-12	Revenue- Original	2,892.64	2,878.20	162.26
	Supplementary	147.82		(5)
	Capital - Original	430.97	359.38	88.97
	Supplementary	17.38		(20)
2012-13	Revenue- Original	3,949.50	3,435.85	714.90
	Supplementary	201.25		(17)
	Capital - Original	381.97	361.30	88.68
	Supplementary	68.01		(20)
2013-14	Revenue- Original	5,111.99	3,953.24	1,284.72
	Supplementary	125.97		(25)
	Capital - Original	349.09	440.54	133.96
	Supplementary	225.41		(23)

Source: Appropriation Accounts.

During the period 2011-14, un-utilized provision under revenue section ranged between five to 25 per cent and under capital section, it ranged between 20 to 23 per cent, indicating poor fiscal marksmanship.

The budget placed before the Legislature is further bifurcated into plan and non-plan in the detailed demand for grants under revenue/capital section respectively. The bifurcation of provision/ expenditure during 2011-14 under revenue and capital is given in **Table 2.12 and 2.13**.

Table 2.12: Revenue

(₹ in crore)

Year	Budget including supplementary		Expenditure		Deviation in percentage	
	Non plan	Plan	Non plan	Plan	Non plan	Plan
2011-12	1,744.91	1,295.55	1,685.37	1,192.83	-3	-8
2012-13	2,093.80	2,056.95	1,996.09	1,439.75	-5	-30
2013-14	2,413.52	2,824.44	2,185.16	1,768.09	-9	-37

Source: Grant Register.

As evident from the table above, the deviation percentage was insignificant during the period 2011-14 under non-plan expenditure. In respect of plan expenditure, the deviation was markedly high during 2012-13 and 2013-14.

Under the demand, provision of ₹ 457 crore and ₹ 859 crore were made during 2012-13 and 2013-14 respectively relating to NRHM, to take care of book adjustment of funds transferred by Government of India to State Implementing Agencies without routing through the Consolidated Fund of the State. The book adjustment was not carried out since the expenditure was not part of Government Accounts.

Savings occurred in Plan schemes such as up-gradation of food testing laboratories, Suvarna Arogya Suraksha Scheme and Tayi Bhagya Scheme on account of non-utilization/ partial utilization of budget allocation, the reasons for which were not furnished.

Table 2.13: Capital

(₹ in crore)

Year	Budget including supplementary		Expenditure		Deviation in percentage	
	Non plan	Plan	Non plan	Plan	Non plan	Plan
2011-12	0.00	448.34	0.00	359.38	0.00	-20
2012-13	0.00	449.98	0.00	361.30	0.00	-20
2013-14	0.00	574.50	0.00	440.54	0.00	-23

Source: Grant Register.

Plan schemes like construction/up-gradation of hospital buildings and new medical colleges, providing additional facilities in the existing medical colleges suffered on account of non-utilization/ partial utilization of allocations. The reasons for the same were not furnished by the department.

2.8.3 Lapse of budget grant due to non-furnishing of information

During 2012-13, an amount of ₹ 30 crore was released by the Ministry of Finance to the Department of Health and Family Welfare as a One Time Additional Central Assistance (OTACA) for providing infrastructure to sub-centres in Northern Karnataka region. The Budget allocation for this programme was not made during 2012-13 through supplementary demand, due to non-receipt of the required information from the department. An amount of ₹ 10 crore was allocated for 2013-14 (Supplementary Grant II installment) based on the list of sub-centres furnished by the department on November 7, 2013 for utilisation. But it was not released for want of administrative approval, plan and estimates. Thus, lack of co-ordination between the department and Secretariat/FD resulted in non-utilization of budget provision and supplementary grant provided for the purpose proved unnecessary.

2.8.4 Lapse/Surrender of savings

The position of surrender of unutilized provision is brought out in the **Table 2.14**.

Table 2.14: Lapse/surrender of unutilized provision

Year	Savings		Amount surrendered	
	Revenue	Capital	Revenue	Capital
2011-12	162.26	78.12	75.59	23.64
2012-13	714.90	88.68	0.00	0.00
2013-14	1,284.72	133.97	0.00	0.00

Source: Grant Register.

During 2011-12, unutilized provision of ₹ 99.23 crore was surrendered on the last day of the financial year of which ₹ 75.59 crore was under Revenue section and ₹ 23.64 crore under Capital section. No amount was surrendered during 2012-13 and 2013-14.

Despite several instructions to surrender savings as soon as they are anticipated, the practice of surrendering funds on the last working day of the financial year/non-surrender of provision continue to exist.

2.8.5 Persistent Savings

As per Para 110 of Karnataka Budget Manual (KBM), due notice was to be taken of the past performance, the stage of formulation/implementation of various schemes, the institutional capacity of the implementing agencies to implement the scheme as scheduled, the constraints on spending by the spending agencies and most important, the quantum of Government assistance lying with the recipients un-utilized/unaccounted for etc., with a view to minimize the funds available for surrender at a later stage. Persistent savings during 2011-14, as detailed below indicate that the provisions of para 110 of KBM were not being observed by the department.

The Head-wise details regarding persistent savings for the last three years are shown in **Table 2.15**.

Table 2.15: Persistent savings

Sl. No.	Head of account	₹ in crore)		
		2011-12	2012-13	2013-14
1	2210-06-101-1 Malaria	12.98	11.00	18.17
2	2210-06-101-8 Control of Blindness	6.92	26.24	1.73
3	2210-06-104-02 Drug Testing Laboratory	0.89	0.67	6.90
4	2210-06-107-01-PHI, Bengaluru	1.61	5.79	2.31
5	2211-001-01 State Family Welfare Bureau	1.32	2.59	3.88
6	2211-003-01 Regional Health and Family Welfare – Training Centre	0.44	0.85	1.19
7	2211-102-01 Urban Family Welfare Centers run by State Government	9.92	6.23	4.97
8	2211-200-04 Cost of contraceptive supplied by Central Government	4.00	4.00	4.00
9	4210-01-110-1 Buildings	47.86	49.97	72.77
10	4210-03-101-1-Buildings	3.41	5.76	9.34
11	4210-04-200-1 Buildings	14.58	10.48	7.67

Source: Appropriation Accounts.

2.8.6 Re-appropriation of funds

Re-appropriation is transfer of funds from one unit of appropriation to another unit where the funds are needed within a demand/grant. Whenever such orders are issued by the executive authorities, care should be taken to ensure that the re-appropriation orders are issued keeping in mind the availability of funds from where they are withdrawn and the requirement of funds to the heads where necessary. Scrutiny of re-appropriation orders revealed that in cases where funds were withdrawn, but assessment was not realistic with the result that there still remained unutilised provision at the end of the year which was allowed to lapse without surrender. The details are mentioned in **Appendix 2.15(a)**.

2.8.7 Rush of expenditure

As per paragraph 6 of instructions issued by FD dated 09 September 2004, regarding releases, drawal and accounting of funds, the Administrative Departments and the Heads of Department were to plan the expenditure for the remaining part of the financial year with due diligence and within the available grants. Bunching of bills and rush of expenditure in the month of March was to be avoided. Administrative Orders were to be issued well in advance after obtaining necessary approvals at the required levels for expenditure likely to be incurred in February and March. However, it was noticed that this was not followed by the department. The object-head wise details of expenditure where the percentage of expenditure during last quarter and March is 100 per cent during 2013-14 are detailed in **Appendix 2.15(b)**. Bunching of expenditure in the last quarter of the financial year is not a prudent fiscal management principle and is against the manual provision for control of

expenditure. It was replied in two cases, that Government Orders were issued only in March.

2.9.1 Introduction

The Infrastructure Development Department (IDD) under Grant No.6 was established in September 1996. The IDD is mandated to facilitate infrastructure development, coordinate with the Railway Department to implement railway projects and to develop Airports in the State. The department also facilitates development of Ports and logistics infrastructure through Public Private Partnership (PPP) mode and mainstreaming PPP mode of implementation.

2.9.2 Budget and Expenditure

The overall budget provision, actual disbursements and savings under the grant for the last three years are shown in **Table 2.16**.

Table 2.16: Budget and expenditure under Grant No.6 – Infrastructure Development Department

(₹ in crore)

Year	Section	Budget Provision	Expenditure	Unutilized provision and its percentage
2011-12	Revenue - Original	17.15	10.90	11.25
	Supplementary	5.00		(51)
	Capital - Original	758.25	511.79	265.46
	Supplementary	19.00		(34)
2012-13	Revenue - Original	18.55	7.99	11.17
	Supplementary	0.61		(58)
	Capital - Original	669.00	462.82	206.18
	Supplementary	0.00		(31)
2013-14	Revenue - Original	13.65	4.92	8.97
	Supplementary	0.24		(65)
	Capital - Original	537.20	497.16	140.04
	Supplementary	100.00		(22)

Source: Appropriation Accounts

During the period 2011-14, the un-utilized provision under the revenue section ranged between 51 to 65 *per cent* showing an increasing trend while it came down from 34 to 22 *per cent* under capital section, indicating poor fiscal marksmanship.

The provision under revenue and capital section comprises of only plan components. The non-plan expenditure of the IDD is met under Department of Personnel and Administrative Reforms (Grant No.4). The plan expenditure comprises mainly of implementation of various programmes envisaged by the Government. The deviations pointed out above, were mainly under infrastructure, preliminary studies, capacity building for PPP (i.e. training

programme for departmental staff), assistance to repayment of loans, debt servicing.

2.9.3 Non submission/delay in submission of Budget proposal

It was seen that during the period 2011-14, the department did not adhere to the due dates (November 30, each year) prescribed in the budget circular for submission of required information to the FD for plan budget. Also, the material information for inclusion in the budget suffered during 2011-13 on account of proposals being incomplete due to non-receipt of information in respect of PPP cell, railways and others. During the period 2013-14, no proposals were received from any of the implementing/nodal agencies before finalization of the budget. However, it was replied that the budget provision for the year 2013-14 were based on the previous year's allocation/ expenditure of the departments. Thus, provision made in the budget with incomplete data resulted in non-utilization of entire amount of ₹ 156.23 crore under two Heads of account (3451, 5465) during 2011-14 indicating that the budget was not based on requirement of funds proposed by the line departments.

2.9.3.1 Payment of electricity charges out of Capital head 5465 – ₹0.35 crore

As per the MOU signed between Government of Karnataka and Airport Authority of India, the electricity charges, water bill and land tax were to be paid by the Government of Karnataka for 5 years from the date of commencement of the services of Mysore Airport. The airport started functioning with effect from 01 October 2010. During 2011-12, as there was no provision under the revenue head, an amount of ₹ 0.35 crore was paid towards electricity charges from the capital HOA 5465 resulting in misclassification of expenditure. It was replied that bills relating to electricity charges were received in the middle of the financial year and the expenditure was met out of the capital head after obtaining due permission from FD. The reply is not acceptable, as the department was aware that these charges are to be paid by the State Government as per the terms of the MOU. Supplementary provision under revenue account could have been made instead of accounting the expenditure under capital section. Thus, not showing the expenditure under revenue head was not in order.

2.9.4 Surrender of savings

The details of surrender of unutilized provision are brought out in the **Table 2.17**.

Table 2.17: Lapse/Surrender of savings

Year	Savings		Amount surrendered	
	Revenue	Capital	Revenue	Capital
2011-12	11.25	265.46	7.62	209.17
2012-13	11.17	206.18	0.00	0.00
2013-14	8.97	140.04	0.00	0.00

Source: Appropriation accounts.

Despite repeated instructions by FD to surrender the unutilized provision without waiting for the end of the year, the practice of surrender on the last working day of the financial year/non-surrender of unutilized provision continued during the period 2011-14, as could be seen from the table above.

2.9.5 Persistent non-utilization of provisions

The head-wise details regarding persistent savings for the last three years shown in **Table-2.18**.

Table 2.18: Persistent savings

Sl. No.	Head of account and nomenclature	(₹ in crore)		
		2011-12	2012-13	2013-14
1	3451-00-090-1-State Secretariat	7.62(85)	11.16(63)	8.98(76)
2	5465-01-190-1- Investment in Infrastructure	59.50(35)	146.52(71)	108.61(71)
3	5465-01-190-2- Investment in Bangalore International Airport Limited (BIAL) through KSSIDC	15.51(46)	30.00(99)	15.00(98)

Source: Appropriation Account, figures in brackets indicate percentage to total provision.

As brought out in **para 2.9.3.1**, the flow of material for the budget formulation suffered from serious infirmities and the budget for the year 2013-14 was prepared on the basis of previous year's allocation/expenditure. These factors lead to unnecessary provision of funds resulting in non-utilisation.

2.9.6 Unnecessary re-appropriation – ₹ 40.00 crore

Government vide their order dated 30 March 2013 released an amount of ₹ 40.00 crore towards the share of the Government of Karnataka for the construction of Tumkur - Raydurga New Railway Line project which was augmented through re-appropriation.

It was seen that the IDD issued an authorization to the CEO, Karnataka Railway Infrastructure Development Corporation (K-RIDE) Bengaluru on 30 March 2013 and payees receipt was duly countersigned by the Under Secretary to Government, IDD. However, as per the directions of the FD dated 31 March 2013, State Huzur Treasury, Bengaluru returned the bill for ₹ 40.00 crore stating that it was rejected due to lack of fiscal space.

From the above, it is clear that in order to compress the expenditure, the amount was not released by the treasury, resulting in unnecessary re-appropriation. The status of work was that the process of land acquisition and construction work in railway boundary were in progress.

2.9.7 Rush of Expenditure

It was noticed that instructions regarding avoiding rush of expenditure were not followed by the department. The object head wise details of expenditure where

the percentage of expenditure during last quarter and March ranged between 43 to 100 *per cent* during 2013-14 are detailed in **Appendix-2.15(c)**.

2.10 Outcome of Inspection of Treasuries

Principal Accountant General (A&E) Karnataka, Bengaluru is entrusted with the responsibility of annual inspection of treasuries in Karnataka. The Review Report on the working of treasuries is prepared every year after the completion of the inspection of all District and Sub-Treasuries for submission to the State Government. The review report mainly relates to the matters arising from the monthly accounts rendered by the treasuries together with the points raised in local inspection of Treasury records.

2.10.1 Excess payment of Family Pension

The Karnataka Government Servants (Family Pension) Rules, 2002 provide that when a Government servant dies while in service, his/her family is entitled to Family Pension at double the normal rate or 50 *per cent* of the last pay drawn by the deceased Government servant, whichever is less, for a period of seven years from the date following the date of death or till the date on which the Government servant would have attained the age of 65 years had he/she remained alive, whichever is earlier. Majority of the pension payments are made through Banks. After crediting the Family Pension amounts to the SB accounts concerned, the Banks forward the claim through the link branch and the claim is settled by the Treasury.

During the year 2013-14, we observed in 301 cases relating to 32 district treasuries, Public Sector Banks made payment of Family Pension at enhanced rates beyond the period mentioned in the Pension Payment Orders, resulting in excess payment of ₹ 1.90 crore (**Appendix 2.16**). Further, in respect of 23 treasuries, excess payment of ₹ 0.63 crore was noticed in 121 cases, in spite of excess payment having been pointed out in earlier years in these cases, resulting in cumulative continued excess payment of ₹ 1.32 crore (**Appendix 2.17**). Failure on the part of the Banks to monitor and adhere to the cut-off date for payment of Family Pension at enhanced rates resulted in the excess payments.

Though such excess payments of Family Pension had been pointed repeatedly in the Reports of the C&AG of India, no effective steps were taken by the Government to guard against the excess payments. Further, the Government did not enforce the provisions of Indemnity Bonds executed by the Public Sector Banks for recovery of the excess payments made to the pensioners, as a result of which the irregularity persisting.

2.11 Drawal of funds without proper assessment resulted in rush of expenditure during the month of March

Finance Department issued instructions (September 2004) regarding releases, drawal and accounting of funds, to the Administrative Department and the Heads of Department to plan the expenditure for the remaining part of the

financial year with due diligence and within the available grants. To avoid rush of expenditure, necessary approvals were to be obtained at required levels for expenditure likely to be incurred during February and March of relevant financial years.

Test check of vouchers relating to March 2014 of three departments viz. Animal Husbandry, Fisheries, Health and Family Welfare revealed that 29 DDOs had drawn funds to the tune of ₹ 221.36 crore towards Grant-in-aid, financial assistance capital works like construction of Medical College buildings/hospital buildings in various districts. However, status of utilization of funds by 11 DDOs revealed that though the funds were drawn to the tune of ₹ 92.98 crore, the expenditure incurred was only ₹ 2.94 crore (3.16 per cent) leaving an amount of ₹ 90.04 crore (96.84 per cent) unutilized to the end of August 2014. The funds lying idle included ₹ 5.30 crore kept in fixed deposits.

Failure to comply with the directions of the Finance Department resulted in locking up of funds to the tune of ₹ 90.04 crore and boosting the expenditure on capital account to the tune of ₹ 81.41 crore during the financial year 2013-14. This indicates that the funds were drawn to avoid lapse of grants.

2.12 Conclusion

As brought out in earlier paragraphs, State Government should exercise proper control over budgetary exercise/expenditure control for prudent financial management as the following irregularities took place due to the inadequate controls:

- Against the total provision of ₹ 1,37,314.41 crore during 2013-14 an expenditure of ₹ 1,13,716.73 crore was incurred. This resulted in an unspent provision of ₹ 23,597.68 crore (17 per cent).
- Provisions was made for making accounting adjustment pertaining to direct transfer of funds was unjustified as the transaction did not form part of accounts.
- Executive orders for expenditure prior to approval of the Legislature were issued.
- Expenditure aggregating ₹ 83.90 crore in 16 cases, which should have been treated as 'New Service/New instrument of service', was incurred without the approval of the Legislature.
- Supplementary Provision was not completely supported by the saving under other demands to make the transactions neutral. Supplementary provision of ₹ 2,045.49 crore in 16 cases was unnecessary.
- Re-appropriation of funds in 74 cases was made injudiciously resulting in either un-utilized provision or excess over provision.
- In eight grants, ₹ 3,721.79 crore was surrendered in the last two working days of the financial year.
- Excess payment of Family Pension was noticed.
- Withdrawal of funds from Contingency Fund in three cases between December 2013 and February 2014 was not in order as the relevant Appropriation Act had already been passed by the Legislature.

2.13 Recommendations

In order to strengthen the control of expenditure over provision,

- *Budgetary control should be strengthened in all departments to avoid cases of provision remaining unutilized.*
- *Excessive/unnecessary supplementary provision and re-appropriation of funds injudiciously should be avoided. The re-appropriation of funds at the close of the financial year should be avoided.*
- *Rush of expenditure during the last quarter of the financial year particularly in the month of March should be avoided.*
- *Provision/expenditure relating to the ULBs should be distinctly made to avoid their accounting with expenditure relating to State sector in the Consolidated Fund.*

Chapter-III

Financial Reporting

3

CHAPTER III

Financial Reporting

A sound internal financial reporting system based on compliance with financial rules is one of the attributes of good governance. This chapter provides an overview and status of compliance of the departments of the State Government with various financial rules, procedures and directives during the current year.

3.1 Non-submission of Utilization Certificates

Financial Rules stipulate that for the grants provided for specific purposes, Utilization Certificates (UCs) should be obtained by the departmental officers from the Grantees and, after verification, these should be forwarded to the Principal Accountant General (A&E) within 18 months from the date of their sanction unless specified otherwise. However, 320 UCs aggregating ₹ 1,215.13 crore in respect of grants paid up to 2013-14 were in arrears as detailed in **Appendix 3.1**.

The status of outstanding UCs is given in **Table 3.1**.

Table 3.1: Year-wise arrears of Utilization Certificates

(₹ in crore)

Year	Number of Utilization Certificates awaited	Amount
Up to 2011-12	94	116.71
2012-13	77	422.57
2013-14*	149	675.85
Total	320	1,215.13

Source: Notes to Finance Accounts.

* For the grants paid during 2013-14, the Utilization Certificates will become due only during 2014-15 and onwards.

Major cases of non-submission of UCs related to Health and Family Welfare Department (91 per cent). Non-submission of UCs defeats the very purpose of legislative control over public purse and is fraught with the risk of the funds released for various schemes/programmes having been misused or diverted for unauthorized purposes.

3.2 Non-receipt of information pertaining to institutions substantially financed by the Government

To identify the institutions which attract audit under Sections 14 and 15 of the CAG's (Duties, Powers and Conditions of Service) Act, 1971, heads of the Government departments are required to furnish to Audit every year information about the institutions to which financial assistance of ₹ 25 lakh or more was given, the purpose for which assistance was granted and the total expenditure of the institutions.

Seventeen departments did not furnish the information pertaining to institutions receiving grants aggregating ₹ 25 lakh or more for periods ranging from two years to more than 10 years, as detailed in **Appendix 3.2**.

Circular instructions were issued by the Finance Department (December 2013) to all the Secretaries of Administrative departments to furnish the required information to the Accountant General directly. However, there was no significant improvement in the position.

3.3 Status of submission of accounts of Autonomous Bodies and placement of Audit Reports before the State Legislature

Several Autonomous Bodies have been set up by the State Government in the field of village and small industries, urban development, etc. The audit of accounts of eleven bodies in the State has been entrusted to the CAG. These are audited with regard to their transactions, operational activities and accounts, conducting regulatory/ compliance audit, review of internal management and financial control, review of systems and procedures, etc.

Separate Audit Reports in respect of three Autonomous Bodies for the year 2011-12 and eight autonomous bodies for the year 2012-13 were yet to be placed before the State Legislature.

The status of entrustment of audit, rendering of accounts, issuing of Audit reports and their placement before the State Legislature are indicated in **Appendix 3.3**.

3.4 Departmental Commercial Undertakings

The departmental undertakings of certain Government departments performing activities of commercial and quasi-commercial nature are required to prepare *pro forma* accounts in the prescribed format annually, showing the working results of financial operations, so that the Government can assess their working. The finalized accounts of departmentally managed commercial and quasi-commercial undertakings reflect their overall financial health and efficiency in conducting their business. In the absence of timely finalization of accounts, the investment of the Government remains outside the scrutiny of Audit/State Legislature. Consequently, corrective measures, if any, required for ensuring accountability and improving efficiency cannot be taken in time. Besides, the

delay in all likelihood also opens the system to the risk of fraud and leakage of public money.

The Heads of Departments in the Government are to ensure that the undertakings prepare and submit such accounts to Principal Accountant General for audit within a specified time frame. Out of the nine undertakings, which have been closed/transferred/converted into co-operative federations, proforma accounts in respect of two undertakings were due from 1969-70. The position of arrears in preparation of proforma accounts by the undertakings is given in **Appendix 3.4**.

The Finance Department replied (December 2013) that, with the online computerization of treasury and the system of drawal on treasuries by preferring bills, there appears to be no necessity for preparation of proforma accounts. The Administrative Departments of these undertakings will be instructed to examine the necessity or otherwise of maintaining of proforma accounts. Karnataka Government Insurance Department will continue to render proforma accounts. Further development in this matter is awaited.

3.5 Misappropriations, losses, etc.

There were 56 cases of misappropriation, losses, etc., involving Government money amounting to ₹ 17.36 crore as at the end of 2013-14 on which final action was pending. The department-wise break up of pending cases and age-wise analysis is given in **Appendix 3.5** and the nature of these cases is given in

Appendix 3.6. The particulars of the pending cases in each category of theft and misappropriation are given in **Table 3.2**.

Table 3.2: Profile of pending cases of misappropriations and theft

(₹ in crore)		
Nature of the cases	Number of cases	Amount involved
Theft	12	0.07
Misappropriation	44	17.29
Total	56	17.36

Source: Information compiled by office of Pr.AG (G&SSA) and Pr.AG (E&RSA).

Around 99 per cent of the amount involved pertained to departments of Water Resources (₹ 4.25 crore), Forests, Ecology and environment (₹ 1.33 crore) and Public Works (₹ 11.55 crore).

3.6 Non- receipt of stores and stock accounts

The annual accounts of stores and stock are required to be furnished by various departments to Audit by 15 June of the following year. The half yearly accounts of Public Works, Water Resources and minor Irrigation Departments are due to be received by 15 December of the year and 15 June of the following

year. Delay in receipt of stores and stock accounts has been commented upon in successive audit reports.

The position of arrears relating to submission of stores and stock accounts by 13 departments involving 164 offices as of September 2014 is indicated in **Appendix 3.7**.

3.7 Abstract Contingent bills

Under Rule 36 of the Manual of Contingent Expenditure, 1958, the Controlling and Disbursing Officers are authorized to draw sums of money by preparing Abstract Contingent (AC) bills, by debiting service heads and are required to present detailed contingent bills (vouchers in support of final expenditure) to the Principal Accountant General (A&E) through treasuries. Detailed bills aggregating ₹ 189.70 crore, drawn on 9,488 AC bills, were pending as at the end of March 2014, as detailed in **Table 3.3**. Controlling officers should also ensure that no amounts are drawn from the treasury unless required for immediate disbursement.

Table 3.3: Pending Abstract Contingent bills

(₹ in crore)

Year	Abstract Contingent bills drawn		Detailed Contingent bills rendered		Outstanding NDC Bills against AC bills drawn	
	No. of Bills	Amount	No. of bills	Amount	No.	Amount
Upto 2011-12	46,478	425.24	42,462	383.41	4,016	41.83
2012-13	6,356	76.98	5,018	57.33	1,338	19.65
2013-14	6,514	169.41	2,380	41.19	4,134	128.22
Total	59,348	671.63	49,860	481.93	9,488	189.70

Source: Notes to Finance Accounts 2013-14.

Out of ₹ 169.41 crore drawn against AC bills in 2013-14, bills for ₹ 6.60 crore were drawn in March 2014, of which, ₹ 1.09 crore were drawn on the last day of the financial year.

Most of outstanding NDC bills relates to Major Head 2015 – Elections (1,210 bills amount to ₹ 84.84 crore), Major Head 2402 – Soil and Water Conservation (815 bills amounting to ₹ 27 crore), Major Head 2406 – Forestry and Wild Life (845 bills amounting to ₹ 16.26 crore), Major Head 2202 – General Education (1,820 bills amount to ₹ 11.83 crore) and Major Head 2235 – Social Security and Welfare (1,318 bills amounting to ₹ 8.38 crore).

As per the delegation of Financial Powers (G.O. No. FD 2 TFP 2010, dated 30 April 2010, Sl. No.27 of Annexure), countersignature of AC bills is necessary subject to budgetary limits and appropriate authorization. For AC Bills above ₹ two lakh, the authorization has to be obtained from Finance Department. Scrutiny of AC Bills drawn by the Watershed Development Department (Head of Account 2402) amounting to ₹ 3.04 crore, it was seen that the bill amount was split/limited to ₹ two lakh or below for the same work by the DDOs which

clearly indicated the avoidance of authorization required from the Finance department.

The withdrawal of money on an AC bill is accounted for against the functional Major Head in the Consolidated Fund. Unless the accounts are settled within the time allotted, the expenditure stands inflated. This impacts the fiscal indicators of the Government (Revenue surplus/fiscal deficit). Instructions were issued by the Finance Department to all Principal Secretaries/ Secretaries to Government (August 2012) for settlement of accounts within the stipulated period, failing which action would be taken to stop the salary of the DDO concerned. However, it was observed in audit that the practice of drawal of salary by DDO concerned continued who had substantial bills pending against them.

3.8 Personal Deposit Accounts

The Karnataka Financial Code provides for opening of Personal Deposit (PD) accounts with permission from Government in cases where the ordinary system of accounting is not suitable for transactions. PD accounts created by debit to the Consolidated Fund of the State should be closed at the end of the financial year. Administrators of the accounts should intimate the Treasury Officer the balance to be transferred to the Consolidated Fund. For continuation of PD accounts beyond the period of its currency, administrators are required to seek the permission of the Finance Department. Periodical reconciliation of PD accounts with treasury accounts is the responsibility of the administrators concerned.

3.8.1 Funds kept in PD Accounts

The transactions relating to PD accounts for the period 2009-14 are detailed in **Table 3.4**.

Table 3.4: Funds in PD accounts

Year	Opening balance	Receipts/Deposits	Withdrawals	(₹ in crore)
				Closing balance
2009-10	846.31	3,491.10	3,123.18	1,214.23
2010-11	1,214.23	2,201.06	1,942.39	1,472.90
2011-12	1,472.90	2,737.35	2,732.00	1,478.25
2012-13	1,478.25	3,582.23	2,974.30	2,086.18
2013-14	2,086.18	3,782.85	3,571.93	2,297.10

Source: Finance Accounts

As the balances in the deposit account have been showing an increasing trend over the years, action is required to be initiated to follow the provisions of the code for write back /cleaning up of balances in respect of funds which have outlived their utility.

The closing balance of ₹ 2,297.10 crore mainly related to the Administrators mentioned in **Table 3.5**.

Table 3.5: Closing balances in PD accounts

Sl. No	Administrators	(₹ in crore)
		Amount
1	Personal deposits - General	327.42
2	Deputy Commissioners	2,273.22
3	Housing Development Finance Corporation	8.63
4	Sugar Price Equalization Fund	13.96
	Total	2,623.23

Source: DDR Ledger. Table is to be read in conjunction with Table 3.6.

3.8.2 Reconciliation of Personal Deposit (PD) accounts

The purpose of PD accounts is to enable drawing and disbursing Officers (DDOs) to incur expenditure pertaining to a scheme, for which funds are placed at their disposal, by transfer from the Consolidated Fund of the State. Administrators are required to close these accounts on the last working day of the year by crediting the unspent balances to the Consolidated Fund. During 2013-14, an amount of ₹ 695.10 crore was transferred to PD accounts. Under the rules, Administrators of PD accounts are required to reconcile the balances of these accounts with the treasury officers (where the detailed accounts are maintained by the treasuries) and with the Principal Accountant General (A&E) (where the detailed accounts are maintained by the Principal Accountant General). Information on reconciliation of figures by the Administrators with the treasuries is not available, but none of the Administrators of the 55 PD accounts have reconciled their accounts with the Principal Accountant General (A&E).

The number of operative / inoperative PD accounts is indicated in the **Table 3.6** and the details of adverse balances thereof are in **Appendix 3.8**.

As per rules, the State Government is required to close all PD accounts remaining inoperative for more than three years. As on 31 March 2014, 32 PD Accounts with an outstanding balance of ₹ 63.42 crore were inoperative for more than three years. Details are given below:

Table 3.6: Operative / In-operative PD accounts

Particulars	(₹ in crore)			
	Personal Deposit Accounts			
	Credit		Debit	
	No. of Accounts	Amount	No. of Accounts	Amount
Operative PD Accounts	17	2,695.59	6	461.91
In-Operative PD Accounts	20	72.01	12	8.59

Source: Finance Accounts.

As could be seen from the table, debit balances (adverse) totalling ₹ 461.91 crore appeared in respect of six administrators (operative PD Accounts) and ₹ 8.59 crore in respect of twelve administrators (in-operative PD Accounts), indicating the need for reconciliation.

3.8.3 Irregular blocking of funds

The Karnataka State Industrial and Infrastructure Development Corporation Limited (KSIIDC) was the nodal agency through which the State support for construction of an International Airport at Bangalore was provided. During May 2008, an amount of ₹ 1.00 crore being the State support for the construction of a police station in the Airport was released to KSIIDC. The work was to be executed through the Karnataka State Police Housing Corporation (KSPHC). However, the said construction was not carried out by the KSPHC. Instead, it was executed by Bangalore International Airport Limited. The amount of ₹ 1.00 crore released to KSPHC through the treasury, by debiting capital account, had been parked in Savings Bank account without being surrendered to Government. The amount was remitted to the Government account only in February 2014 together with interest of ₹ 0.14 crore after deducting ₹ 0.07 crore towards Income Tax.

The capital expenditure of the Government is generally met through borrowed funds which carry interest at the rate of eight to nine *per cent* per annum. Parking of borrowed funds in Savings Bank account was against the canons of financial propriety. As it was decided that KSPHC would not execute the work, they should have remitted the funds to Government account without delay. An effective oversight mechanism would have prevented locking up of borrowed funds without purpose. The matter was reported (June 2014) to Government and response was awaited.

3.9 Reconciliation of Receipts and Expenditure

To exercise effective budgetary control over expenditure and to ensure accuracy in accounts, all Controlling Officers are required to reconcile every month, the receipts and expenditure recorded in their books with the figures accounted for by the Principal Accountant General (A&E). Reconciliation of receipts has been completed for a value of ₹ 88,741.27 crore (99 *per cent* of total receipts of ₹ 89,630.47 crore) which excludes receipts from loan head of account. Reconciliation of expenditure has been completed for a value of ₹ 63,043.23 crore (59 *per cent* of total expenditure of ₹ 1,06,136.43 crore) which excludes expenditure from loan head of account. Non-reconciliation of accounts has an impact on the assurance of the completeness and correctness of the receipts and expenditure figures depicted in the accounts. Failure to reconcile the expenditure figures by the department may result in frauds, defalcations and over-drawals etc. remaining undetected.

3.10 Bookings under Minor head 800 – ‘Other Receipts’ and ‘Other Expenditure’

The expenditure of the Government under the Consolidated Fund is classified under revenue and capital under various functional major heads. The sub-major heads and minor heads representing the sub-functions/ programmes are opened below the major heads. The minor head 800 is an omnibus head, opened in the accounts, when a particular item of expenditure/receipt cannot be accommodated in any of the existing minor heads. An amount of ₹ 6,179.33 crore under Revenue, Capital and Loan Major Heads of accounts of expenditure had been classified under the minor head ‘800-Other Expenditure’ in the accounts, constituting about 5.78 *per cent* of the total expenditure (Revenue, Capital and Loan) during the year. Several schemes/ programmes/ activities such as tourist infrastructure, sewerage and sanitation scheme, equities, investments, etc., with considerable expenditure are accounted under the minor head 800. Such accounting obscures transparency in accounts for informed decision making.

Similarly ₹ 4,182.19 crore under Revenue, Capital and Loans Major Heads of accounts on receipts side were classified under the minor head ‘800 - Other Receipts’ in the accounts constituting about 4.66 *per cent* of the total receipts.

On being asked, the Finance Department replied (November 2014) that as a result of review conducted by them, provision under 43 cases have been identified for shifting to other minor heads under expenditure heads (revenue/capital) and in 82 cases relating to receipts (revenue). Action taken by the Government has resulted in considerably reducing the percentage of classification of receipts and expenditure under the minor head ‘800 – Other receipts and Other expenditure’ during 2013-14.

3.11 Comments on Accounts

3.11.1 Irregular retention of receipts

Article 4 of Karnataka Financial Code stipulates that all moneys received by a Government servant in his official capacity should be paid in full within two days into a Government treasury, to be credited to the appropriate account and made part of the general treasury balance.

Government ordered (February 2009) the transfer of 1,135.18 square meter of land at Lalbagh to Bangalore Metro Rail Corporation Limited (BMRCL) for Metro Rail Project with instructions to remit the compensation amount to the Department of Horticulture. The Director of Horticulture, however, instructed (March 2009) BMRCL to remit the compensation amount to the Suvarna Karnataka Udyanavanagala Prathistan (SKUP), a trust established by the Government for development and maintenance of gardens and parks in the State. Accordingly, BMRCL paid (July 2009) to SKUP, ₹ 6.05 crore as

compensation towards 925.14 square meter of land utilized for the metro project.

Thus, the compensation amount of ₹ 6.05 crore received, was irregularly retained in the SKUP account instead of remitting it promptly to Government Account.

3.11.2 Transparency in accounts

To bring about greater transparency and to enable informed decision making in Government Accounts, the TFC had recommended inclusion of certain statements/appendices in the Finance Accounts which would give details of expenditure at object head level such as salaries, maintenance expenditure, subsidies including implicit subsidies, debt liabilities, cash flow statement etc.

Non-inclusion of salary details in respect of PRI employees in the Finance Accounts of the State Government and the overlapping of heads relating to the salary expenditure of ULBs are discussed in **para 1.6.3**. Subsidy expenditure shown in accounts being incomplete on account of exclusion of items of expenditure forming implicit subsidies are also discussed in the same para. However, the Overview of Budget placed before the Legislature bring out these items of expenditure separately.

As per the recommendations of Twelfth Finance Commission, a statement on maintenance expenditure is to be provided in the Finance Accounts, segregating salary/wage and non-salary components. Appendix XIII-Maintenance Expenditure does not show salary and non-salary component separately as the data is yet to be captured. The circular instructions issued by the Finance Department require for formulation of proposals by capturing the data separately for which separate object heads were provided.

Accounting reforms are required to be undertaken to bring the data into accounts for transparency.

3.11.3 Important factors affecting accuracy of accounts

The accounts of the Government are kept on cash basis. Certain transactions that arise in Government Account, the receipts and payments of which cannot at once, be taken to a final head of receipt or expenditure owing to lack of information as to the nature or for any other reasons, are to be booked temporarily under the suspense head. This head is cleared on receipt of relevant details/information. Debt, Deposit and Remittances (DDR) heads account for such transactions where the Government, as a custodian of public money, receives and holds such money in trust.

The accuracy of the State Finance Accounts 2013-14 has been adversely affected by factors like (i) large number of transactions under suspense heads awaiting final classification and (ii) increasing number and magnitude of adverse balances under DDR heads. A general review of the transactions showed the following:

a) Outstanding balances under major suspense accounts

Certain intermediary/adjusting heads of accounts known as ‘Suspense heads’ are operated in Government accounts to reflect transactions of receipts and payments which cannot be booked to a final head of account due to lack of information as to their nature or for other reasons. These heads of accounts are finally cleared by minus debit or minus credit when the amounts under them are booked to their respective final heads of accounts. If these amounts remain uncleared, the balances under the suspense heads would accumulate and would not reflect Government’s receipts and expenditure accurately. The balances under certain major suspense heads of accounts, as recorded in the ledger maintained by PAG (A&E), are indicated in **Table 3.7**.

Table 3.7: Suspense Head (8658 – Suspense Accounts)

Name of Minor head	2011-12		2012-13		2013-14	
	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.
101 – Pay and Accounts Office Suspense	71.14	2.45	68.91	1.41	89.58	0.58
Net	Dr.68.69		Dr.67.50		Dr.89.00	
102 – Suspense Account (Civil)	24.51	6.71	23.76	8.93	22.95	9.47
Net	Dr.17.80		Dr.14.83		Dr.13.48	
110 – R B Suspense – Central Accounts Office	140.20	182.48	20.30	60.22	24.91	37.80
Net	Cr.42.28		Cr.39.92		Cr.12.89	

Source: DDR Ledger/Finance Accounts.

The Finance Accounts reflect the net balances under these heads. The outstanding balances are worked out by aggregating the outstanding debit and credit separately. The implications of the balances under these heads are discussed in the succeeding paragraphs.

❖ *Pay and Accounts Office (PAO) Suspense*

This minor head is operated for the settlement of inter-departmental and inter-governmental transactions arising in the books of PAOs and the Principal Accountant General. Transactions under this minor head represent either recoveries effected or payments made by an Accounts Officer on behalf of another Accounts Officer, against whom the minor head “PAO Suspense” has been operated. Credit under the head is cleared by ‘minus credit’ when cheque is issued by the Accounts Officer in whose books, initial recovery was accounted for. Debit under ‘PAO Suspense’ is cleared by ‘minus debit’ on receipt and realization of cheque from the Accounts Officer on whose behalf payment was made. Outstanding debit balance under this head would mean that payments have been made by the Principal Accountant General on behalf of a PAO, which were yet to be recovered. Outstanding credit balance would mean that payments have been received by the Principal Accountant General on behalf of a PAO, which were yet to be paid. The net debit balance under this head has been showing an increasing trend. On clearance/settlement of this, the cash balance of the State Government will increase.

❖ *Suspense Account (Civil)*

This transitory minor head is operated for accounting of transactions, which for want of certain information/documents viz., vouchers, challans etc., cannot be taken to the final head of expenditure or receipt. This minor head is credited for recording receipts and debited for expenditure incurred. On receipt of the requisite information/documents etc., the minor head is cleared by minus debit or minus credit by per contra debit or credit to the concerned Major/sub-major/minor heads of accounts. Outstanding debit balance under this head would mean payments were made which could not be debited to final expenditure head for want of details like vouchers etc. Outstanding credit balance would mean that amounts were received which could not be credited to the final receipt head for want of details. The net debit balance under this head has decreased only marginally during the year. However, in so far as accounts with Railways (₹ 319.75 lakh) and accounts with Defence (₹ 110.95 lakh) are concerned, the cash balance will increase on clearance. There is no impact on cash balance on rest of the items on clearance.

❖ **Reserve Bank Suspense, Central Accounts Office**

This minor head is operated in the books of State Government for repayment of loans and payment of interest in respect of Central Loans received by the Government. At the time of repayment of loan and payment of interest thereon by the State Government, this head is debited by crediting the loans/interest head. The credit balance under this head was ₹ 12.89 crore, decrease of ₹ 27.03 crore over the previous year, indicating that corresponding clearances had not been made by the concerned Pay and Accounts Offices for the above amount.

b) Adverse balances under DDR Heads

Adverse balances are negative balances appearing under those heads of accounts, where there should not be a negative balance. For example, against the accounting head of any loan or advance, a negative balance will indicate more repayment than the original amount advanced. As revealed by Finance Accounts for the year 2013-14, adverse balance of E- Public debt amounting to ₹ 123.07 crore (Major Head 6003- Internal debt) was on account credits of the direct release of loans by National Co-operative Development Corporation (NCDC) to loanee entities without routing these loans through the Consolidated Fund of the State Government. In respect of F- Loans and Advances, the adverse balance of ₹ 23.66 crore (Major Head 6004 - Loans of Advances from Central Government) was on account of write-off of Central Loans on the recommendations of Thirteenth Finance Commission (balances outstanding as per books of accounts as at 31 March 2010). In respect of loans and advances the adverse balance was ₹ 14.77 crore which was on account of non-reconciliation/misclassification in accounts.

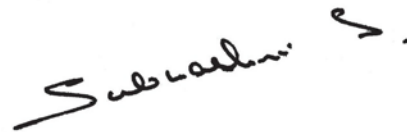
Finance Department stated (December 2013) that the adverse balances under loans and advances were mostly under miscellaneous loans for which details were not available either with PAG (A&E) or with the department as these loans relate to very old period. It was therefore, not possible to reconcile the balances and find out the reasons for adverse balances. These balances may have to be written back to miscellaneous Government account treating them as un-reconciled balances which have reached a dead end and not susceptible for reconciliation/verification.

3.12 Conclusion

Detailed bills against abstract contingent bills have been found wanting since long and large sums of money were being retained in PD Accounts against the principle of Legislative financial control. Non-reconciliation of expenditure and receipts was to the extent of 41 *per cent* of total expenditure and one *per cent* of total receipts respectively. There were adverse balances under certain accounts in Consolidated Fund heads, which required remedial action for clearance.

3.13 Recommendations

- *Accounting reforms by introducing separate object heads to capture data on salary/ non-salary items of expenditure in respect of the maintenance, salary expenditure of the staff of Panchayat Raj Institutions, as recommended by the Finance Commission, are required to be undertaken.*
- *Immediate steps need to be taken for review of status of PD accounts and closure of inoperative ones.*
- *Review of suspense heads needs to be done to bring the transactions to the final heads in the accounting year itself.*



BENGALURU
The 24th Feb.2015

(SUBHASHINI SRINIVASAN)
Principal Accountant General
(General and Social Sector Audit)

COUNTERSIGNED



NEW DELHI
The 27th Feb.2015

(SHASHI KANT SHARMA)
Comptroller and Auditor General of India

Appendices

Appendix 1.1

State Profile

(Reference: Page 1)

A	General Data			
Sl. No.	Particulars		Figures	
1	Area		1,91,791 Sq.km.	
2	Population			
	a.	As per 2001 Census	5.28 crore	
	b.	As per 2011 Census	6.11 crore	
3	a.	Density of Population (2001 Census) (All India Density = 325 persons per Sq. Km)	276 persons per Sq. Km.	
	b.	Density of Population (2011 Census) (All India Density = 382 persons per Sq. Km)	319 persons per Sq. Km.	
4	*Population below poverty line (All India Average = 21.92 %)		20.91 <i>per cent</i>	
5	a.	Literacy (2001 Census) (All India Average = 64.8%)	66.64 <i>per cent</i>	
	b.	Literacy (2011 Census) (All India Average = 74.04%)	75.6 <i>per cent</i>	
6	Infant mortality **(per 1000 live births) (All India Average = 40 per 1,000 live births)		32	
7	Life Expectancy at birth *** (All India Average = 65.8 years)		65.35 years	
8	¹ Gini Coefficient****			
	a.	Rural. (All India = 0.29)		
	b.	Urban. (All India = 0.38)		
9	Gross State Domestic Product (GSDP) 2013-14 at current price		6,01,633 crore	
10	Per capita GSDP CAGR (2004-05 to 2013-14)	Karnataka	13.45 <i>per cent</i>	
		General Category States ²	14.88 <i>per cent</i>	
11	GSDP CAGR (2004-05 to 2013-14)	Karnataka	13.33 <i>per cent</i>	
		General Category States	15.49 <i>per cent</i>	
12	Population Growth (2004-14)	Karnataka	10.5 <i>per cent</i>	
		General Category States	12.94 <i>per cent</i>	
B	Financial Data			
Particulars		Figures (in <i>per cent</i>)		
CAGR		2004-05 to 2012-13		2004-05 to 2013-14
		General Category States	Karnataka	Karnataka
a.	of Revenue Receipts.	16.93	12.74	12.92
b.	of Own Tax Revenue.	16.42	14.36	14.57
c.	of Non Tax Revenue.	12.49	(-).1.33	(-).1.03
d.	of Total Expenditure.	15.37	13.29	13.46
e.	of Capital Expenditure.	17.01	13.55	12.81
f.	of Revenue Expenditure on Education.	17.44	14.40	14.28
g.	of Revenue Expenditure on Health.	16.50	14.73	15.91
h.	of Salary and Wages.	14.73	13.09	12.83
i.	of Pension.	18.34	14.38	15.55

Source: Financial data is based on Finance Accounts.

* General data: BPL (Planning Commission & NSSO data, 61st round).

** Infant mortality rate (SRS Bulletin September 2013),

*** Life Expectancy at birth (Economic Survey indicators for 2010-11 as shown in Economic Survey 2012-13).

**** Gini Coefficient (latest figures Unofficial estimates of Planning Commission and NSSO data, 61st round 2004-05 MRP).

Note: All India average of General Category States has been calculated on the basis of figures provided by 16 General Category States (excluding Delhi, Goa and Puducherry).

¹ Gini Coefficient is a measure of inequality of income among the population. Value rate is from zero to one, closer to zero inequality is less; closer to one inequality is higher.

² States other than 11 States termed as Special Category States (Arunachal Pradesh, Assam, Jammu and Kashmir, Himachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura and Uttarakhand).

Appendix 1.2

Structure of Government Accounts

(Reference: Paragraph 1.1; Page 2)

The accounts of the State Government are kept in three parts viz., Consolidated Fund, Contingency Fund and Public Account.

Part I: Consolidated Fund: All receipts and expenditure on Revenue and Capital Account, Public Debt and Loans and Advances form one Consolidated Fund entitled the Consolidated Fund of State established under Article 266(1) of the Constitution of India.

Part II: Contingency Fund: Contingency Fund of the State established under Article 267(2) of the Constitution is in the nature of an imprest placed at the disposal of the Governor to enable him to make advances to meet urgent unforeseen expenditure, pending authorisation by the Legislature. Fund is recouped by debiting the expenditure to the concerned functional major head in the Consolidated Fund of the State.

Part III: Public Account: Receipts and disbursements in respect of certain transactions such as small savings, provident funds, reserve funds, deposits, suspense, remittances etc., which do not form part of the Consolidated Fund, are kept in the Public Account set up under Article 266(2) of the Constitution and are not subject to vote by the State Legislature.

Layout of Finance Accounts

Finance Accounts is prepared in two volumes with Volume-I presenting the summarized financial statements of Government and Volume-II presenting the detailed statements. The layout is detailed below. Further, Volume 2 contains details such as comparative expenditure on salaries and subsidies by major head, grants-in-aid and assistance given by the State Government, externally aided projects, expenditure on plan scheme, direct transfer of Central scheme funds to implementing agencies, summary of balances, financial results of irrigation schemes, commitments on incomplete public works contracts and maintenance expenditure which are brought out in various appendices.

Statement number	Layout
1	Statement of Financial Position
2	Statement of Receipts and Disbursements
3	Statement of Receipts (Consolidated Fund)
4	Statement of Expenditure (Consolidated Fund)
5	Statement of Progressive Capital Expenditure
6	Statement of Borrowings and Other Liabilities
7	Statement of Loans and Advances given by the Government
8	Statement of Grants-in-aid given by the Government
9	Statement of Guarantees given by the Government
10	Statement of Voted and Charged Expenditure
11	Detailed Statement of Revenue and Capital Receipts by Minor Heads
12	Detailed Statement of Revenue Expenditure by Minor Heads
13	Detailed Statement of Capital Expenditure by minor heads and sub heads
14	Detailed Statement of Investments of the Government
15	Detailed Statement of Borrowings and Other Liabilities
16	Detailed Statement on Loans and Advances given by the Government
17	Statement on Sources and Application of funds for expenditure other than on Revenue Account
18	Detailed Statement on Contingency Fund and other Public Account Transactions
19	Detailed Statement on Investment of Earmarked Balances

Appendix 1.3

Abstract of receipts and disbursements

(Reference: Paragraph 1.1.1; Page 2)

(₹ in crore)

2012-13	Receipts	2013-14	2012-13	Disbursements				2013-14
					Non-Plan	Plan	Total	
Part A: Abstract of Receipts and Disbursements for the year 2013-14								
Section-A: Revenue								
78,176.22	I. Revenue receipts	89,542.53	76,293.26	I. Revenue expenditure^{††}	62,219.74	26,969.83		89,189.57 #
53,753.56	Tax revenue ^{††}	62,603.53 *	20,180.85	General Services	24,794.03	160.38	24,954.41	
3,966.10	Non-tax revenue ^{††}	4,031.90		Social Services				
12,647.14	State's share of Union Taxes & Duties	13,808.28	14,624.26	Education, Sports, Art and Culture	11,591.92	4,573.63	16,165.55	
2,455.43	Non Plan grants	3,139.79	3,567.80	Health and Family Welfare	2,274.50	1,818.56	4,093.06	
2,908.74	Grants for State Plan Schemes	3,341.15	2,359.86	Water Supply, Sanitation, Housing and Urban Development	350.60	2,319.57	2,670.17	
2,445.25	Grants for Central and Centrally Sponsored Schemes	2,617.88	71.30	Information and Broadcasting	48.09	25.14	73.23	
			3,581.25	Welfare of Scheduled Castes, Scheduled Tribes, Other Backward Classes and minorities	986.80	2,733.36	3,720.16	
			294.10	Labour and Labour Welfare	106.28	182.40	288.68	
			5,542.27	Social Welfare and Nutrition	2,290.81	3,096.70	5,387.51	
			378.96	Others	164.32	59.21	223.53	
			30,419.80	Total Social Services	17,813.32	14,808.57	32,621.89	
				Economic Services				
			7,417.46	Agriculture and Allied Activities	5,647.93	6,941.89	12,589.82	
			2,377.76	Rural Development	1,318.99	963.84	2,282.83	
			102.73	Special Areas Programmes	--	152.40	152.40	
			747.97	Irrigation and Flood Control	501.96	230.36	732.32	
			7,070.37	Energy	5,962.98	32.73	5,995.71	
			722.95	Industry and Minerals	325.17	556.88	882.05	
			2,023.87	Transport	2,040.06	520.03	2,560.09	
			60.09	Science, Technology and Environment	0.01	60.84	60.85	
			1,150.99	General Economic Services	945.24	391.52	1,336.76	
			21,674.19	Total Economic Services	16,742.34	9,850.49	26,592.83	
			4,018.42	Grants-in-aid and Contributions	2,870.05	2,150.39	5,020.44	
			1,882.96	II Revenue surplus carried over to Sec.-B				352.96
78,176.22	Total	89,542.53	78,176.22	Total				89,542.53

2012-13	Receipts	2013-14	2012-13	Disbursements				2013-14
					Non-Plan	Plan	Total	
Section-B – Capital and others								
9,609.49	II. Opening Cash Balance including Permanent Advances & Cash Balance Investments & Investments from earmarked funds	10,511.24						
33.04	III. Miscellaneous Capital receipts	87.94	15,478.47	III. Capital Outlay ^{††}	326.75	16,620.11		16,946.86\$
			589.47	General Services	27.79	472.95	500.74	
				Social Services				
			361.43	Education, Sports, Art and Culture	(-)0.01	388.11	388.10	
			361.30	Health and Family Welfare	(-)0.12	440.53	440.41	
			1,764.34	Water Sanitation, and Development Supply, Housing and Urban	(-)0.01	1,187.58	1,187.57	
			5.68	Information and Broadcasting	--	4.00	4.00	
			371.85	Welfare of Scheduled Castes, Scheduled Tribes, Other Backward Classes and minorities	--	896.45	896.45	
			33.73	Social Welfare and Nutrition	--	110.05	110.05	
			17.66	Other Social Services	--	26.10	26.10	
			2,915.99	Total Social Services	(-)0.14	3,052.82	3,052.68	
				Economic Services				
			210.01	Agriculture and Allied Activities	--	261.35	261.35	
			215.75	Rural Development	--	58.32	58.32	
			281.66	Special Areas Programmes	--	613.44	613.44	
			5,115.12	Irrigation and Flood Control	267.64	6,116.18	6,383.82	
			1,160.90	Energy	4.88	300.00	304.88	
			115.64	Industry and Minerals	(-)14.01	191.30	177.29	
			4,683.37	Transport	41.76	5,256.71	5,298.47	
			190.56	General Economic Services	(-)1.17	297.04	295.87	
			11,973.01	Total Economic Services	299.10	13,094.34	13,393.44	
157.61	IV. Recoveries of Loans and Advances ^{††}	109.28	1,102.37	IV. Loans and Advances	25.82	669.61		695.43
16.16	From Power Projects	16.43	94.02	For Power Projects	---	81.74	81.74	
3.76	From Government Servants	4.04	0.05	To Government Servants	16.00	2.00	18.00	
137.69	From others	88.81	1,008.30	To Others	9.82	585.87	595.69	
13,464.66	V. Public debt receipts	17,286.81	3,727.06	V. Repayment of Public Debt	3,816.84			3,816.84
12,115.68	Internal debt other than Ways and Means Advances and Overdraft	16,132.25	3,030.53	Internal debt other than Ways and Means Advances & Overdraft	3,122.57		3,122.57	

2012-13	Receipts	2013-14	2012-13	Disbursements				2013-14
					Non-Plan	Plan	Total	
---	Ways and Means Advances from Reserve Bank of India	---	---	Ways and Means Advances from Reserve Bank of India	---		---	
1,348.98	Loans and Advances from the Central Government	1,154.56	696.53	Repayment of Loans and Advances to Central Government	694.27		694.27	
0.51	VI. Contingency Fund (Recoupment)	---	---	VI. Contingency Fund Disbursements	---	---	---	
1,07,548.81	VII. Public Account Receipts	1,20,712.85	1,01,877.94	VII. Public Account Disbursements	---	---		1,12,971.74
3,894.49	Small Savings and Provident Funds, etc.,	4,508.12	2,162.39	Small Savings and Provident Funds etc.	---	---	2,401.06	
3,659.16	Reserve Funds	2,032.39	2,297.49	Reserve Funds	---	---	1,897.96	
31,140.85	Deposits and Advances	34,302.98	28,630.26	Deposits and Advances	---	---	31,462.62	
68,816.65	Suspense and Miscellaneous	79,842.20	68,718.61	Suspense and Miscellaneous	---	---	77,171.08	
37.66	Remittances	27.16	69.19	Remittances	---	---	39.02	
1,882.96	VIII. Revenue Surplus carried over from Sec. -A	352.96	10,511.24	VIII Cash Balance at the end of 31-03-2014				14,630.21
			0.01	Cash in Treasuries and Local Remittances			0.01	
			67.94	Deposits with Reserve Bank			86.21	
			3.76	Departmental Cash Balances including Permanent Advances			3.75	
			6,872.36	Cash Balance Investment			10,973.07	
			3,567.17	Investment from Earmarked Funds			3,567.17	
1,32,697.08	Total	1,49,061.08	1,32,697.08	Total				1,49,061.08

Includes expenditure on interest payment in respect of off-budget borrowings etc. under various service heads.

₹ 190 crore borrowed through Special Purpose Vehicles- General Services (₹ 13.00 crore), Social Services (₹ 43 crore) and Economic Services (₹ 134 crore).

\$ Includes expenditure of ₹ 352 crore on account of off-budget borrowings.

* Includes ₹ 109 crore received from Ministry of Road Transport and highways towards National Permit fee.

↑↑ Non cash receipts and expenditure are as follows which are discussed in paragraphs 1.3.1.1 indicated against each.

Book Adjustments	Amount (₹ in crore)
Tax Receipts	2,122.83
Non Tax Receipts	60.01
Loan Receipts	16.77
Revenue/Capital Expenditure	2,199.61

Appendix 1.4

Time series data on the State Government Finances
(Reference: Paragraphs 1.1.1, 1.3 and 1.9.3; Pages 2, 12 and 46)

(₹ in crore)

	2009-10	2010-11	2011-12	2012-13	2013-14
Part A. Receipts					
1. Revenue Receipts	49,156	58,206	69,806	78,176	89,542
(i) Tax Revenue ^{††}	30,579(62)	38,473(66)	46,476(66)	53,754(69)	62,603(70)
Taxes on Agricultural Income	9(-)	9(-)	15(-)	22(-)	21(-)
Taxes on Sales, Trade, etc.	15,833(52)	20,235 (53)	25,020(54)	28,414(53)	33,719(54)
State Excise	6,946(23)	8,285(21)	9,776(21)	11,070(21)	12,828(21)
Taxes on Vehicles	1,962(6)	2,550 (7)	2957(6)	3,830(7)	3,911(6)
Stamps and Registration fees	2,628(9)	3,531(9)	4,623(10)	5,225(10)	6,189(10)
Land Revenue	128(-)	177(-)	215(-)	205(-)	199(-)
Taxes on Goods and Passengers	1,291(4)	1,526(4)	1,690(4)	2,181(4)	2,626(4)
Taxes and Duties on Electricity	679(2)	663(2)	654(2)	929(2)	897(2)
Other Taxes on Income and Expenditure	527(2)	550(1)	600(1)	693(1)	793(1)
Other Taxes and Duties on Commodities and Services	577(2)	947(3)	926(2)	1,185(2)	1,420(2)
(ii) Non Tax Revenue ^{††}	3,334(7)	3,358(6)	4,087(6)	3,966(5)	4,032(5)
(iii) State's share of Union taxes and duties	7,360(15)	9,506(16)	11,075(16)	12,647(16)	13,808(15)
(iv) Grants in aid from Government of India	7,883(16)	6,869(12)	8,168(12)	7,809(10)	9,099(10)
2. Miscellaneous Capital Receipts	70	72	89	33	88
3. Recoveries of Loans and Advances ^{††}	555	161	241	158	109
4. Total Revenue and Non-debt capital receipts (1+2+3)	49,781	58,439	70,136	78,367	89,739
5. Public Debt Receipts	7,991	6,714	9,358	13,465	17,287
Internal Debt (excluding Ways and Means Advances and Overdrafts)	7,310(91)	5,210(78)	8,091(86)	12,116(90)	16,132(93)
Net transactions under Ways and Means Advances and Overdrafts	---	---	---	---	---
Loans and Advances from Government of India	681(9)	1,504(22)	1,267(14)	1,349(10)	1,155(7)
6. Total Receipts in the Consolidated Fund (4+5)	57,772	65,153	79,494	91,832	1,07,027
7. Contingency Fund Receipts	2	---	13	1	---
8. Public Account Receipts	71,172	80,314	94,408	1,07,549	1,20,713
9. Total Receipts of the State (6+7+8)	1,28,946	1,45,467	1,73,915	1,99,382	2,27,740
Part B. Expenditure/Disbursement					
10. Revenue Expenditure ^{††}	47,527	54,034	65,115	76,293	89,189
Plan	12,293(26)	15,188(28)	18,567(29)	21,212(28)	26,970(30)
Non Plan	35,234(74)	38,846(72)	46,548(71)	55,081(72)	62,219(70)
General Services (including interest payments)	12,762(27)	14,055(26)	16,445(25)	20,181(27)	24,954(28)
Social Services	19,119(40)	22,108(41)	25,172(39)	30,420(40)	32,622(36)
Economic Services	13,172(28)	14,892(28)	19,154(29)	21,674(28)	26,593(30)
Grants-in-aid and contributions	2,474(5)	2,979(5)	4,344(7)	4,018(5)	5,020(6)
11. Capital Expenditure ^{††}	12,147	13,355	15,506	15,479	16,947
Plan	11,128(92)	12,582(94)	14,922(96)	15,157(98)	16,620(98)
Non Plan	1,019(8)	773(6)	584(4)	322(2)	327(2)
General Services	490(4)	465(3)	626(4)	590(4)	501(3)
Social Services	2,651(22)	2,617(20)	2,695(17)	2,916(19)	3,053(18)
Economic Services	9,006(74)	10,273(77)	12,185(79)	11,973(77)	13,393(79)

	2009-10	2010-11	2011-12	2012-13	2013-14
12. Disbursement of Loans and Advances ^{††}	982	1,738	1,815	1,102	695
<i>Plan</i>	<i>916</i>	<i>1,736</i>	<i>1,731</i>	<i>1,084</i>	<i>669</i>
<i>Non Plan</i>	<i>66</i>	<i>2</i>	<i>84</i>	<i>18</i>	<i>26</i>
General Services	---	---	---	---	---
Social Services	805	1,489	1,546	815	428
Economic Services	172	247	178	269	239
Miscellaneous Loans	5	2	91	18	28
13. Total (10+11+12)	60,656	69,127	82,436	92,874	1,06,831
14. Repayments of Public Debt	2,308	2,807	3,320	3,727	3,817
Internal Debt (excluding Ways and Means Advances and Overdrafts)	1,838(80)	1,916(68)	2,520(76)	3,030(81)	3,123(82)
Net transactions under Ways and Means Advances and Overdraft	---	---	---	---	---
Loans and Advances from Government of India	470(20)	891(32)	800(24)	697(19)	694(18)
15. Appropriation to Contingency Fund	---	---	---	---	---
16. Total disbursement out of Consolidated Fund (13+14+15)	62,964	71,934	85,756	96,601	1,10,648
17. Contingency Fund disbursements	---	13	1	---	---
18. Public Account disbursements	64,029	75,626	86,216	1,01,878	1,12,972
19. Total disbursement by the State (16+17+18)	1,26,993	1,47,573	1,71,973	1,98,479	2,23,620
<i>Part C. Deficits</i>					
20. Revenue Deficit(-)/ Revenue Surplus (+) (1-10)	1,629	4,172	4,521	1,883	353
21. Fiscal Deficit (-)/Fiscal Surplus (+) (4-13)	10,875	10,688	12,470	14,507	17,092
22. Primary Deficit (21-23)	5,662	5,047	5,866	7,053	9,065
Primary Surplus (23-21)	---	---	---	---	---
<i>Part D. Other data</i>					
23. Interest Payments (included in revenue expenditure)	5,213	5,641	6,604	7,454 #	8,027#
24. Financial Assistance to local bodies etc.	16,420	19,041	23,934	27,178	32,611
25. Ways and Means Advances/ Overdraft availed (days)					
Ways and Means Advances availed (days)	---	---	---	---	---
Overdraft availed (days)	---	---	---	---	---
26. Interest on Ways and Means Advances/ Overdraft	---	---	---	---	---
27. Gross State Domestic Product (GSDP)[@]	3,35,747	3,80,871	4,34,270	5,22,650	6,01,633
28. Outstanding Fiscal liabilities (year end)	83,482	91,943	1,03,030	1,16,767	1,35,318
29. Outstanding Fiscal liabilities (inclusive of off-budget borrowings)	86,245	94,003	1,04,933	1,19,273	1,38,261
30. Outstanding guarantees (year end) (including interest)	7,203	6,618	6,640	6,688	7,783
31. Maximum amount guaranteed (year end)	18,420	19,150	13,262	14,306	16,145
32. Number of incomplete projects	261	388	344	348	326
33. Capital blocked in incomplete projects	1,015	1,203	1,047	773	645

	2009-10	2010-11	2011-12	2012-13	2013-14
Part E: Fiscal Health Indicators					
I Resource Mobilization					
Own Tax Revenue/GSDP	9.10	10.10	10.70	10.28	10.40
Own Non-Tax Revenue/GSDP	1.00	0.88	0.94	0.75	0.67
Central Transfers/GSDP	4.54	4.29	4.43	3.91	3.80
Non-tax revenue to Revenue Receipts	6.78	5.77	5.85	5.07	4.50
II Expenditure Management					
Total Expenditure/GSDP	18.06	18.14	18.98	17.76	17.75
Total Expenditure/Revenue Receipts	123.39	118.76	118.09	118.80	119.31
Revenue Expenditure/Total Expenditure	78.35	78.17	78.99	82.15	83.49
Expenditure on Social Services/Total Expenditure	37.22	37.92	35.68	36.77	33.80
Expenditure on Economic Services/Total Expenditure	36.84	36.76	38.23	36.52	37.65
Capital Expenditure/Total Expenditure	21.65	21.83	21.01	17.85	16.51
Capital Expenditure on Social and Economic Services/Total Expenditure.	20.83	21.16	20.14	17.20	16.02
III Management of Fiscal Imbalances					
Revenue Deficit (surplus)/GSDP	0.49	1.09	1.04	0.36	0.06
Fiscal Deficit/GSDP	3.24	2.81	2.87	2.78	2.84
Primary Deficit (surplus) /GSDP	1.69	1.33	1.35	1.35	1.51
Revenue Deficit/Fiscal Deficit	--	--	--	--	--
Primary Revenue Balance/GSDP	2.03	2.56	2.60	1.78	1.38
IV Management of Fiscal Liabilities					
Fiscal Liabilities/GSDP	24.86	24.14	23.72	22.34	22.49
Fiscal Liabilities (inclusive of off-budget borrowings)/GSDP	25.68	24.68	24.16	22.82	22.98
Fiscal Liabilities/RR	169.83	157.96	147.95	153.93	151.12
V Other Fiscal Health Indicators					
Return on Investment (Rupees in crore)	29.51	43.44	60.56	56.29	55.49
Balance from Current Revenue (₹ in crore)	9,468	14,748	17,219	16,741	21,364

Figures in brackets represent percentages (rounded) to total of each sub-heading.

Includes expenditure on interest payment in respect of off-budget borrowings etc. under various service heads.
₹ 190 crore borrowed through Special Purpose Vehicles – General Services (₹ 13.00 crore), Social Services (₹ 43 crore) and Economic Services (₹ 134 crore).

@ Estimates for the year 2009-14 are as per MTFP of relevant years.

↑↑ Non cash receipts and expenditure are as follows which are discussed in paragraph 1.3.1.1 indicated against each.

Book Adjustments	Amount (₹ in crore)
Tax Receipts	2,122.83
Non Tax Receipts	60.01
Loan Receipts	16.77
Revenue/Capital Expenditure	2,199.61

Appendix 1.5

Details of user charges collected (Reference: Paragraph 1.3.1.2; Page 17)

(₹ in crore)

Sl. No.	Name of the Hospital	2011-12	2012-13	2013-14	Total
1	Bowring and Lady Curzon hospital, Bengaluru	4.76	5.30	5.08	15.14
2	Minto Ophthalmic Hospital, Bengaluru	0.88	0.60	0.66	2.14
3	Victoria hospital Bengaluru	5.47	7.22	8.62	21.31
4	Vani Vilas hospital Bengaluru	2.43	1.20	1.05	4.68
5	Mysore Medical College and Research Institute, Mysuru	1.03	1.52	0.51	3.06
6	Karnataka Institute of Medical Sciences, Hubballi	3.27	3.04	4.80	11.11
7	Raichur Institute of Medical Sciences, Raichur	0.82	0.88	0.98	2.68
8	Shimoga Institute of Medical Sciences, Shivamogga	1.13	0.95	0.80	2.88
9	Hassan Institute of Medical Sciences, Hassan	1.37	1.94	2.14	5.45
10	Mandya Institute of Medical Sciences, Mandya	2.49	2.13	1.94	6.56
11	Govt. Dental College and Research Institute, Bengaluru	0.49	0.61	0.65	1.75
12	Nephro Urology Institute, Bengaluru	4.83	5.24	6.23	16.30
13	Jayadeva Cardio-Vascular Science and Research Centre, Bengaluru	105.63	124.57	126.87	357.07
14	Rajiv Gandhi Chest Diseases Hospital, Bengaluru	2.27	3.15	2.12	7.54
15	Belgaum Institute of Medical Sciences, Belagavi	0.92	1.11	0.77	2.80
16	KC General Hospital, Bengaluru	1.63	1.74	2.76	6.13
17	Jayanagar General Hospital, Bengaluru	0.57	0.71	@	1.28
18	Indiranagar General Hospital, Bengaluru	0.02	0.02	0.19	0.23
19	General Hospital, K.R. Puram, Bengaluru	0.92	1.00	0.43	2.35
20	District Hospital, Karwar	0.16	0.20	0.53	0.89
21	District Hospital, Udupi	0.95	1.58	1.05	3.58
22	District Hospital, Chamarajanagar	0.44	0.84	0.92	2.20
23	District Hospital, Gadag	0.14	0.08	0.07	0.29
24	District Hospital, Haveri	0.28	0.28	0.33	0.89
25	District Hospital, Koppal	0.16	0.21	0.28	0.65
26	District Hospital, Davangere	1.39	1.18	1.36	3.93
27	District Hospital, Bijapur	1.04	1.09	0.32	2.45
28	District Hospital, Mangaluru	1.49	1.54	1.29	4.32
29	District Hospital, Tumkur	0.67	0.66	0.56	1.89
30	District Hospital, Chitradurga	0.89	0.68	0.83	2.40
31	District Hospital, Dharwad	0.32	0.67	0.48	1.47
32	District Hospital, Kalaburagi	0.87	1.25	1.28	3.40
33	District Hospital, Ramanagar	0.23	0.20	0.25	0.68
Total		149.96	173.39	176.15	499.50

Source: Information furnished by respective hospitals.

@ Information awaited.

Appendix 1.6

Implicit Subsidies
(Ref: Paragraph 1.6.3; Page 30)

(₹ in crore)

Sl. No.	H.O.A	Scheme Description	2009-10	2010-11	2011-12	2012-13	2013-14	Total
1	2401-00-103-0-15	Supply of seeds and other inputs	29.90	48.52	49.33	101.89	279.58	509.22
2	2401-00-105-0-27	Subsidy for Fertilizer Buffer stock	0.00	0.00	14.88	7.50	0.00	22.38
3	2401-00-108-1-15	Micro Irrigation	39.90	30.22	36.07	53.80	98.21	258.20
4	2401-00-108-2-30	Drip Irrigation	15.57	34.76	49.83	79.97	93.48	273.61
5	2401-00-111-0-02	New Agricultural Promotion Scheme	0.00	0.00	0.00	82.00	0.00	82.00
6	2405-00-103-0-20	Matsya Ashraya	0.00	0.00	0.00	9.00	12.00	21.00
7	2425-00-107-2-45	Interest subvention for Loans to SHG	1.71	0.00	0.00	4.00	2.50	8.21
8	2425-00-108-0-57	Yashaswini	30.00	30.00	30.00	35.00	45.00	170.00
9	3475-00-107-0-20	Minimum Floor Price Scheme	2.00	3.25	3.50	10.00	1.00	19.75
10	2235-02-102-0-25	Bhagya Lakshmi	229.64	557.64	486.09	755.40	353.42	2,382.19
11	2216-02-101-0-07	Vajpayee Urban Housing Scheme	0.00	0.00	177.00	85.00	108.25	370.25
12	2216-02-102-0-02	Housing for weaker section	24.00	35.00	33.00	40.00	25.00	157.00
13	2216-03-102-0-01	House sites for Landless	157.79	60.00	56.56	33.90	18.75	327.00
14	2216-03-104-0-01	Ashraya	0.00	0.00	0.00	1.98	229.22	231.20
15	2216-80-103-0-21, 2216-80-800-0-04	Indira Awas Yojana	0.00	69.00	130.85	218.10	50.00	467.95
16	2202-01-109-0-03	Vidya Vikasa Scheme	49.35	74.92	88.10	78.72	82.28	373.37
17	2202-02-107-0-05	Bicycles to VIII standard students	0.00	0.00	0.00	155.73	171.90	327.63
18	2851-00-103-0-62	Weavers package	26.52	38.40	50.52	52.40	99.23	267.07
19	2851-00-103-0-69	Weavers Package-KHDC	7.00	5.76	23.25	20.00	19.87	75.88
20	2852-80-800-0-43	Refund of sales tax to Eligible industries	0.94	60.58	40.99	25.00	0.00	127.51
Total			614.32	1,048.05	1,269.97	1,849.39	1,689.69	6,471.42

Appendix 1.7

Financial position of Departmentally managed Commercial/ Quasi Commercial Undertakings (Reference: Paragraph 1.8.4; Page 38)

(₹ in crore)			
Undertaking	Year upto which proforma accounts finalised	Mean capital	Total loss
Government Central Workshop, Madikeri	2008-09	0.07	0.14
Government Silk Factory, Kollegal	2010-11	1.54	1.78
Government Silk Factory, Mamballi	2010-11	2.37	1.79
Government Silk Twisting and Weaving Factory, Mudigundam	2010-11	1.02	0.68
Government Silk Factory, Chamarajanagar	2011-12	2.36	1.61
Government Silk Factory, Santhamarahalli	2011-12	2.39	1.63
Total		9.75	7.63

Appendix 1.8

Detailed Loan Accounts Maintained by Principal Accountant General (A&E)

(Reference: Paragraph 1.8.5; Page 40)

(₹ in crore)

Sl. No.	Head of Account/Institutions	Arrears as on 31-03-2014	
		Principal	Interest
1	6215-01-190-2-86: Bangalore Water Supply and Sewerage Board	2,907.21	928.19
2	6215-01-190-1-00: Karnataka Urban Water Supply and Drainage Board	211.35	489.80
3	6216-02-201-1-00: Karnataka Housing Board	23.61	80.58
4	6217-60-191-1-03: Bangalore Development Authority (for repayment of HUDCO Loans)	17.17	23.98
5	6220-01-190-1-00: Karnataka State Film Industries Development Corporation	0.41	1.51
6	6401-00-113-0-02: Karnataka Agro Proteins Limited	0.70	3.20
7	6401-00-103-2-00: Karnataka State Seeds Corporation Limited	2.88	4.05
8	6401-00-103-3-00: Karnataka State Co-operative Oil Seeds Growers Federation	0.75	6.73
9	6852-02-190-3-00: Dandeli Steel and Ferro Alloys Limited	0.31	1.15
10	6858-01-190-3-00: Karnataka Implements and Machinery Company	1.10	4.40
11	6858-02-190-1-00: Electro Mobile India Limited	0.61	2.30
12	6858-02-190-0-01: Chamundi Machine Tools	0.18	0.21
13	6858-01-190-2-00: New Government Electric Factory	67.47	147.46
14	6859-01-190-0-01: Karnataka Telecommunication Limited	1.65	5.23
15	6851-00-200-0-00: Leather Industries Development Corporation	1.78	3.17
16	6853-02-190-1-00: Hutti Gold Mines Company Limited	0.30	1.50
17	6860-04-190-2-01: Mysore Sugar Company	6.00	9.32
18	6860-60-212-1-00: Karnataka Soaps and Detergents	2.25	13.95
19	6885-01-190-3-00: Karnataka State Finance Corporation	0.40	0.46
20	6860-60-600-3-00: Mysore Tobacco Company Limited	1.34	11.40
21	7452-80-190-1-00: Karnataka State Tourism Development Corporation	1.01	6.87
Total		3,248.48	1,745.46

Appendix 1.9

Summarised Financial Position of the Government of Karnataka as on 31 March 2014
(Reference: Paragraph 1.9.1; Page 42)

(₹ in crore)

As on 31.3.2013		Liabilities@		As on 31.03.2014
6,34,18.40		Internal Debt *		76,428.08
	39,919.86	Market Loans bearing interest	53,326.20	
	0.75	Market Loans not bearing interest	0.71	
	326.00	Loans from Life Insurance Corporation of India	286.73	
	3,097.92	Loans from other Institutions	3,084.69	
	20,073.87	Loans from RBI – Special Securities issued to National Small Savings Fund of the Central Government.	19,729.75	
11,634.08		Loans and Advances from Central Government		12,094.37
	0.07	Pre 1984-85 Loans	0.07	
	74.00	Non-Plan Loans	67.95	
	11,586.14	Loans for State Plan Schemes	12,050.01	
	(-)1.26	Loans for Central Plan Schemes	(-)5.41	
	(-)24.87	Loans for Centrally Sponsored Plan Schemes	(-)18.25	
80.00		Contingency Fund		80.00
15,913.80		Small Savings, Provident Funds, etc.		18,020.87
15,750.87		Reserve Funds		15,885.30
13,616.75		Deposits		16,456.87
6,821.67		Suspense and Miscellaneous balances		9,492.78
1,27,235.57		Total		1,48,458.27
		Assets		
1,19,513.23		Gross Capital Outlay on Fixed Assets		1,36,419.15
	49,463.80	Investments in shares of Companies, Corporations, etc.	55,048.00	
	70,049.43	Other Capital Outlay	81,371.15	
12,142.90		Loans and Advances		12,729.05
	1,332.61	Loans for Power Projects	1,397.92	
	4,862.90	Other Development Loans	11,304.25	
	5,947.39	Loans to Government servants and Miscellaneous Loans	26.88	
476.44		Remittances		488.30
7.60		Other Advances		7.36
10,511.24		Cash		14,630.21
	---	Cash in treasuries	---	
	3.76	Departmental Cash Balance including Permanent Advances	3.75	
	67.94	Deposits with Reserve Bank of India	86.21	
	0.01	Remittances in Transit	0.01	
	6,872.36	Cash Balance Investments	10,973.07	
	3,567.17	Investment from earmarked funds^^	3,567.17	
(-)15,415.84		Surplus on Government Accounts		(-)15,815.80
	(-)13,499.83	Accumulated Surplus	(-)15,415.84	
	(-)1,882.96	Deduct Revenue Surplus	(-)352.96	
	(-)0.01	Deduct Other adjustments	----	
	(-)33.04	Deduct Capital Receipts	(-)47^	
1,27,235.57		Total		1,48,458.27

* The liabilities shown above do not include off budget borrowings.

^ The progressive capital expenditure decreased proforma by (₹ 40.94 crore) due to retirement of Government investments in share capital of Co-operative Institutions, accounted under 'Miscellaneous Capital Receipts'.

@ Please refer paragraph no.1.9.3 on fiscal liabilities.

^^ Please refer paragraph no. 1.9.1 on Assets and Liabilities.

Explanatory Notes for Appendices 1.3 and 1.9: The abridged accounts in the foregoing statements have to be read with comments and explanations in the Finance Accounts. Government accounts being mainly on cash basis, the surplus on Government account, as shown in Appendix 1.9, indicates the position on cash basis, as opposed to accrual basis in commercial accounting. Consequently, items payable or receivable or items like depreciation or variation in stock figures, etc., do not figure in the accounts. Suspense and Miscellaneous balances include cheques issued but not paid, payments made on behalf of the State and other pending settlements, etc. There was a difference of ₹ 32.97 crore (credit) between the figures reflected in the Accounts - ₹ 86.21 crore (debit) and that intimated by the Reserve Bank of India under "Deposits with Reserve Bank"- ₹ 53.24 crore (credit). A net difference to the extent of ₹ 0.18 crore (debit) had been reconciled (June 2014) leaving a balance of net credit of ₹ 33.15 crore (credit) which was under reconciliation.

Appendix 1.10

Details of dormant Reserve Funds under major heads 8115 and 8229

(Reference: Paragraph 1.9.4; Page 47)

Sl. No.	Description	Balance as on 31-03-2014 (₹)
1	K.G.F Water Works	20,34,380
2	Sandal Oil Factory, Mysuru	21,06,076
3	Sandal Oil Factory, Shivamogga	18,80,315
4	Central Industrial Workshop, Bengaluru	28,84,763
5	Government Soap Factory, Bengaluru	1,31,10,396
6	Government Silk Weaving Factory, Mysuru	14,78,153
7	Government Electric Factory, Bengaluru	49,86,439
8	Mysore Implements Factory, Hassan	40,44,658
9	Government Silk Filatures, Kanakapura	7,73,441
10	Government Silk Filatures, Mysuru	15,93,905
11	Government Silk Filatures, T. Narasipura	2,61,838
12	Government Spun Silk Mills	19,40,706
13	Wood Preservation Plant, Shivamogga	39,48,516
14	Chamarajnar Water Works	89,80,764
15	Mysore Iron and Steel Works	5,75,53,922
16	Mysore Chromate Factory	86,240
17	Karnataka State Road Transport Corporation	23,215
18	Road Transport Department Depreciation Fund	19,35,000
19	Bangalore Dairy	38,730
20	Road Transport Department Betterment Fund	4,82,056
21	Development Fund of the World Food Programme Projects 614 & 620	49,22,354
22	World Food Programme Krishna Project (Ghataprabha)	47,74,877
23	Sale Proceeds of Maize under World Food Programme	3,16,94,897
24	Sale Proceeds of Poultry mashes under World Food Programme	18,34,873
25	Karnataka Care Food Development Fund	7,31,21,509
26	Fund from assistance under TCA Programme	71,341
27	Development of Medical and Public Health Programme	23,83,215
28	Accident Reserve Fund of Government Flying School	34,868
29	Irrigation Development Fund	3,77,45,118
30	Failed Well Compensation Fund	2,40,97,795

Sl. No.	Description	Balance as on 31-03-2014 (₹)
31	Watershed Development Fund	19,47,25,090
32	Karnataka State Children Fund	10,31,653
33	Development Funds for Animal Husbandry Purposes	20,085
34	Consumer Welfare Fund	66,641
35	Sharavathi Educational Trust Dental College, Shivamogga	50,000
Total		48,67,17,829

**Details of Dormant Reserve Funds under major heads 8115 and 8229
(Adverse balance)**

Sl. No.	Description	Balance as on 31-03-2014 (₹)
1	Registrar of Co-operative Societies	1,32,60,488
2	Agricultural Income Tax	1,93,31,027
3	Karnataka State Teachers benefit fund	2,49,39,792
4	Development of medical and public health programme – World Food Programme - I Malaprabha	71,76,343
5	Funds under agricultural Income Tax investment deposit scheme	98,83,536
Total		7,45,91,186

Appendix 1.11

Debt sustainability – indicators and trends

(Reference: Paragraph 1.10.2; Page 59)

(₹ in crore and ratio in *per cent*)

Year	2009-10	2010-11	2011-12	2012-13	2013-14
Average Interest rate = Interest payments/Average of fiscal liabilities of current and previous year	6.72	6.43	6.77	6.78	6.29
Interest spread= GSDP growth rate – average interest	1.48	6.97	7.23	13.52	8.81
Quantum spread = debt stock as percentage of interest spread	1,235	6,408	7,449	15,787	12,181
Debt stabilization= quantum spread – primary deficit	(-)4,427	1,361	1,583	8,734	3,116
Burden of interest payments = Interest payments/Revenue receipt ratio	10.6	9.7	9.5	9.5	9.00
Sufficiency of incremental non-debt receipt (resource gap) = incremental non-debt receipts – incremental non-debt expenditure	(-)2,143	187	(-)1,612	(-)2,207	(-)2,585

Appendix 2.1

Errors in Budgeting (Reference: Paragraph 2.3.4; Page 76)

(₹ in crore)

Sl. No.	Grant	Head of Account	Amount involved	Error
1	4 - DPAR	2070-00-104-0-02-195 Transport Expenses	0.18	Provision made in Voted category instead of Charged category
2	7- RDPR	2215-00-198-2-02-451 Water Supply and Sanitation Davanagere	0.20	Provision made under Grant No.8 instead of Grant No. 7.
3		2810-60-196-6 Non-Conventional Sources of Energy Zilla Panchayat	8.07	Deletion of Sub Major Heads was not incorporated in the Budget estimates
4	8 – Forest, Ecology and Environment	2215-00-198-2-02-451 Water Supply and Sanitation Davanagere	0.00	See Sl. No. 2 above
5	10 – Social Welfare	2225-01-102-0-08-442 Special Component Plan	575.15	442 - Deduct SCP upfront instead of 422
6		2225-02-283-0-02-443 Tribal Sub Plan	337.47	443 Deduct TSP pooled upfront instead of 423
7	14 – Revenue	2245-05-101-06-261 Inter Account transfer	100.00	Provision was made for transfer of SDRF not contemplated under GOI guidelines.
8	20 – Public Works	2216 Housing	0.88	2216 – Non-existent Sub-major head and minor head incorporated in the Budget estimates.
9	29 – Debt Servicing	6003-00-104-0-01-240 Debt Servicing	0.11	Provision made under Voted grant instead of Charged appropriation
10			163.30	Provision of funds in the Revenue section of the Charged appropriation under Interest on internal debt- Interest on market loan – New Loans 2012-13 – Debt servicing was made erroneously despite existence of provision of funds for interest payment of Market Loans raised in 2012-13 under respective detailed heads.
11			2.10	Provision of funds in the Revenue Section of the Charged appropriation made under Interest on other Internal debt – Interest on loan – Temporary Ways and Means accommodation from the RBI – NABARD (Long term operation of the fund) if the RBI- Debt Servicing was made erroneously despite nil balance of principal outstanding under this head.
Total			1,187.46	

Appendix 2.2

Non-transparency in estimation/accounting of expenditure relating to Object Head 059 – Other Expenses (Reference: Paragraph 2.5; Page 78)

Sl. No.	Nature of Expenditure	(₹ in crore)
		Amount
1	Other Allowances	0.04
2	Subsidiary Expenses	0.85
3	Purchase of books/stationery	2.48
4	Purchase of furniture/ fixture	0.04
5	Building Expenses	0.01
6	Financial Assistance	9.49
7	Grant-in-Aid	1.92
8	Scholarships and incentives	0.35
9	Modernization	1.05
10	Major Works	1.00
11	Transport Expenses	0.01
12	Maintenance	0.52
13	Materials and supplies	0.12
14	Construction of buildings	6.03
15	Reimbursement of tuition fee under RTE	6.87
16	Subsidy	111.91
Total		142.69

Appendix 2.3

**Major heads of account under which provision of
₹ 25 crore and above remained unspent**
(Reference: Paragraph 2.6.1; Page 80)

			(₹ in crore)
Sl. No.	Grant No.	Head of Account	Unspent provision
1	1	2401-108-2 Horticulture Department	155.09
2		2401-119-4 Development of Farms and Nurseries	121.31
3		2401-800-1 Agriculture Department	305.08
4		2401-800-2 Horticulture Department	47.48
5		2402-102-28 Sujala Watershed Project III	42.72
6		2402-102-30 Integrated Watershed Management Programme	450.00
7		2402-198-6 Gram Panchayats – CSS/CPS	58.72
8		2851-107-1 State Sericulture Industries	91.73
9	2	2403-800-30 Rashtriya Krishi Vikas Yojana Animal Husbandry (RKVY)	65.00
10		2405-800-22 Rashtriya Krishi Vikas Yojana – Fisheries	42.73
11	3	2039-001-01 Commissioner for Excise and Other Establishments	44.74
12		2054-095-01 Director of Treasuries	56.47
13		2070-800-11 Filling up of vacant posts	500.00
14		2071-01-105-3 Other Family Pensions – Karnataka	251.60
15		2071-01-115-1 General Services	44.98
16		2071-01-115-2 Social Service	36.02
17		3475-797-01 Transfer of cess to the Infrastructure Initiative Fund	126.39
18	4	2015-106-1 State Legislative Assembly	54.41
19		2575-60-265-03 Article 371J – Hyderabad Karnataka Region Development	43.50
20		3451-090-2 Information Technology Secretariat	37.84
21		4575-60-800-02 Article 371J –Hyderabad Karnataka Region Development	80.00
22	5	2055-115 Modernization of Police Force	193.94
23		2056-101-01 Jails	41.40
24	6	5465-01-191-1 Investment in infrastructure	108.61
25	7	2215-01-001-9 Other Schemes	428.34
26		2215-01-198-2 Grama Panchayat	115.31
27		2501-01-198-6 Village Panchayats CSS/ CPS	175.04
28		2505-60-196-6 Zilla Panchayats CSS/ CPS	1,375.27
29		2515-101-80 Karnataka Panchayat Strengthening Project-Grama Swaraj–EAP	29.81
30		2515-196-1 Zilla Panchayats	41.32
31		2515-196-6 Zilla Panchayats CSS/ CPS	96.64
32		2515-197-1 Taluk Panchayats	111.49
33		2515-197-6 Taluk Panchayats CSS/ CPS	118.10
34		2515-198-6 Taluk Panchayats CSS/ CPS	413.35
35		4215-01-102-9 Capital release to Grama Panchayat	1,347.19
36		4215-02-800-02 Suvarna Grama	56.14
37		5054-03-337-71 Prime Minister Grameena Sadak Yojana	357.59
38	10	2225-01-102-08 SCP – Pooled Fund	474.85
39		2225-01-197-1 Taluk Panchayats	57.82
40		2225-01-197-6 Taluk Panchayats CSS/CPS	180.40
41		2225-02-283-02 Tribal Sub Plan Pooled Fund	112.53
42		2225-02-794-01 Development of Particularly Vulnerable Tribal Groups	46.05
43		2225-03-102-14 Development of Christian Community	30.19
44		2225-03-277-2 Welfare of Other Backward Classes	77.16

Sl. No.	Grant No.	Head of Account	Unspent provision
45		4225-01-800-06 Special Component Plan – Pooled upfront	215.15
46		4225-02-800-02 Tribal Sub Plan – Pooled upfront	128.25
47	11	2235-02-197-6 Taluk Panchayats – CSS/CPS	119.24
48		2236-02-197-6 Taluk Panchayats – CSS/CPS	288.00
49	12	5452-01-800-14 Tourist infrastructure at various places	32.45
50	13	2408-01-102-01 Food subsidies – Differential cost of food grains	353.96
51	14	2029-101-1 Revenue Divisions	40.47
52		2030-03-001-2 Up-gradation of standards of administration	66.84
53		2053-094-7 Taluk Establishments	125.27
54		2235-60-102-1 Old Age Pension scheme	389.67
55		2245-80-800-06 State Disaster Mitigation Fund	113.05
56		2245-05-101-0-06 States Additional Contribution to SDRF	100.00
57		2506-101-5 Other Schemes	41.09
58		2053-800-09 Land acquisition compensation	26.99
59	15	3451-090-2 Information Technology Secretariat	43.61
60	16	2216-03-101-05 Government contribution to CMRF towards AASARE Houses	28.22
61		2216-03-104-01 Ashraya	87.75
62		2217-04-191-2 Karnataka Slum Development Board	32.40
63	17	2202-01-115-01 Sarva Shiksha Abhiyana Society	1,332.81
64		2202-02-109-13 Junior Colleges	195.14
65		2202-03-103-2 Other Government Colleges	247.50
66		2202-03-104-1 Collegiate Education	178.02
67		2202-80-003-05 Computer Literacy Awareness in Secondary Schools (CLASS)	185.12
68		2202-80-800-35 GIA in Education	214.99
69		2203-107-1 General	25.04
70		4202-01-203-1 Buildings	93.22
71	18	2851-102-69 Modernization / Technology Training	45.03
72		6852-02-190-4 Vijayanagar Steel Limited	30.00
73		6852-02-800-01 Loan against VAT payment to industrial units	30.89
74		6860-04-190-1 Conversion of purchase tax into interest free loan	26.14
75	19	2217-05-191-1 Bangalore Metropolitan Regional Development Authority	203.23
76		3604-191-1 Entry Tax devolution	402.76
77		3604-191-7 XIII Finance Commission Grants	397.03
78		3604-192-1 Entry Tax devolution	145.38
79		3604-192-2 Other devolutions	128.21
80		3604-192-3 Mukhya Manthrigala Nagarothana Yojana	170.13
81		3604-192-5 Swarna Jayanti Shahari Rozgar Yojana	44.54
82		3604-192-7 XIII Finance Commission Grants	70.60
83		3604-193-2 Other Devolutions	37.41
84		3604-193-3 Mukhya Manthrigala Nagarothana Rozgar Yojana	33.10
85		4217-60-800-01 Bus Rapid Transit System, Hubli-Dharwad EAP	25.00
86		4217-60-800-01-5 Equity in BMRCL	144.89
87		6215-01-190-2 Bangalore Water Supply and Sewerage Board	174.70
88	20	2059-80-799-1 Debits	141.71
89		2059-80-800-06 Administration of sand mining	64.12
90		3054-03-337-06 XIII Finance Commission Grants – Maintenance of State Highways	32.62
91		4059-80-051-29 Departmental Buildings	62.34
92		4059-80-051-32 Court Buildings	101.60
93		4216-01-700-2 Construction	135.01
94		5051-80-800-80 Sustainable Coastal Protection and Management – EAP	66.92

Sl. No.	Grant No.	Head of Account	Unspent provision
95		5054-03-337-84 Karnataka State Highways Improvement Project (KSHIP) – II- EAP	180.09
96		5054-03-337-86 Karnataka State Highways Improvement Project (KSHIP) – II- ADB	54.00
97		5054-04-337-01 District and Other roads	290.45
98		5054-04-800-2 Central Road Fund Works	34.24
99	21	2701-80-190-01 Assistance to Krishna Bhagya Jala Nigama Limited	115.21
100		2705-102-1 Land Reclamation and ayacut road	73.39
101		4701-73-800-01 Upper Krishna Project – AIBP	164.30
102		4701-80-190-3 Krishna Bhagya Jala Nigama Limited	898.75
103		4701-80-800-01 New Schemes	57.88
104		4702-101-1 Water Tanks – Construction of new tanks, pick-ups etc.	87.83
105		4702-796 Tribal Sub-Plan	25.97
106		4705-800-01 CADA – Special Development Plan	103.77
107	22	2210-01-110-1 Hospitals attached to teaching institutions	56.27
108		2210-80-800-17 Comprehensive maternal health care (Thayi Bhagya)	25.50
109		4210-01-110-1 Buildings	52.99
110		4210-03-105-1 Buildings	47.67
111	23	2230-01-103-7 Labour Welfare Board	48.01
112		2230-03-101-01 Industrial Training Institutes/ Centers	25.25
113	24	4801-01-190-09 Investment in power utility	125.00
114		4801-80-190-02 Investment in ESCOMs for Niranthara Jyothi works	75.00
115		6801-205-1 Loans to Karnataka Power Transmission Corporation Limited (KPTCL)	64.17
116	26	2515-103-01 Hyderabad Karnataka Development Board (HKDB)	33.00
117	27	2014-800-1 EFC grants for up-gradation of judicial administration	59.50
118	29	2049-01-101-1 Interest on current loans	602.06
119		2049-04-101 Interest on loans for State/ Union territory plan schemes	122.59
120		6003-110-1 Clean and secured ways and means advances	1,500.00
121		6003-110-2 Overdraft with Reserve Bank of India	500.00
122		6004-02-101-01 Normal assistance	31.61
Total			21,516.46

Source: Appropriation Accounts.

Appendix 2.4

Major heads of account under which excess expenditure was above ₹ 25 crore

(Reference: Paragraph 2.6.3; Page 82)

(₹ in crore)

Sl. No.	Grant No.	Major Head	Area	Total Provision	Re-appropriation	Total	Expenditure	Excess
1	3	2071	Pension and other retirement benefits	5,059.01	0.00	5,059.01	5,172.20	113.19
		01	Civil					
		101	Superannuation and retirement allowances					
		3	State Government pension					
2		2071	Pension and other retirement benefits	737.22	0.00	737.22	1,201.02	463.80
		01	Civil					
		102	Commuted value of pension					
		3	Other payments					
3		2071	Pension and other retirement benefits	745.71	0.00	745.71	1,110.72	365.01
		01	Civil					
		104	Gratuities					
		2	Other Gratuities - Karnataka					
4		2071	Pension and other retirement benefits	200.00	0.00	200.00	282.57	82.57
		01	Civil					
		117	Government contribution to defined contribution to pension scheme					
		01	States' matching contribution to pension scheme					
5	8	2406	Forestry and wildlife	420.00	0.00	420.00	775.45	355.45
		01	Forestry					
		797	Transfer to reserve fund/ Deposit account					
		01	Transfer of Forest Development Tax to Karnataka Forest Development Fund					
6	11	2235	Social Security and Welfare	500.00	0.00	500.00	554.98	54.98
		02	Social Welfare					
		101	Welfare of Handicapped					
		20	Monthly financial assistance to physically challenged and the disable poor					
7	14	2235	Social Security and Welfare	600.00	0.00	600.00	869.60	269.60

Sl. No.	Grant No.	Major Head	Area	Total Provision	Re-appropriation	Total	Expenditure	Excess
8		60	Other Social Security and Welfare Programmes	550.00	0.00	550.00	640.20	90.20
		001	Direction and Administration					
		02	New Social Security (Sandhya Suraksha)					
		2235	Social Security and Welfare					
		60	Other Social Security and Welfare Programmes					
		102	Pensions under Social Security Schemes					
		2	Pension to Destitute widows					
9		2245	Relief on account of Natural Calamities	53.88	97.00	150.88	229.67	78.79
		02	Floods, Cyclones etc.,					
		110	Assistance for repairs and restoration of damaged water supply, drainage and sewerage works					
		01	Flood Relief - Repairs of flood damages and rescue					
10		2245	Relief on account of Natural Calamities	0.00	154.25	154.25	245.68	91.43
		05	State Disaster Response Fund					
		101	Transfer to Reserve Funds and Deposit accounts – State Disaster Response Fund					
		05	National Disaster Response Fund					
11	17	2203	Technical Education	209.42	0.05	209.47	241.63	32.16
		105	Polytechnics					
		01	Polytechnics					
12	20	3054	Roads and Bridges	120.00	0.00	120.00	183.28	63.28
		80	General					
		797	Transfer to/ from Reserve Fund/ Deposit account					
		02	Transfer of Grants from Central Road Fund to Deposit head subvention					
Total				9,195.24	251.30	9,446.54	11,507.00	2,060.46

Appendix 2.5

Cases of New Service/New Instrument of Service
(Reference: Paragraph 2.6.6; Page 84)

(₹ in crore)

Sl. No.	Grant No./ Nomenclature	Head of Account/ Nomenclature		Budget Provision	Expenditure	Excess
1	5 – Home and Transport	2055	Police	0.03	3.41	3.38
		118	Special Protection Group			
		01	Karnataka State Industrial Security Force (KSISF) Unit			
		003	Pay Staff			
2		2055	Police	0.01	1.08	1.07
		118	Special Protection Group			
		01	Karnataka State Industrial Security Force (KSISF) Unit			
		014	Other Allowances			
3	7 – Rural Development and Panchayat Raj	5054	Capital Outlay on Roads and Bridges	0.00	4.94	4.94
		03	State Highways			
		337	Road works			
		74	Road works in rural areas - NABARD			
		133	Special Development Plan			
4		5054	Capital Outlay on Roads and Bridges	0.00	20.64	20.64
		03	State Highways			
		337	Road works			
		74	Road works in rural areas – NABARD			
		172	Roads			
5		5054	Capital Outlay on Roads and Bridges	0.00	6.62	6.62
		03	State Highways			
		337	Road works			
		74	Road works in rural areas - NABARD			
		422	Special Component Plan			
6	17 - Education	2202	General Education	1.20	4.44	3.24
		01	Elementary Education			
		053	Maintenance of Buildings			
		02	Pancha Soulabhya			
		059	Other expenses			
7		2202	General Education	0.87	3.26	2.39
		01	Elementary Education			
		107	Teachers' Training			
		09	Teachers' Training and Orientation Training Centres			
		002	Pay – Officers			
8		2203	Technical Education	2.98	14.80	11.82
		112	Engineering/ Technical Colleges and Institutes			
		02	SKSJT Institute, Bengaluru			
		011	Dearness Allowance			

Sl. No.	Grant No./ Nomenclature	Head of Account/ Nomenclature		Budget Provision	Expen diture	Excess
9	26 – Planning, Statistics, Science and Technology	4515	Capital Outlay on other Rural Development Programmes	0.00	8.70	8.70
		800	Other expenditure			
		01	Hyderabad Karnataka Development Board			
		132	Capital Expenses			
10		4515	Capital Outlay on other Rural Development Programmes	0.00	5.82	5.82
		800	Other expenditure			
		01	Hyderabad Karnataka Development Board			
		422	Special Component Plan			
11		4515	Capital Outlay on other Rural Development Programmes	0.00	2.15	2.15
		800	Other expenditure			
		01	Hyderabad Karnataka Development Board			
		423	Tribal Sub Plan			
12		4515	Capital Outlay on other Rural Development Programmes	0.00	4.91	4.91
		800	Other expenditure			
		03	Malnad Area Development Board			
		132	Capital Expenses			
13		4515	Capital Outlay on other Rural Development Programmes	0.00	3.00	3.00
		800	Other expenditure			
		03	Malnad Area Development Board			
		422	Special Component Plan			
14		4515	Capital Outlay on other Rural Development Programmes	0.00	1.09	1.09
		800	Other expenditure			
		03	Malnad Area Development Board			
		423	Tribal Sub Plan			
15		4515	Capital Outlay on other Rural Development Programmes	0.00	2.43	2.43
		800	Other expenditure			
		04	Maidan Development Board			
		132	Capital Expenses			
16		4515	Capital Outlay on other Rural Development Programmes	0.00	1.70	1.70
		800	Other expenditure			
		04	Maidan Development Board			
		422	Special Component Plan			
Total				5.09	88.99	83.90

Source: Appropriation Accounts.

Appendix 2.6

Unnecessary Supplementary Provision
(more than ₹ one crore)

(Reference : Paragraph 2.6.7; Page 85)

(₹ in crore)

Sl. No.	Grant No./ Nomenclature	Head of Account	Provision			Expenditure	Unspent Provision
			Original	Supplementary	Total		
1	1 – Agriculture and Horticulture	2401-00-800-43-059 Other Expenses	90.00	2.70	92.70	66.68	26.02
2		2851-00-107-45-059 Other expenses	6.42	12.91	19.33	6.23	13.10
3	3 - Finance	2040-00-101-0-04-103 GIA - General	0.00	1,008.53	1,008.53	0.00	1,008.53
4	7 – Rural Development and Panchayat Raj	2215-01-102-9-08-133 Special Development Plan	0.00	678.34	678.34	0.00	678.34
5		2501-01-198-6-01-300 Lumpsum – Zilla Parishad	133.86	134.35	268.21	94.42	173.79
6		2505-60-196-6-04-300 Lumpsum – Zilla Parishad	1,512.80	127.50	1,640.30	265.03	1,375.27
7		2515-00-101-80-059 Other expenses	15.00	20.99	35.99	7.64	28.35
8		2515-00-102-0-11-117 Scholarships and Incentives	1.27	7.54	8.81	0.00	8.81
9	9 – Co-operation	3475-00-800-09-059 Other Expenses	25.24	2.16	27.40	20.67	6.73
10	16 - Housing	2216-03-101-0-05-104 Contributions	0.00	28.22	28.22	0.00	28.22
11		2217-04-191-2-02-059 Other Expenses	56.18	3.53	59.71	50.36	9.35
12	17 - Education	2202-80-003-0-04-200 Maintenance expenditure	2.00	4.00	6.00	2.00	4.00
13		4202-02-104-1-03-386 Construction	8.00	1.04	9.04	7.97	1.07
14	22 – Health and Family Welfare	2211-00-003-0-04-071 Building Expenses	0.15	10.00	10.15	0.02	10.13
15	23 - Labour	2230-01-198-6-01-300 Lumpsum – Zilla Parishad	0.68	2.43	3.11	0.46	2.65
16	26 – Planning, Statistics, Science and Technology	2515-00-101-0-26-101 Grant in Aid Salaries	5.00	1.25	6.25	0.00	6.25
Total			1,856.60	2,045.49	3,902.09	521.48	3,380.61

Appendix 2.7

Excessive Supplementary Provision (all selected grants more than ₹ one crore) (Reference: Paragraph 2.6.8; Page 85)

(₹ in crore)

Sl. No.	Grant No./ Nomenclature	Head of Account	Provision			Expenditure	Unspent Provision
			Original	Supplementary	Total		
1	1 – Agriculture and Horticulture	2401-00-103-0-20-059 Other Expenses	0.00	5.00	5.00	0.50	4.50
2		2401-00-103-0-21-059 Other Expenses	0.00	28.75	28.75	17.25	11.50
3	2 – Animal Husbandry and Fisheries	4405-00-104-0-02-386 Construction	20.00	12.00	32.00	26.64	5.36
4	3 - Finance	7610-00-202-0-02-393 Motor Conveyance to MLAs	10.00	10.00	20.00	14.07	5.93
5	7 - Rural Development and Panchayat Raj	2215-01-102-1-16-059 Other Expenses	0.00	4.00	4.00	1.03	2.97
6	17 - Education	2203-00-105-09-051 General Expenses	0.00	4.89	4.89	4.05	0.84
7		2203-00-107-1-00-422 Special Component Plan	5.79	45.00	50.79	25.64	25.15
8		2205-00-105-04-101 Grants-in-Aid Salaries	35.29	13.54	48.83	38.34	10.49
9		4202-02-104-1-01-139 Major Works	4.22	20.06	24.28	22.62	1.66
Total			75.30	143.24	218.54	150.14	68.40

Appendix 2.8

Inadequate Supplementary Provision (Reference: Paragraph 2.6.9; Page 85)

(₹ in crore)

Sl. No.	Grant No.	Head of Account	Provision				
			Original	Supple mentary	Total	Expen diture	Excess uncover ed
1	2 – Animal Husbandry & Fisheries	2403-197-1 Taluk Panchayat	229.06	3.56	232.62	233.47	0.85
2	14 - Revenue	2245-05-101-05 National Disaster Response Fund	0.00	154.25	154.25	245.68	91.43
3	17 – Education	2202-01-107-06-101 Non-Government Teachers Training Institute	8.69	0.43	9.12	10.76	1.64
4	18 – Commerce and Industries	6860-05-190-1-394 Loan to MPM	0.00	0.01	0.01	20.00	19.99
5	22 – Health and Family Welfare Services	2210-01-001-01 Directorate of Health & Family Welfare Services (Medical Branch)	25.10	6.00	31.10	37.20	6.10
6		2210-05-103-01 Unani College including GIA to NIUM	3.37	0.45	3.82	4.56	0.74
Total			266.22	164.70	430.92	551.67	120.75

Appendix 2.9

Injudicious re-appropriation of funds
 (Reference: Paragraph 2.6.10; Page 86)

(₹ in crore)

Sl. No.	Grant No.	Head of Account	Provision (Original + Supplementary)	Re-appropriation	Final Grant	Expenditure	Excess (+)/ Unspent provision(-)
1	5	2055-00-109-1-01-041 Travel expenses	55.00	(+)16.26	71.26	71.72	(+)0.46
2	12	2204-00-104-0-25-051 General Expenses	6.40	(+)3.00	9.40	9.89	(+)0.49
3	14	2245-02-110-0-01-001-100 Financial Assistance/Relief	53.88	(+)97.00	150.88	229.67	(+)78.79
4	17	2202-03-102-0-01-101 GIA Salaries	106.75	(+)5.07	111.82	126.00	(+)14.18
Total			222.03	(+) 121.33	343.36	437.28	(+) 93.92
1	20	2059-80-001-0-13-051 General Expenses	1.00	(-)0.58	0.42	0.95	(+)0.53
2		2216-01-700-4-00-221 Materials and Supplies	3.50	(-)2.00	1.50	2.49	(+)0.99
Total			4.50	2.58	1.92	3.44	(+) 1.52
1	1	2401-00-111-0-08-059 Other Expenses	107.86	(-)0.50	107.36	92.82	(-)14.54
2		2401-00-800-1-40-059 Other Expenses	502.25	(-)16.92	485.33	336.60	(-)148.73
3		2402-00-102-0-30-139 Major Works	473.31	(-)0.87	472.44	39.12	(-)433.32
4	3	2054-00-095-0-01-125 Modernization	71.65	(-)0.74	70.91	14.79	(-)56.12
5	4	2051-00-102-0-02-433 Examination Expenses	15.00	(-)0.83	14.17	3.73	(-)10.44
6	5	2055-00-101-0-05-059 Other Expenses	21.70	(-)10.00	11.70	9.40	(-)2.30
7		2055-00-104-0-06-059 Other Expenses	8.80	(-)0.13	8.67	4.19	(-)4.48
8		2055-00-108-0-01-051 General Expenses	32.00	(-)0.25	31.75	13.16	(-)18.59
9		2055-00-109-1-01-015 Subsidiary Expenses	15.00	(-)3.84	11.16	6.04	(-)5.12
10	7	2070-00-108-1-01-195 Transport Expenses	10.00	(-)0.12	9.88	6.27	(-)3.61
11		2515-00-196-1-05-300 Lumpsum – Zilla Panchayat	76.58	(-)3.11	73.47	38.71	(-)34.76
12		2515-00-197-1-10-300 Lumpsum -Zilla Parishads	217.50	(-)3.92	213.58	106.01	(-)107.57
13	10	2225-03-277-2-48-101 Grant-in-Aid salaries	25.00	(-)0.50	24.50	18.68	(-)5.82
14		2225-03-277-2-53-059 Other Expenses	34.77	(-)3.50	31.27	28.02	(-)3.25
15		2225-03-277-2-67-059 Other Expenses	40.00	(-)5.00	35.00	0.00	(-)35.00
16	11	2236-02-197-6-01-300 Lump Sum Zilla Parishad	382.06	(-)157.50	224.56	0.00	(-)224.56
17	12	3053-80-003-0-01-180 Machinery and Equipment	3.00	(-)0.48	2.52	0.19	(-)2.33
18	14	2053-00-093-1-01-051 General Expenses	25.00	(-)0.23	24.77	13.94	(-)10.83
19		2245-80-101-0-02-100 Financial Assistance/ Relief	18.29	(-)6.90	11.39	9.38	(-)2.01

Sl. No.	Grant No.	Head of Account	Provision (Original + Supplementary)	Re-appropriation	Final Grant	Expenditure	Excess (+)/ Unspent provision(-)
20		2245-80-102-0-01-059 Other Expenses	254.25	(-)176.45	77.80	0.00	(-)77.80
21	17	2058-00-104-0-00-051 General Expenses	7.00	(-)0.01	6.99	5.76	(-)1.23
22		2202-02-109-0-13-059 Other Expenses	9.16	(-)1.50	7.66	3.50	(-)4.16
23		2202-03-103-2-06-101 GIA Salaries	220.00	(-)128.94	91.06	0.00	(-)91.06
24		2202-80-800-0-35-101 GIA Salaries	184.99	(-)128.97	56.02	0.00	(-)56.02
25	20	2059-80-001-0-04-051 General Expenses	6.00	(-)3.01	2.99	0.81	(-)2.18
26		2059-80-800-0-06-051 General Expenses	110.00	(-)61.85	48.15	45.88	(-)2.27
27		3054-03-337-0-05-200 Maintenance Expenditure	270.00	(-)14.68	255.32	249.11	(-)6.21
28		3054-04-337-1-09-172 Roads	269.00	(-)8.74	260.26	214.71	(-)45.55
29		4059-80-051-0-29-386 Construction	121.83	(-)45.42	76.41	69.69	(-)6.72
30		4059-80-051-0-40-386 Construction	20.00	(-)1.40	18.60	5.00	(-)13.60
31		4216-01-700-2-01-386 Construction	88.50	(-)55.74	32.76	27.66	(-)5.10
32		4216-01-700-2-24-386 Construction	126.00	(-)69.77	56.23	51.85	(-)4.38
33		5051-02-201-0-06-059 Other Expenses	10.00	(-)0.50	9.50	0.07	(-)9.43
34		5054-03-337-0-84-172 KSHIP (EAP) Roads	400.00	(-)34.83	365.17	219.91	(-)145.26
35		5054-03-337-0-86-172 KSHIP-II – Roads	350.00	(-)15.85	334.15	296.00	(-)38.15
36	21	4701-73-800-0-01-139 Major Works	480.40	(-)13.96	466.44	351.97	(-)114.47
37		4701-73-800-0-01-422 Special Component Plan	110.18	(-)4.92	105.26	77.13	(-)28.13
38		4701-80-190-3-00-132 Capital Expenses	2,235.66	(-)334.23	1901.43	1677.28	(-)224.15
39		4701-80-190-3-00-422 Special Component Plan	384.14	(-)9.38	374.76	141.26	(-)233.50
40	22	2210-06-104-0-02-180 Machinery and Equipment	5.05	(-)1.15	3.90	1.16	(-)2.74
41		2210-06-112-0-02-051 General Expenses	18.00	(-)10.00	8.00	0.95	(-)7.05
42		4210-03-105-2-01-139 Major Works	8.24	(-)0.25	7.99	1.99	(-)6.00
43	23	2230-03-101-0-35-071 Building Expenses	13.59	(-)0.89	12.70	2.61	(-)10.09
Total			7,781.76	(-)1,337.78	6,443.98	4,185.35	(-)2,258.63
1	1	2401-00-800-1-40-100 Financial assistance/ relief	6.10	(+)3.18	9.28	7.37	(-)1.91
2	5	2055-00-108-0-01-195 Transport Expenses	20.00	(+)4.71	24.71	20.36	(-)4.35
3	10	2225-03-277-2-68-117 Scholarships & Incentives	102.60	(+)5.00	107.60	102.60	(-)5.00
4	14	2053-00-093-1-01-195 Transport Expenses	6.00	(+)0.23	6.23	3.44	(-)2.79

Sl. No.	Grant No.	Head of Account	Provision (Original + Supplementary)	Re-appropriation	Final Grant	Expenditure	Excess (+)/ Unspent provision(-)
5		2245-01-102-0-00-100 Financial Assistance/Relief	57.35	(+)63.43	120.78	118.77	(-)2.01
6	16	2216-03-104-0-01-422 Special Component Plan	191.77	(+)0.63	192.40	132.36	(-)60.04
7		2216-03-104-0-01-423 Tribal Sub Plan	47.82	(+)0.50	48.32	18.32	(-)30.00
8	17	2202-03-102-0-02-101 GIA Salaries	95.91	(+)3.40	99.31	73.81	(-)25.50
9		2202-03-102-0-03-101 GIA Salaries	67.41	(+)3.10	70.51	67.41	(-)3.10
10		2202-03-102-0-05-101 GIA Salaries	33.24	(+)2.95	36.19	32.24	(-)3.95
11		2202-03-102-0-08-101 GIA Salaries	26.09	(+)2.72	28.81	26.09	(-)2.72
12		2202-3-104-1-01-101 GIA Salaries	959.22	(+)62.72	1021.94	787.24	(-)234.70
13	19	3604-00-191-1-01-032 Grants for creation of Capital Assets	19.80	(+)3.16	22.96	20.68	(-)2.28
14	20	2059-80-053-4-00-200 Maintenance	266.04	(+)36.44	302.48	293.96	(-)8.52
15		2216-01-700-3-01-200 Maintenance Expenditure	122.00	(+)13.43	135.43	123.57	(-)11.86
16		3054-03-102-0-01-200 Maintenance Expenditure	35.00	(+)5.80	40.80	32.76	(-)8.04
17		3054-04-105-0-01-200 Maintenance Expenditure	25.00	(+)9.30	34.30	28.83	(-)5.47
18		3054-04-337-1-10-200 Maintenance Expenditure	262.90	(+)27.35	290.25	283.68	(-)6.57
19		5054-03-101-0-17-154 Improvements	369.00	(+)13.88	382.88	379.39	(-)3.49
20		5054-03-101-0-17-160 Renewals	75.00	(+)27.64	102.64	95.05	(-)7.59
21		5054-04-337-0-01-154 Improvements	793.40	(+)110.00	903.40	901.40	(-)2.00
22		5054-04-337-0-01-160 Renewals	95.44	(+)126.08	221.52	215.16	(-)6.36
23		5054-04-337-0-02-436 NABARD Works	250.00	(+)57.90	307.90	303.18	(-)4.72
24		5054-05-337-1-01-172 Roads	10.00	(+)9.50	19.50	16.99	(-)2.51
25	21	4701-80-190-4-00-422 Special Component Plan	240.65	(+)9.38	250.03	145.03	(-)105.00
Total			4,177.74	602.43	4,780.17	4,229.69	(-) 550.48

Appendix 2.10

Defective re-appropriation orders
(Reference : Paragraph 2.6.11; Page 86)

(₹ in crore)

Sl. No.	Grant	Re-appropriation Order			Issuing Authority	Reasons for rejection
		Number	Date	Amount		
1	2-Animal Husbandry & Fisheries	PaSaMi 147	14-03-2014	0.50	Secretary Animal Husbandry and Veterinary Dept.	St. 22-A Not Self Balanced
2	4-Dept.of Personnel & Administrative Reforms	Ra Ha Ao/ Karya Pade/ 23/2012	09-04-2013	0.01	Member Secretary, SFC recommendations Implementation Task Force	St. 22-A Not Self Balanced Sanction not communicated
3		Lok/Lekka -4 / Anudhana Punar viniyoga-41/2013-14	20-02-2014	0.04	Registrar Karnataka Lokayuktha.	Insufficient Balance for Reappropriation
4		FD 148/BRS 2013	13-03-2014	0.43	U/S to Govt. FD Procurement Cell	
5	7-Rural Development & Panchayat Raj	GraAPal/RI1 Eve Mam 2013	30-11-2013	0.04	Dy. Director (Te) REP, RDPR Dept.	St. 22-A Not Self Balanced
6		Cr/Pred/LeVi/ LeSal/RA 1	07-01-2014	0.05	Chief Engineer RDPR	
7	9-Co-operation	RCS/Bud/117/ Puvi	13-02-2014	0.05	Registrar of Co-operative Societies	
8		Co 133 Cls 2014	11-03-2014	0.05	Secretary Co-Operation Dept.	
9	11-Women and Child Development	Vihinasa E/C Budget	11-11-2013	0.05	Director Women and Child Welfare Dept.	
10		MaMae 38 Php 2014	11-02-2014	0.42	Secretary, Women and Child Welfare Dept.	
11		MaMae 169 MaMaa 2013	11-02-2014	0.50		
12	12-Information, Tourism and Youth Services	FD 164 BRS 2013	17-03-2014	1.58	Under Secy. to Govt., Finance Dept.	Attracts New Service Criteria
13	13-Food and Civil Supplies	Aa Na Sa 167 Ebbatha 2013	21-12-2013	0.42	Deputy Secy. to Govt., Food & Civil Supplies & Consumer Affairs Dept.	St.22-A Not Self Balanced
14	14-Revenue	RD 43 MRR 2013	22-02-2014	0.10	Under Secretary to Govt., Revenue Department (Bhoomi & UPOR)	
15		FD 130 BRS 2013	04-03-2014	173.01	Under Secretary to Govt., FD (Procurement Cell)	
16		RD 04 MST 2014	11-03-2014	0.49	Under Secy. to Govt. (Land Reforms Cell), Revenue Dept.	St.22-A Not Self Balanced and Sanction not communicated
17		Accts/2013-14	13-03-2014	0.05	Commissioner, Stamps & Registration	St.22-A Not Self Balanced
18	15-Information Technology	ITD 36/Adm 2014	20-03-2014	0.04	Under Secretary to Govt., Dept. of Information & Technology.	
19		DTE 03/DVP(1) 2013	16-09-2013	0.05		St.22-A Not Self Balanced

Sl. No.	Grant	Re-appropriation Order			Issuing Authority	Reasons for rejection
		Number	Date	Amount		
20	17-Education	DTE 10/BUD 2013	11-10-2013	15,000*	Director, Dept. of Technical Education Board.	Budget Provision (Original) does not exist.
21		NCA-AC II Exp 369/2013-14	07-01-2014	0.05	Deputy Director General, NCC,	St.22-A Not Self Balanced
22		NVEQF /06/2013-14	23-01-2014	0.01	Director, Directorate of Vocational Education,	
23		ED 10/HPT 2014	05-03-2014	0.50	Special Officer-cum-Ex-officio Under Secy. to Govt., Education Dept/(Planning),	
24		ED 116/YO YO KA 2013	14-03-2014	0.50		
25	18-Commerce and Industries	FD 175 BRS 2014	20-03-2014	0.39	Secretary to Govt., Finance Dept, (Procurement Cell-FR & BCC),	Re-appropriation Between two Grants – 1 & 18
26	19-Urban Development	FD 38 BRS 2013	19-11-2013	30.72	Joint Secretary, FD (FR & BCC)	Attracts New Service Criteria
27		FD 194 BRS 2013	22-03-2014	100.00	Under Secretary to Govt., Finance Department	St.22-A not Self Balanced
28	21-Water Resources	FD 149 BRS 2013 GR 21	20-03-2014	0.65	Under Secretary to Govt., Finance Dept.(Procurement Cell)	Insufficient Balance for Re-appropriation
29	22-Health and Family Welfare Services	HFW 83 CGM 2014	04-03-2014	0.40	Under Secretary to Govt., Health & Family Welfare	
30		HFW 82 CGM 2014	06-03-2014	0.45		
31		HFW 79 CGM 2014	11-03-2014	0.45		
32		FD 214 BRS 2013	28-03-2014	0.53	Under Secretary to Govt., Finance Dept.	
33	23-Labour	ACT-2/BUD/CR-54/13-14/1342	07-02-2014	0.01	Director Factories & Boilers	St.22-A not Self Balanced
34		FD 160 BRS 13	15-03-2014	5.00	Under Secretary to Govt., FD (Procurement Cell)	
35		LD 81 LSI 2014	21-03-2014	0.15	Desk Officer, Labour Dept.	
Total				317.69		

* the provision is only ₹15,000.00 and less than ₹0.01 crore, hence not considered.

Appendix 2.11

Statement of various grants/appropriations in which
unspent provision occurred but no part of which was surrendered

(Reference: Paragraph 2.6.12; Page 86)

			(₹ in crore)
Sl. No.	Grant and Section		Unspent provision
1	1	Agriculture and Horticulture	
		(Revenue Voted)	1,553.19
		(Revenue Charged)	0.16
		(Capital Voted)	31.24
2	2	Animal Husbandry and Fisheries	
		(Revenue Charged)	0.10
3	3	Finance	
		(Revenue Charged)	0.38
		(Capital Voted)	14.31
4	6	Infrastructure Development Department	
		(Revenue Voted)	8.97
		(Capital Voted)	140.04
5	7	Rural Development and Panchayat Raj	
		(Revenue Voted)	0.41
		(Capital Voted)	2,042.93
6	9	Co-operation	
		(Revenue Voted)	36.09
7	10	Social Welfare	
		(Revenue Voted)	1,025.07
		(Capital Voted)	404.32
8	11	Women and Child development	
		(Revenue Voted)	456.50
		(Capital Voted)	25.48
9	13	Food and Civil Supplies	
		(Revenue Charged)	0.03
10	14	Revenue	
		(Revenue Charged)	26.99
		(Capital Voted)	15.93
11	18	Commerce and Industries	
		(Revenue Voted)	135.47
		(Capital Voted)	132.45
12	22	Health and Family Welfare Services	
		(Revenue Voted)	1,284.72
		(Capital Voted)	133.97
13	23	Labour	
		(Capital Voted)	7.90
14	24	Energy	
		(Revenue Voted)	6.59
		(Revenue Charged)	0.03
		(Capital Voted)	264.18
15	25	Kannada and Culture	
		(Revenue Voted)	34.01
		(Capital Voted)	0.52
Total			7,781.98

Appendix 2.12

Surrender of unspent provision (Reference: Paragraph 2.6.12; Page 86)

(₹ in crore)

Sl. No.	Grant/ Section	Amount of unspent provision	Amount surrendered	Amount not surrendered
1	1 Agriculture and Horticulture			
	Revenue Voted	1,553.19	0.00	1,553.19
	Revenue Charged	0.16	0.00	0.16
	Capital Voted	31.24	0.00	31.24
2	2 Animal Husbandry and Fisheries			
	Revenue Voted	207.09	89.35	117.74
	Revenue Charged	0.10	0.00	0.10
	Capital Voted	38.96	28.35	10.61
3	3 Finance			
	Revenue Voted	116.64	64.21	52.43
	Revenue Charged	0.38	0.00	0.38
	Capital Voted	14.30	0.00	14.30
4	4 Department of Personnel and Administrative Reforms			
	Revenue Voted	250.41	147.60	102.81
	Revenue Charged	24.94	18.61	6.33
	Capital Voted	90.10	4.10	86.00
5	5 Home and Transport			
	Revenue Voted	520.60	259.24	261.36
	Capital Voted	57.90	24.59	33.31
6	6 Infrastructure Development			
	Revenue Voted	8.97	0.00	8.97
	Capital Voted	140.04	0.00	140.04
7	7 Rural Development and Panchayat Raj			
	Revenue Voted	2,961.52	590.49	2,371.03
	Revenue Charged	0.41	0.00	0.41
	Capital Voted	2,042.93	0.00	2,042.93
8	8 Forest, Ecology and Environment			
	Revenue Voted	59.59	57.97	1.62
	Capital Voted	0.07	0.01	0.06
9	9 Co-operation			
	Revenue Voted	36.09	0.00	36.09
10	10 Social Welfare			
	Revenue Voted	1,025.07	0.00	1,025.07
	Capital Voted	404.32	0.00	404.32
11	11 Women and Child Development			
	Revenue Voted	456.50	0.00	456.50
	Capital Voted	25.48	0.00	25.48
12	12 Information, Tourism and Youth Services			
	Revenue Voted	36.55	1.37	35.18
	Capital Voted	48.28	5.00	43.28
13	13 Food and Civil Supplies			
	Revenue Voted	365.47	4.58	360.89
	Revenue Charged	0.03	0.00	0.03
14	14 Revenue			
	Revenue Voted	533.43	3.13	530.30

Sl. No.	Grant/ Section	Amount of unspent provision	Amount surrendered	Amount not surrendered
	Revenue Charged	26.99	0.00	26.99
	Capital Voted	15.93	0.00	15.93
15	15 Information Technology			
	Revenue Voted	49.94	5.00	44.94
16	16 Housing			
	Revenue Voted	154.73	7.50	147.23
17	17 Education			
	Revenue Voted	2,664.47	181.27	2,483.20
	Capital Voted	134.88	28.65	106.23
18	18 Commerce and Industries			
	Revenue Voted	135.47	0.00	135.47
	Capital Voted	132.45	0.00	132.45
19	19 Urban Development			
	Revenue Voted	1,768.58	1,610.26	158.32
	Capital Voted	277.37	153.49	123.88
20	20 Public Works			
	Revenue Voted	289.45	162.28	127.17
	Capital Voted	937.23	555.29	381.94
21	21 Water Resources			
	Revenue Voted	294.73	0.94	293.79
	Capital Voted	1,260.62	132.94	1,127.68
22	22 Health and Family Welfare Services			
	Revenue Voted	1,284.72	0.00	1,284.72
	Capital Voted	133.97	0.00	133.97
23	23 Labour			
	Revenue Voted	163.08	0.33	162.75
	Capital Voted	7.90	0.00	7.90
24	24 Energy			
	Revenue Voted	6.59	0.00	6.59
	Revenue Charged	0.03	0.00	0.03
	Capital Voted	264.18	0.00	264.18
25	25 Kannada and Culture			
	Revenue Voted	34.01	0.00	34.01
	Capital Voted	0.52	0.00	0.52
26	26 Planning, Statistics, Science and Technology			
	Revenue Voted	95.37	27.03	68.34
27	27 Law			
	Revenue Voted	96.48	60.97	35.51
28	28 Parliamentary Affairs and Legislation			
	Revenue Voted	13.94	12.63	1.31
29	29 Debt Servicing			
	Revenue Charged	659.67	659.36	0.31
	Capital Charged	2,016.96	2,016.67	0.29
Total		23,971.02	6,913.21	17,057.81

Appendix 2.13

Cases of Surrender of funds in excess of ₹ Five crore on 30 and 31 March 2014

(Reference: Paragraph 2.6.12; Page 87)

						(₹ in crore)
Sl. No.		Grant/ Nomenclature	No. of cases	Total Provision	Amount of surrender	Percentage to total provision
1	2	Animal Husbandry and Fisheries	8	134.78	81.47	60
2	3	Finance	3	40.50	28.21	70
3	7	Rural Development and Panchayat Raj	6	1,389.04	590.49	43
4	17	Education	2	987.24	180.52	18
5	21	Water Resources	5	550.77	125.34	23
6	26	Planning Statistics, Science and Technology	3	59.54	25.81	43
7	27	Law	4	71.44	36.10	51
8	29	Debt Servicing	8	4,590.61	2,653.85	58
Total			39	7,823.92	3,721.79	48

Appendix 2.14

Results of review of substantial surrenders made during the year

(Reference: Paragraph 2.6.13; Page 87)

(₹ in crore)

Sl. No.	Grant	Name of the Scheme (Head of Account)	Provision	Amount Surrendered	Percentage of surrender	sRemarks
1	2 - Animal Husbandry and Fisheries	2403-00-107-0-06-101 GIA Salaries	6.96	6.77	97	Due to non-utilisation of tender.
2		2405-00-800-0-22-422 Special Component Plan	24.79	24.79	100	Due to non-existence of any scheme
3		2405-00-800-0-22-423 Tribal Sub Plan	9.64	9.64	100	
4		4403-00-102-1-03-132 Capital expenses	6.67	6.67	100	Non identification of the construction company.
5		4405-00-800-2-03-436 NABARD Works	18.00	14.80	82	Non finalization of tender.
6	3 - Finance	2039-00-001-0-01-015 Subsidiary Expenses	15.00	11.33	76	Non completion of recruitment process of Excise guards and Sub-Inspector of Excise.
7		2039-00-001-0-01-125 Modernization	7.50	7.50	100	Non acceptance of tender for procurement of computer and peripherals.
8		2039-00-001-0-01-195 Transport Expenses	18.00	9.38	52	Non finalization of vehicle purchase process.
9	7 - Rural Development and Panchayat Raj	2515-00-196-6-10-300 Lumpsum- Zilla Panchayat	70.40	46.38	66	Non release of grants from Central Govt. in time.
10		2515-00-197-6-10-300 Lumpsum- Zilla Panchayat	140.80	92.76	66	
11		2515-00-198-6-10-300 Lumpsum- Taluk Panchayat	492.80	324.66	66	
12	17 - Education	4202-01-203-1-01-132 Capital Expenses	31.76	20.00	63	Due to economy measure
13	26- Planning Statistics, Science and Technology	3454-02-111-0-01-059 Other Expenses	11.40	7.67	67	Non release of grants from Central Govt. in time.
14		3454-02-204-0-18-103 GIA-General	16.00	9.87	62	Training at DTI and FPI at cheaper rates and postponement of training due to elections
15	27 - Law	2014-00-105-0-15-101 GIA Salaries	11.59	11.29	97	Absence for decision for exemption of reservation to 19 private law colleges
16		2014-00-800-1-04-180 Machinery and Equipment	7.00	7.00	100	Due to economy measure

Sl. No.	Grant	Name of the Scheme (Head of Account)	Provision	Amount Surrendered	Percentage of surrender	sRemarks
17	29 - Debt Servicing	2049-01-101-1-99-240 Debt Servicing	609.90	438.35	72	No reason stated
18		6003-00-110-1-00-240 Debt Servicing	1500.00	1,500.00	100	Non availment of ways and means advance
19		6003-00-110-2-00-240 Debt Servicing	500.00	500.00	100	Non availment of OD facility
Total			3,498.21	3,048.86	87	

Appendix 2.15 (a)**Cases of Re-appropriation**
(Reference: Paragraph 2.8.6; Page 91)

(₹ in crore)

Sl. No.	Head of Account/ Nomenclature	Provision (Original + Supplementary)	Re-appropriation	Final grant	Expenditure	Excess (+)/ Unspent provision (-)
1	2210-02-101-1-03-051 General Expenses	2.60	(-)0.05	2.55	0.22	(-)2.33
2	2210-05-101-3-01-222 Drugs and Chemicals	2.34	(-)0.40	1.94	0.93	(-)1.01
3	2210-05-200-0-11-101 Grants-in-Aid Salaries	2.99	(-)1.00	1.99	0.76	(-)1.23
4	2210-06-001-0-01-196 Transport Expenses	1.57	(-)0.47	1.10	0.00	(-)1.10
5	2210-06-104-0-02-180 Machinery and Equipment	4.00	(-)1.15	2.85	0.78	(-)2.06
6	2210-06-104-0-02-195 Transport Expenses	2.50	(-)1.16	1.34	0.00	(-)1.34
7	2210-06-112-0-02-051 General expenses	18.00	(-)10.00	8.00	0.95	(-)7.05
8	4210-03-101-1-01-139 Major Works	20.01	(-)5.00	15.01	13.90	(-)1.11
9	4210-03-105-2-01-139 Major Works	8.24	(-)0.25	7.99	1.99	(-)6.00

Appendix 2.15 (b)**Rush of Expenditure – Grant No.22**
(Reference: Paragraph 2.8.7; Page 91)

(₹ in crore)

Sl. No.	Head of Account/ Nomenclature	Total expr. during the year	Expr. during the last quarter		Expenditure during March	
			Amount	%	Amount	%
1	2210-01-110-1-13-147 Hospitals attached to teaching institutions – Land and Buildings	1.31	1.31	100	1.31	100
2	2210-01-200-0-03-422 Other Health Scheme – SCP	3.00	3.00	100	3.00	100
3	2210-01-200-0-03-423 Other Health Scheme – TSP	1.00	1.00	100	1.00	100
4	2210-03-110-0-08-180 Establishment of dialysis units in Taluk hospitals – Machinery and equipment	4.50	4.50	100	4.50	100
5	2210-03-800-0-19-422 National Urban Health Mission – SCP	4.95	4.95	100	4.95	100
6	2210-03-800-0-19-423 National Urban Health Mission – TSP	2.80	2.80	100	2.80	100

Sl. No.	Head of Account/ Nomenclature	Total expr. during the year	Expr. during the last quarter		Expenditure during March	
			Amount	%	Amount	%
7	2210-05-105-1-42-059 Karnataka Institute of Diabetology – Other expenses	3.00	3.00	100	3.00	100
8	2211-00-103-0-05-059 Maternity and child health – Other expenses	2.00	2.00	100	2.00	100
9	2211-00-103-0-11-059 Honorarium to Anganawadi workers – Other expenses	10.87	10.87	100	10.87	100
10	4210-03-105-1-02-422 New Medical Colleges – SCP	31.78	31.78	100	31.78	100
11	4210-03-105-1-02-423 New Medical Colleges - TSP	22.50	22.50	100	22.50	100

Appendix 2.15 (c)

Rush of expenditure – Grant No.6 (Reference: Paragraph 2.9.7; Page 95)

(₹ in crore)

Sl. No.	Head of Account and nomenclature	Total expr. during the year	Expr. during last quarter		Expenditure during March	
			Amount	%	Amount	%
1	3451-00-090-1-06-059 Other expenses	2.00	1.46	73	1.46	73
2	3451-00-090-1-11-071 Building expenses	0.79	0.79	100	0.33	43
3	5465-01-190-1-18-211 Tadadi Seaport Project	0.25	0.25	100	0.25	100
4	5465-01-190-2-03-211 KSIIDC – BIAP Cell	0.25	0.25	100	0.25	100

Appendix 2.16

Excess Payment of Family Pension
(Reference: Paragraph 2.10.1; Page 95)

(Amount in ₹)

Sl. No.	Name of the Treasury	Number of cases	Amount	Period
1	Bagalkote	16	9,53,394	02-2011 to 03-2013
2	Bengaluru (Rural)	4	77,378	12-2011 to 03-2013
3	Bengaluru (Urban)	4	1,13,875	11-2010 to 10-2013
4	Belagavi	11	5,79,677	09-2008 to 03-2013
5	Ballari	10	3,72,307	02-2012 to 10-2013
6	Bidar	20	9,67,218	07-2011 to 06-2013
7	Vijayapur	12	18,02,348	03-2008 to 03-2013
8	Chamarajanagar	3	17,706	11-2012 to 02-2013
9	Chickballapura	14	5,07,672	12-2010 to 03-2013
10	Chikkmagalur	6	3,81,466	04-2012 to 12-2013
11	Chitradurga	9	4,27,628	06-2011 to 03-2013
12	Dakshina Kannada	10	5,96,879	03-2012 to 10-2013
13	Davangere	17	3,86,976	05-2012 to 03-2013
14	Dharwad	5	1,80,744	03-2010 to 12-2013
15	Gadag	3	55,133	07-2012 to 05-2013
16	Kalaburagi	21	28,70,507	07-2007 to 06-2013
17	Hassan	8	6,74,346	09-2010 to 12-2013
18	Haveri	14	3,20,564	04-2012 to 04-2013
19	Hubballi	1	23,014	01-2011 to 11-2013
20	Karwar	9	3,85,685	04-2012 to 10-2013
21	Kolar	13	14,35,831	10-2006 to 03-2013
22	Koppal	11	2,76,387	04-2012 to 06-2013
23	Madikeri	3	1,81,847	05-2012 to 12-2013
24	Mandya	8	2,13,025	12-2010 to 04-2013
25	Mysuru	17	6,11,569	05-2009 to 06-2013
26	Pension Payment Treasury, Bengaluru	15	22,07,762	09-2005 to 07-2013
27	Raichur	7	69,042	07-2012 to 08-2013
28	Ramnagara	6	2,28,926	12-2006 to 09-2013
29	Shivamogga	8	4,89,577	07-2009 to 05-2013
30	Tumakuru	6	5,13,559	04-2012 to 10-2013
31	Udupi	3	94,439	01-2013 to 06-2013
32	Yadgir	7	9,80,560	03-2006 to 07-2013
Total		301	1,89,97,041	

Appendix 2.17

Continued excess payment of Family Pension

(Reference : Paragraph 2.10.1; Page 95)

(Amount in ₹)

Sl. No.	Name of the Treasury	CEP during 2012-13		Overall Excess Payment (including cases which appeared in earlier Audit Reports)		
		No. of cases	Amount	Amount	Total Amount	Period
1	Bagalkote	15	2,11,135	6,76,446	8,87,581	05-2011 to 02-2013
2	Belagavi	5	5,18,247	6,79,977	11,98,224	01-2001 to 03-2013
3	Bidar	1	20,694	0	20,694	07-2012 to 02-2013
4	Vijayapura	5	13,25,771	3,13,423	1,63,914	10-2004 to 03-2013
5	Chamarajanagar	2	32,867	13,563	46,430	07-2011 to 02-2013
6	Chickballapura	5	98,301	96,521	1,94,822	06-2010 to 03-2013
7	Chitradurga	11	4,56,423	6,14,737	10,71,160	01-2008 to 03-2013
8	Chikkmagalur	2	92,316	56,188	1,48,504	03-2012 to 03-2013
9	Dakshina Kannada	6	2,55,262	3,41,345	5,96,607	11-2007 to 10-2013
10	Davanagere	9	1,94,660	3,36,951	5,31,611	10-2006 to 03-2013
11	Kalaburagi	8	5,90,131	5,43,330	11,33,461	04-2006 to 06-2013
12	Hassan	5	3,11,891	0	3,11,891	09-2011 to 12-2013
13	Haveri	2	53,964	53,864	1,07,828	09-2009 to 04-2013
14	Karwar	2	1,24,137	60,093	1,84,230	04-2012 to 10-2013
15	Kolar	2	2,09,742	1,02,313	3,12,055	04-2008 to 03-2013
16	Koppal	1	58,968	27,087	86,055	01-2012 to 06-2013
17	Madikeri	3	1,08,293	2,31,054	3,39,347	07-2008 to 12-2013
18	Mandya	2	21,828	16,511	38,339	01-2011 to 04-2013
19	Mysuru	6	3,63,671	5,17,217	8,80,888	08-2007 to 07-2013
20	Pension Payment Treasury, Bengaluru	11	4,07,300	9,70,432	13,77,732	08-2007 to 09-2013
21	Raichur	5	2,99,925	2,11,792	5,11,717	07-2010 to 03-2013
22	Ramanagaram	5	2,93,784	1,44,612	4,38,396	05-2010 to 09-2013
23	Yadgir	8	2,17,377	9,25,293	11,42,670	03-2005 to 07-2013
Total		121	62,66,687	69,32,749	1,31,99,436	

Appendix 3.1

Major Head and Department-wise details of outstanding UCs separately for each year (Reference: Paragraph 3.1; Page 101)

					(₹ in crore)
Sl. No.	Head of Account	Department	Year	Number of UCs	Amount
1	2204	Sports and Youth Services	1989-90	12	0.06
			1990-91	1	0.01
			1998-99	2	0.95
				15	1.02
2	2210	Health and Family Welfare	2011-12	19	57.36
			2012-13	59	387.29
			2013-14	140	666.25
				218	1,110.90
3	2220	Information	2007-08	3	0.30
			2008-09	3	0.15
			2010-11	12	2.71
			2011-12	12	3.42
			2012-13	10	3.78
			2013-14	6	3.35
				46	13.71
4	2225	Social Welfare	2008-09	3	5.51
			2010-11	2	8.00
			2011-12	4	20.00
			2012-13	7	26.50
				16	60.01
5	2245	Revenue	2000-01	3	1.41
				3	1.41
6	2851	Commerce and Industries	2006-07	1	0.19
				1	0.19
7	3451	Secretariat-Economic Services	2012-13	1	5.00
			2013-14	3	6.25
				4	11.25
8	3475	Finance	1997-98	1	9.79
			1998-99	2	3.71
			2001-02	5	1.21
			2002-03	9	1.93
				17	16.64
Total				320	1,215.13

Source: Office of the Pr.AG(A&E)

Appendix 3.2

Non-receipt of information pertaining to institutions substantially financed by the Government

(Reference: Paragraph 3.2; Page 102)

Sl. No.	Department	Number of Institutions	Years for which information not received
1	Education	381	1992-93 to 2013-14
2	Medical Education	17	2011-12 to 2013-14
3	Forest, Environment and Ecology	39	2007-08 to 2013-14
4	Commerce and Industries	13	2000-01 to 2013-14
5	Health & Family Welfare Services	2	2013-14
6	Water Resources	6	2000-01 to 2013-14
7	Co-operation	5	1980-81 to 2013-14
8	Youth Services and Sports	4	1999-00 to 2013-14
9	Planning	2	2000-01 to 2013-14
10	Social Welfare	1	2012-13 to 2013-14
11	Labour	2	1999-00 to 2013-14
12	Minority Welfare	1	2013-14
13	Animal Husbandry & Fisheries	1	2003-04 to 2013-14
14	Department of Parliamentary Affairs & Legislation	1	2011-12 to 2013-14
15	Law, Justice & Human Rights Department	1	2013-14
16	National Legal Services Authority	1	2013-14
17	IT,BT, Science & Technology	29	2007-08 to 2013-14

Source: Office of the Pr.AG(G&SSA).

Appendix 3.3

**Status of submission of accounts of Autonomous Bodies
and placement of Audit reports before the State Legislature**
(Reference: Paragraph 3.3; Page 102)

Sl. No.	Name of the Autonomous Body	Period of entrustment	Year upto which accounts rendered	Year up to which audit report issued	Placement of audit reports before the Legislature
1	Karnataka State Khadi and Village Industries Board, Bengaluru	2007-08 to 2016-17	2012-13	2012-13	2011-12 14-02-2013
2	Karnataka Industrial Areas Development Board, Bengaluru	2009-10 to 2013-14	2013-14	2012-13	2011-12 23-07-2013
3	Karnataka Slum Development Board, Bengaluru	2012-13 to 2016-17	2012-13	2012-13	2011-12 23-07-2013
4	Bangalore Water Supply and Sewerage Board, Bengaluru	2012-13 to 2016-17	2012-13	2011-12	2011-12 25-11-13
5	Karnataka Housing Board, Bengaluru	2011-12 to 2015-16	2012-13	2011-12	2011-12 25-11-2013
6	Karnataka State Legal Services Authority, Bengaluru and 30 District Legal Services Authorities	As per Act	2012-13	2012-13	2010-11 25-11-2013
7	Karnataka Bio Diversity Board, Bengaluru	2011-12 to 2013-14	2012-13	2012-13	2011-12 23-07-2013
8	Karnataka Urban Water Supply & Drainage Board	2010-11 to 2014-15	2012-13	2012-13	2011-12 05-06-2013
9	Bangalore Development Authority, Bengaluru	2010-11 to 2014-15	2012-13	2011-12	2010-11 25-07-2012
10	Karnataka State Human Rights Commission, Bengaluru	As per Act	2012-13	2012-13	2011-12 23-07-2013
11	Karnataka Building & Other Construction workers Welfare Board, Bengaluru	As per Act	2011-12	2011-12	Not placed

Source: Offices of the Pr.AG (G&SSA) & Pr.AG (E&RSA.)

Appendix 3.4

Position of arrears in finalization of proforma accounts by the departmentally managed Commercial and Quasi-commercial Undertakings

(Reference: Paragraph 3.4; Page 103)

(₹ in crore)

Sl. No.	Undertaking	Accounts finalized upto	Investment as per the last accounts finalized	Remarks
1	Chamarajendra Technical Institute Mysuru	1984-85	-	Proforma accounts due from 1985-86
2	Government Saw Mills, Joida	1968-69	-	Proforma accounts due from 1969-70. Undertaking closed w.e.f. 27-4-1971.
3	Dasara Exhibition Committee, Mysuru	1980-81	-	Proforma accounts due from 1981-82 to 1995-96
4	Bangalore Dairy, Bengaluru	1973-74	-	Company stands transferred to Karnataka Milk Producers Co-operative Federation Limited from November 1984.
5	Government Milk Supply Scheme, Hubballi, Dharwad	1980-81	-	Proforma accounts due from 1981-82 to 1984-85 (31.01.1985). Transferred to Karnataka Dairy Development Corporation (KDDC).
6	Government Milk Supply Scheme, Mysuru	1968-69	-	Proforma accounts due from 1969-70 to 30.11.1975. Transferred to KDDC w.e.f 01.12.1975
7	Government Milk Supply Scheme, Belagavi	1974-75	-	Proforma accounts due from 1977-78 to 1984-85. Transferred to KDDC w.e.f 31.01.1985.
8	Government Milk Supply Scheme, Kalaburagi	1982-83	-	Proforma accounts due from 1983-84 to 1984-85 (up to 31.01.1985). Transferred to KDDC.
9	Government Milk Supply Scheme, Bhadravathi	1980-81	-	Proforma accounts due from 1983-84 to 1984-85 (up to 14.02.1985). Transferred to KDDC.
10	Government Milk Supply Scheme, Mangaluru	1982-83	-	
11	Government Milk Supply Scheme, Kudige	1972-73	-	Proforma accounts due from 1973-74 & 1974-75 (up to 30.11.1975). Transferred to KDDC
12	Vaccine Institute, Belagavi	1992-93	-	Proforma accounts due from 1993-94
13	Government Silk Filature, Kollegal	2010-11	1.54*	Proforma accounts due from 2011-12
14	Government Silk Filature, Mamballi	2010-11	2.37	
15	Government Silk Twisting and Weaving Factory, Mudigundam	2010-11	1.02	
16	Government Silk Filature, Chamrajanagar	2011-12	2.36	Proforma accounts due from 2012-13
17	Government Silk Filature, Santhamarahalli	2011-12	2.39	
18	Government Central Workshop, Madikeri	2008-09	0.07	Proforma accounts due from 2009-10
19	Karnataka Government Insurance Department, Bengaluru	--	No capital account	

Source: Finance Accounts

* ₹ 1.54 crore was shown as ₹ 0.15 crore in the previous year.

Appendix 3.5

Department-wise/duration-wise breakup of the cases of theft and misappropriation
(Reference: Paragraph, 3.5 Page 103)

(₹ in lakh)

Department	< 5 years		<10 years		<15 years		<20 years		<25 years		>25 years		Total	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Animal Husbandry and Veterinary services	-	-	-	-	-	-	1	1.10	-	-	-	-	1	1.10
Commerce and Industries	-	-	-	-	-	-	2	0.96	1	1.42	-	-	3	2.38
Education	-	-	-	-	1	1.25	1	0.90	2	1.98	2	0.40	6	4.53
Forest, Environment and Ecology	2	132.12	-	-	-	-	1	0.41	-	-	1	0.33	4	132.86
Health and Family Welfare	-	-	-	-	-	-	-	-	-	-	10	1.60	10	1.60
Home	-	-	-	-	-	-	-	-	-	-	1	0.64	1	0.64
DPAR	-	-	-	-	1	0.68	-	-	-	-	-	-	1	0.68
Labour	-	-	-	-	1	3.10	-	-	-	-	1	0.89	2	3.99
Law and Parliamentary Affairs	1	0.98	4	2.42	2	1.07	-	-	-	-	-	-	7	4.47
Public works	1	1,080.00	2	61.00	2	14.30	-	-	-	-	-	-	5	1,155.30
Revenue	-	-	-	-	-	-	-	-	-	-	1	0.20	1	0.20
Social Welfare	-	-	-	-	-	-	-	-	-	-	1	2.69	1	2.69
Water Resources	9	403.83	3	2.04	1	19.36	1	0.14					14	425.37
Total	13	1,616.93	9	65.46	8	39.76	6	3.51	3	3.40	17	6.75	56	1,735.81

Source: Information compiled by Offices of Pr.AG (G&SSA) and Pr.AG(E&RSA)

Appendix 3.6

Department-wise and category-wise details of theft and misappropriation cases

(Reference: Paragraph 3.5; Page 103)

(₹ in lakh)

Department	Theft		Misappropriation/ Loss of Government Money		Total	
	No. of cases	Amount	No. of cases	Amount	No. of cases	Amount
Animal Husbandry and Veterinary Services	-	-	1	1.10	1	1.10
Commerce and Industries	-	-	3	2.38	3	2.38
Education	1	0.90	5	3.63	6	4.53
Forest, Environment and Ecology	-	-	4	132.86	4	132.86
Health and Family Welfare	2	0.02	8	1.58	10	1.60
Home	-	-	1	0.64	1	0.64
DPAR	-	-	1	0.68	1	0.68
Labour	1	3.10	1	0.89	2	3.99
Law and Parliamentary Affairs	6	2.43	1	2.04	7	4.47
Public Works	-	-	5	1,155.30	5	1,155.30
Revenue	-	-	1	0.20	1	0.20
Social Welfare	-	-	1	2.69	1	2.69
Water Resources	2	0.56	12	424.81	14	425.37
Total	12	7.01	44	1,728.80	56	1,735.81

Source: Information compiled by Offices of the Pr.AG (G&SSA) and Pr.AG (E&RSA)

Appendix 3.7

Department-wise details of non-submission of stores and stock accounts

(Reference: Paragraph 3.6; Page 104)

Sl. No.	Department	Officer responsible for furnishing accounts	Period for which accounts are due
Annual Accounts			
1	Agriculture	Director of Agriculture	2007-08 to 2013-14
2	Printing and Stationery	Director of Printing and Stationery	2010-11 & 2013-14
3	Commerce and Industries	Director of Commerce and Industries	2007-08 to 2013-14
4	Information and Publicity	Director of Information and Publicity	2009-10 to 2013-14
5	Animal Husbandry & Veterinary Services	Commissioner of Animal Husbandry & Veterinary Services	2007-08 to 2013-14
6	Stamps and Registration	Inspector General of Registration & Commissioner of Stamps	2001-02 to 2012-13
7	Home	Director General & Inspector General of Police	2011-12 to 2013-14
8		Inspector General of Prisons	2012-13 to 2013-14
9	Health and Family Welfare	Director, Health and Family Welfare Services	2008-09 to 2013-14
10		Karnataka State Drugs Logistics and Warehousing Society (Govt. Medical Stores)	2009-10 to 2012-13
11		Indian System of Medicine and Homeopathy (AYUSH)	2011-12 to 2013-14
12		Director, Medical Education	2008-09 to 2013-14
Half Yearly Accounts			
1.	Public Works	EE, KSHIP Shivamogga	March 2013, Sept.2013, March 2014
2.		EE, KSHIP Division, Raichur	Sept. 2011 to March 2014
3.		EE, KSHIP Division, Belagavi	Sept. 2013 to March 2014
4.		EE, KSHIP Tumakuru	March 2013, Sept.2013,March 2014
5.		EE, PWD Chitradurga	
6.		EE, PWD Davanagere	
7.		EE, PWD Elect. Dn. Bengaluru	
8.		EE, PWD Hassan	
9.		EE, PWD Hunsur	
10.		EE, PWD Ramanagara	
11.		EE, Spl. Dn. P&B Bengaluru	
12.		EE, Bidar Division	Sept. 2011 to March 2014
13.		EE, Yadgir Division	
14.		EE, Bagalkot Division	
15.		EE, QC Division, Dharwad	
16.		EE, QC Division, Kalaburagi	
17.		EE, NH Division, Karwar	
18.		EE, NH Division, Mangaluru	Sept. 2013
19.		EE, PWD, Mysuru	Sept. 2013 March 2014
20.		EE, PWD, Spl. Division Hunsur	March 2013, March 2014
21.		EE, PWD, Dharwad	March 2013, Sept. 2013 and March 2014
22.		EE, PWD, Chikkodi	

Sl. No.	Department	Officer responsible for furnishing accounts	Period for which accounts are due
23.		EE, PWD, Koppal	March 2013, Sept. 2013 and March 2014
24.		EE, PWD, Udupi	
25.		EE, PWD, Madikeri	
26.		EE, Ports & Fisheries, Udupi	
27.		EE, PWD, Chikkamagaluru	
28.		EE, PWD, Shivamogga	March 2014
29.		EE, PWD, Spl DN Shivamogga	
30.		EE, NH DN Bengaluru	
31.		EE, NH Spl. DN Bengaluru	
32.		EE, NH DN. Mangaluru	
33.		EE, No.2 Building DN. Bengaluru	
34.		EE, No 1 Building DN. Bengaluru	
35.		EE, ESI Building DN. Bengaluru	
36.		EE, QA, PWD, Bengaluru	
37.		EE, QC PWD, Hassan	
38.		EE, PWD, Tumakuru	
39.		EE, PWD, Chikkaballapur	
40.		EE, PWD Mandiya	
41.		EE, PWD Hunsur	
42.		EE, PWD Mangaluru	
43.		EE, PWD Udupi	
44.		EE, PWD, Gadag	
45.		EE, PWD, Ballari	Sept. 2013 to March 2014
46.		EE, PWD, Hoovinhadagali	
47.		EE, PWD, Haveri	
48.		EE, Ports Division Karwar	March, 2014
49.		EE, Karwar Division	
50.		EE, Vijayapura	
51.		EE, Raichur	
52.		EE, Sirsi	
53.		EE, Kalaburagi	Sept. 2011 to March 2014
54.	Minor Irrigation	EE, Sirsi Division	
55.		EE, Belagavi Division	
56.		EE, QA Divn, Dharwad	Sept. 2012 to March 2014
57.		EE, QA Divn, Kalaburagi	
58.		EE, MI QC Dn. Bengaluru	Mar 2013, Sept.2013
59.		EE, MI Dn. Chitradurga	
60.		EE, MI Dn. Shivamogga	Sept.2013
61.		EE, MI Dn. Bengaluru	
62.		EE, MI Dn. Kolar	
63.		EE, MI Dn. Tumakuru	March 2013 March 2014
64.		EE, MI, Mysuru	
65.		EE, MI, Ballari	
66.		EE, MI, Bidar	
67.		EE, MI Hassan	
68.	Water Resources	EE, No. 1, TR Division, Munirabad	Sept. 2011 to March 2014
69.		EE, No. 1, KPC Division, Bidar	Sept. 2011 to March 2014
70.		EE, No. 2, KPC Division Bhalki	
71.		EE, No. 3, Canal Division, Sindhanoor	
72.		EE, No. 4, Canal Division Sirwar	

Sl. No.	Department	Officer responsible for furnishing accounts	Period for which accounts are due
73.		EE, No. 5, Canal Division, Yermarus	Sept. 2011 to March 2014
74.		EE, No. 1, Singatallur LIS, Mundargi	
75.		EE, No. 2, Singatallur LIS, Hoovinahadagali	
76.		EE, W&M Division Bheemarayangudi	
77.		EE, QC, ICZ, Munirabad	Sept. 2013 to March 14
78.		EE, No. 6 Canal Division Ballari	
79.		EE, No. 2 Canal Division Odderahatti	
80.		EE, I&I Division Mysuru	
81.		EE W& M Division HRD Gorur	March 2013, Sept.2013
82.		EE No. 1 gauging Division Hassan	
83.		No. 2, Gauging Division Bagalkot	March 2014
84.		No. 3, I&I Division Kalaburagi	
85.	Sericulture	EE, No. 1 Sericulture Dn. Bengaluru	March 2013, Sept.2013, March 2014
86.	Forest	DCF Bannerghatta NP	Sept. 2011 to March 2014
87.		DCF (R), Bengaluru	
88.		DCF (T), Hassan	
89.		DCF (T), Hunsur	
90.		DCF (T), Kollegal	
91.		DCF (T), Kundapur	
92.		DCF (T), Madikeri	
93.		DCF (T), Mandya	
94.		DCF (T), Mangaluru	
95.		DCF (T), Mysuru	
96.		DCF (T), Tumakuru	
97.		DCF (T), Virajpet	
98.		DCF (T), Bhadravathi	
99.		DCF (T), Chikkamagaluru	
100.		DCF (T), Chikaballapur	
101.		DCF (T), Chitradurga	
102.		DCF (T), Kolar	
103.		DCF (T), Koppa	
104.		DCF (T), Ramanagara	
105.		DCF (T), Sagar	
106.		DCF (T), Shivamogga	
107.		DCF (U), Bengaluru	
108.		DCF (WL) Chamrajanagara	
109.		DCF (WL) Hunsur	
110.		DCF (WL) Kollegal	
111.		DCF (WL) Kudremukh Karkala	
112.		DCF (WL) Madikeri	
113.		DCF (WL) Mysuru	
114.		DCF (WL) Bhadra	
115.		DCF (WL) Shivamogga	
116.		DCF FMS Bengaluru	
117.		DCF FMS Hassan	
118.		DCF FMS Madikeri	
119.		DCF FMS Mysuru	
120.		DCF FMS Shivamogga	
121.		DCF SF Research Bengaluru	
122.		Project Tiger Bandipur	

Sl. No.	Department	Officer responsible for furnishing accounts	Period for which accounts are due
123.		DCF (T), Dharwad	March 2013, Sept.2013, March 2014
124.		DCF (T), Gadag	
125.		DCF (T), Haveri	
126.		DCF (T), Vijayapura	
127.		DCF (T), Bagalkot	
128.		DCF (T), Yadgir	
129.		DCF (T), Sirsi	
130.		DCF (T), Yellapur	
131.		DCF (T), Haliyal	
132.		DCF (T), Ballari	
133.		DCF (T),Koppal	
134.		DCF (T), Kalaburagi	
135.		DCF (T), Raichur	
136.		DCF (T), Belagavi	
137.		DCF (T), Gokak	
138.		DCF (T), Honnavar	
139.		DCF (T), Karwar	
140.		DCF, WL Divn Dandeli	
141.		ACF, FGTC, Bidar	
142.		ACF, FGTC, Thattihalla	
143.		ACF, WL Divn, Ranebennur	
144.		CF, Research, Dharwad	
145.		CF, Research, Ballari	
146.		DCF, Training, Gungaragatti	
147.		ACF, Karadidama Sdvn, Kamalapura	
148.		DCF, FMS, Kalaburagi	
149.		DCF, FMS, Belagavi	
150.		DCF, FMS, Ballari	
151.		DCF, FMS, Sirsi	
152.		DCF (T), Bidar	March 2014

Source: Offices of the Pr.AG (G&SSA) & Pr.AG (E&RSA)

Appendix 3.8

**Balances remaining (Adverse) under
Operative/in-operative PD accounts**
(Reference: Paragraph 3.8.2; Page 106)

(Amount in ₹)

Sl. No.	Administrator / Nomenclature	Balance as per the books of PAG(A&E)	Remarks
Inoperative PD Accounts			
1	Deposit of Private Estate under commercial organization	75.00	Prior to 2000
2	Chief Ministers Drought Relief Fund	82,45,390.20	Prior to 2000
3	Harijan Development Welfare Fund	5,08,896.71	In-operative
4	Block Development Officer	7,07,74,402.15	In-operative
5	P.D. Account of Municipal Commissioner, Tumakuru	23,72,940.16	In-operative
6	Maharaja College of Education (Principal Maharaja College of Education)	570.00	In-operative since 2008-09
7	Village Land under attachment	2,51,457.05	In-operative since 1994-95
8	Asha Kiran	26,350.00	In-operative since 1994-95
9	Gram Panchayat	34,00,890.55	In-operative since 1994-95
10	Deposits of District Consumer Forum	1,24,360.00	
11	SKC Production Board	1,91,908.00	
12	No Description	5,930	
Total		8,59,03,169.82	
Operative PD Accounts			
1	Chief Supdt. of Central Prison, Mysuru	15,000.00	Amount is due from 2011-12
2	Receipt Awaiting Transfer (Gazetted Sub-Treasury Officers)	4,57,13,31,089.00	2004-05 onwards
3	Industrial Training Institute	41,15,368.21	Prior to 2009
4	District Prison, Shivamogga	29,493.00	
5	Labour Officer	4,35,47,199.72	Prior to 2009
6	Joint Labour Commissioner, Mysuru	26,059.44	Prior to 2009
Total		4,61,90,64,209.37	

Source: Office of the Pr.AG (A&E) & DDR Ledger.

GLOSSARY

BASIS OF CALCULATION

Terms	Basis of calculation
Buoyancy of a parameter	Rate of Growth of the parameter/GSDP Growth Rate
Buoyancy of a parameter (X) With respect to another parameter (Y)	Rate of Growth of parameter (X)/ Rate of Growth of parameter (Y)
Rate of Growth (ROG)	$[(\text{Current year Amount} / \text{Previous year Amount}) - 1] * 100$
Development expenditure	Social services + economic services
Average interest paid by the State	$\text{Interest payment} / [(\text{Amount of previous year's Fiscal Liabilities} + \text{Current year's Fiscal Liabilities}) / 2] * 100$
Interest spread	GSDP growth rate – Average Interest Rate
Quantum spread	Debt stock * Interest spread
Interest received as <i>per cent</i> to Loans Outstanding	$\text{Interest Received} [(\text{Opening balance} + \text{Closing balance of Loans and Advances}) / 2] * 100$
Revenue Deficit	Revenue Receipt – Revenue Expenditure
Fiscal Deficit	Revenue Expenditure + Capital Expenditure + Net Loans and Advances – Revenue Receipts – Miscellaneous Capital Receipts
Primary Deficit	Fiscal Deficit – Interest payments
Balance from Current Revenue (BCR)	Revenue Receipts minus all Plan Grants and Non-Plan Revenue Expenditure excluding expenditure recorded under the major head 2048 – Appropriation for reduction of Avoidance of debt.

ABBREVIATIONS

Sl. No.	Abbreviation	Full Form
1.	AC Bill	Abstract Contingent Bill
2.	ALM	Asset Liability Monitoring
3.	ATR	Action Taken Report
4.	BCR	Balance from Current Revenue
5.	BIAL	Bangalore International Airport Limited (Now Kempegowda International Airport Limited)
6.	BIFR	Board for Industrial & Financial Reconstruction
7.	BMRL	Bangalore Metro Rail Corporation Limited
8.	BPL	Below Poverty Line
9.	C&AG	Comptroller and Auditor General
10.	CAGR	Compounded Annual Growth Rate
11.	CMRRD	Chief Ministers Rural Road Development Fund
12.	CRA	Central Record keeping Agency
13.	CSF	Consolidated Sinking Fund
14.	CST	Central Sales Tax
15.	DC	Deputy Commissioner
16.	DDOs	Drawing and Disbursing Officers
17.	DDR	Debt, Deposit and Remittances
18.	DE	Development Expenditure
19.	DPC	Duties, Power and Conditions
20.	EAP	Externally Assisted Project
21.	EFC	Eleventh Finance Commission
22.	ERC	Expenditure Reforms Commission
23.	ESCOMs	Electricity Supply Companies
24.	FD	Finance Department
25.	FMRC	Fiscal Management Review Committee
26.	FPI	Fiscal Policy Institute
27.	FRA	Fiscal Responsibility Act
28.	F&A	Finance and Accounts
29.	GESCOM	Gulbarga Electricity Supply Company
30.	GDP	Gross Domestic Product
31.	GIC	General Insurance Corporation
32.	GOI	Government of India
33.	GOK	Government of Karnataka
34.	GSDP	Gross State Domestic Product
35.	HAL	Hindustan Aeronautics Limited
36.	HOA	Head of Account
37.	HUDCO	Housing and Urban Development Corporation Limited
38.	IAY	Indira Aawas Yojana
39.	IDD	Infrastructure Development Department
40.	IGAS	Indian Government Accounting Standard
41.	IIF	Infrastructure Initiative Fund
42.	IFA	Internal Financial Advisor
43.	IMFL	Indian Made Foreign Liquor
44.	ISEC	Institute for Social and Economic Change

Sl. No.	Abbreviation	Full Form
45.	JnNURM	Jawaharlal Nehru National Urban Renewal Mission
46.	KBJNL	Krishna Bhagya Jala Nigam Limited
47.	KBM	Karnataka Budget Manual
48.	KFC	Karnataka Financial Code
49.	KFD	Karnataka State Forest Development Fund
50.	KFRA	Karnataka Fiscal Responsibility Act
51.	KLLAD	Karnataka Legislators Local Area Development Scheme
52.	KNNL	Karnataka Neeravari Nigama Limited
53.	KPTCL	Karnataka Power Transmission Corporation Limited
54.	KRDCL	Karnataka Road Development Corporation Limited
55.	KREDL	Karnataka Renewable Energy Development Limited
56.	KSIIDC	Karnataka Small Industries Development Corporation
57.	KSFC	Karnataka State Financial Corporation Limited
58.	KSPHC	Karnataka State Police Housing Corporation
59.	LIC	Life Insurance Corporation
60.	LMMH	List of Major and Minor Heads
61.	MPM	Mysore Paper Mills Limited
62.	MTFP	Medium Term Fiscal Plan
63.	NABARD	National Bank for Agriculture and Rural Development
64.	NCDC	National Co-operative Development Corporation
65.	NDC	Non Payment detailed Contingent Bill
66.	NGOs	Non – Government Organizations
67.	NLNORR	Non Loan Net Own Revenue Receipts
68.	NORR	Net Own Revenue Receipts
69.	NPS	New Pension Scheme
70.	NRHM	National Rural Health Mission
71.	NSDL	National Securities Depository Limited
72.	NSDP	Net State Domestic Product
73.	NSSF	National Small Savings Fund
74.	NTR	Non Tax Revenue Receipts
75.	PAC	Public Accounts Committee
76.	PAG (A&E)	Principal Accountant General (Accounts and Entitlement)
77.	PAMF	Protected Area Management Fund
78.	PAO	Pay and Accounts Office
79.	PD	Personal Deposit
80.	PDS	Public Distribution System
81.	PF	Provident Fund
82.	PFC	Power Finance Corporation
83.	PFRDA	Pension Fund Regulatory Development Authority
84.	PPP	Public Private Partnership
85.	PRAN	Permanent Retirement Account Number
86.	PRIs	Panchayat Raj Institutions
87.	PSUs	Public Sector Undertakings
88.	RBI	Reserve Bank of India
89.	RDPR	Rural Development and Panchayat Raj
90.	REC	Rural Electrification Corporation
91.	RFD	Result Framework Document

Abbreviations

Sl. No.	Abbreviation	Full Form
92.	RGRHCL	Rajiv Gandhi Rural Housing Corporation Limited
93.	RIDF	Rural Infrastructure Development Fund
94.	RR	Revenue Receipts
95.	SCP	Special Component Plan
96.	SDRF	State Disaster Response Fund
97.	SKUP	Suvarna Karnataka Udyanavanagala Prathistana
98.	SPVs	Special Purpose Vehicles
99.	SSA	Sarva Shiksha Abhiyan
100.	TE	Total Expenditure
101.	TFC	Twelfth Finance Commission
102.	TNMC	Treasury Network Management Centre
103.	TP	Taluk Panchayat
104.	TSP	Tribal Sub Plan
105.	UC	Utilization Certificate
106.	UGC	University Grants Commission
107.	UID	Unique Identification
108.	ULB	Urban Local Bodies
109.	VAT	Value Added Tax
110.	XIII FC	Thirteenth Finance Commission
111.	ZP	Zilla Panchayat



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