Chapter – II

Financial Management and Budgetary Control

Chapter 2

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 appropriation 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-appropriation distinctly and indicate actual capital and revenue expenditure on various specified services *vis-à-vis* those authorised by the Appropriation Act in respect of both charged and voted items of budget. The Karnataka Budget Manual contains the procedure for preparation of the estimates of budget, subsequent action regarding authorisation to incur expenditure, distribution of grants, watching the progress of actual expenditure and control over it.

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

2.2 Summary of Appropriation Accounts

2.2.1 The summarised position of actual expenditure during 2016-17 against 29 grants/appropriations is given in **Table 2.1.**

Table 2.1: Summarised 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 (-) / Excess over provision (+)	Amount surrendered	Amount surrendered on 31 March	*Per cent* of savings surrendered on 31 March
Voted	I Revenue	1,19,836.38	9,310.29	1,29,146.67	1,22,025.63	7,121.04	1,470.74	1,470.74	100
	II Revenue Public Debt	0.00	0.88	0.88	0.88	0.00	0.00	0.00	0
	III Capital	28,733.59	3,562.37	32,295.96	27,887.15	4,408.81	833.07	833.07	100
	IV Loans and Advances	1,625.19	529.69	2,154.88	1,934.38	220.50	7.04	7.04	100
Total Voted		**1,50,195.16**	**13,403.23**	**1,63,598.39**	**1,51,848.04**	**11,750.35**	**2,310.85**	**2,310.85**	**100**
Charged	*V Revenue*	*14,594.25*	*130.04*	*14,724.29*	*13,327.32*	*1,396.97*	*179.32*	*179.32*	*100*
	VI Public Debt Repayment	*6,841.41*	*417.41*	*7,258.82*	*7,420.24*	*(+)161.42*	*0.01*	*0.01*	*100*
	VII Capital	*466.34*	*4.50*	*470.84*	*449.42*	*21.42*	*14.08*	*14.08*	*100*
Total Charged		***21,902.00***	***551.95***	***22,453.95***	***21,196.98***	***1,256.97***	***193.41***	***193.41***	***100***
Grand Total		**1,72,097.16**	**13,955.18**	**1,86,052.34**	**1,73,045.02**	**13,007.32**	**2,504.26**	**2,504.26**	**100**

Source: Appropriation Accounts

2.2.2 The summary of demands for grants placed before the Legislature, seeks approval for incurring the expenditure during the course of the year on various specified services, as brought out in the schedules appended to the demand. The expenditure so indicated implies that the amounts so drawn are expended for the purpose. However, test check in audit revealed that the expenditure so indicated did not meet the intended purpose, which are discussed below:

The total expenditure stands inflated/without details of expenditure to the following extent:

Detailed accounts in support of advances drawn through Abstract Contingent bills amounting to ₹42.05 crore were not submitted by the Drawing and Disbursing Officers, as required under Rule 37(b) (3) of the Manual of Contingent Expenditure, 1958. In the absence of Non-payment Detailed Contingent bills, the genuineness of the expenditure cannot be vouchsafed. The total number of outstanding bills as on 31 March 2017 was 3,272. In reply, the Finance Department stated (December 2017) that after receipt of DDO-wise details of pending AC Bills from AG, instructions were issued by Finance Department to the concerned departments for clearance of pending AC bills.

2.2.3 The total expenditure stood overstated in the following cases:

- Out of the funds released to Zilla Panchayat/Taluk Panchayat, an amount of ₹473.66 crore under the ZP Fund and ₹906.95 crore under the TP fund under category II (in Public Account) remained unutilised;
- The expenditure of ₹60.90 crore incurred in the capital section (Major Head 4217) for transfer to State Urban Transport Fund under Public Account was not transferred to the fund account (**For details refer Para No 1.9.4)**;
- During the year 2016-17, an amount of ₹951.53 crore relating to the collection of the Infrastructure Cess were transferred to the Infrastructure Development Fund in Public Account. However, the expenditure incurred on capital/revenue heads were not transferred to the fund account resulting in overstatement of expenditure to the extent of ₹951.53 crore. In addition, an amount of ₹3,670 crore was also transferred from the Consolidated Fund to the Fund Account as stated. In the absence of related expenditure under revenue/capital not being accounted against the fund head in Public Account resulted in overstatement of expenditure (**For details refer Para No 1.9.4**);
- An amount of ₹106 crore released to Suvarna Arogya Suraksha Trust, a society formed for the purpose of implementation of Rashtriya Swasthya Bhima Yojana (RSBY) scheme was unutilised (**Details in Para 3.10.2**);
- Out of the amount released (₹4.16 crore) to Karnataka State Women Development Corporation during the year 2016-17 for implementation of Category A scheme namely 'Training Programme for Women Entrepreneurs', ₹1.38 crore was unutilised (**for details refer Para 1.1.5)**;
- Unspent amount under the Head of Account 4401-00-001-1-01-436 - NABARD Works for implementation of Farmer Connectivity Centre, which was released to Executive Engineer, PRED, Zilla Panchayat was not remitted to Government Account to an extent of ₹6.89 crore. The unspent amount related to balance remaining with the departmental authorities, which were required to be adjusted to the accounts of the

current year itself as reduction of expenditure, under the relevant minor head; and

- An amount of ₹260.29 crore relating to Scholarships to Minority students, deposited in the PD Account of Directorate of Minorities was undisbursed (**for details refer Para 3.8.2**).

2.2.4 The total expenditure stood understated in the following cases:

- Non-transfer of Green Tax Cess of ₹4.37 crore collected to the Public Fund Accounts (Details vide **paragraph 1.9.4**); and

- Non-investment and adjustment of ₹535 crore to the Consolidated Sinking Fund. (**for details refer Para 1.9.4**).

From the above, it was observed that there was overstatement of expenditure to the extent of ₹5,898.23 crore.

2.2.5 The unspent provision of ₹11,921.91 crore during the year 2016-17 was the result of overall unspent provision of ₹13,007.32 crore under 29 grants/appropriation, which was offset by excess expenditure of ₹1,085.41 crore under Demand Nos. 01, 05, 14, 20 and 29 under voted/*charged* expenditure of the revenue/capital sections.

2.2.6 During 2016-17, ₹6,057.11 crore covering 26 grants under revenue/capital section, (this is only illustrative), through 293 executive orders (**Appendix 2.1**) for incurring expenditure not covered by the budget initially were released by the FD on the request of the Administrative Department, as additionalities without the authorisation of the Legislature. These cases did not attract the criteria fixed (₹5.00 crore) for the New Service/New Instruments of Services as recommended by PAC (December 2014) of the State Legislature. However, provision to cover these additionalities was made through supplementary demands under Article 205(1) (a) of the Constitution.

(a) Details of such additionalities for the period 2014-15 to 2016-17 are shown in **Table 2.2**.

Table 2.2: No. of additionalities for which orders issued during 2014-15 to 2016-17

(₹ in crore)

Year	No. of Grants	No. of Executive orders	Supplementary Demand	Additionalities Amount
2014-15	25	112	12,336.76	3,022.33
2015-16	25	190	18,708.02	5,065.69
2016-17	26	293	13,955.18	6,057.11

Source: Appropriation Accounts of concerned years

The practice of release of funds initially through executive orders and getting it ratified later by seeking approval of the Legislature through supplementary demands shows an increasing trend as shown in the table above. PAC vide Para 5, GO dated 6 August 2015 recommended for incurring expenditure through additionalities orders in extraordinary circumstances for emergent/immediate necessity cases. However, the releases through additionalities are to be voted through provision in the subsequent Supplementary Estimates.

(b) During the year 2016-17, it was noticed that in four cases under three grants as shown in **Table 2.3**,

Table 2.3: Additionalities not regularised through Supplementary Estimates

(₹ in lakh)

Sl. No.	Grant No.	Head of Account	Order No. and Date	Original Budget	Amount of Additiona-lity	Expenditure incurred	Excess Expend-iture
1	11	2235-02-196-1-03-405 Shivamogga	FD 453 BRS 2016, Bengaluru dated 18.03.2017	8.00	**9.67**	17.67	**9.67**
2		2235-02-196-1-03-410 Hassan		8.00	**9.67**	17.67	**9.67**
3	17	2202-02-001-0-01-059 (NP)-Other Expenses	FD 38 BRS 2016 dated 20.08.2016	26.00	**74.00**	48.39	**22.39**
4	26	3451-00-101-5-03-015 Subsidiary Expenses	FD 02 BRS 2016 dated 30.04.2016	1.00	**10.00**	3.75	**2.75**
	Total				**103.34**		**44.48**

Source: Appropriation Accounts.

While accepting the audit observation, the Finance Department stated (December 2017) that in respect of serial numbers (1), (2) and (3) above, the additionality orders issued were not regularised through Supplementary Demands. Further, it stated that for the additionality order mentioned at (4) above, it was regularised in Supplementary Estimate III. However, it was noticed that the additionality order issued was with respect to the object head '059 – Other Expenses' and not for the object head '015 – Subsidiary Expenses'.

2.3 Excess Expenditure

In 17 cases, expenditure in excess of ₹25 crore of the budget provision was incurred under 11 Major Heads of account pertaining to 10 grants aggregating to ₹4,327.82 crore **(Appendix 2.2)**.

2.3.1 Excess expenditure requiring regularisation in the previous years

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

Excess expenditure aggregating to ₹1,124.66 crore for the year 2012-13 to 2015-16 is yet to be regularised as detailed in **Table 2.4**.

Table 2.4: Excess expenditure requiring regularisation

(₹ in crore)

Year	Grant No./ Description	Excess required to be regularised as commented in the AA/AR	Remarks
2012-13	08-Forest, Ecology and Environment	494.02	Excess expenditure of ₹209.51 crore was on account of transfer of Forest Development Tax to Public Account. The receipt was more than anticipated collection. Further, an amount of ₹284.51 crore, which was misclassified, remained as revenue of Commercial Tax Department and was transferred to Public Account on rectification of misclassification.
2013-14		355.39	Excess expenditure was on account of transfer for Forest Development Tax to Forest Development Fund in Public Account. The receipt was more than the anticipated collection.
	26-Planning, Statistics, Science and Technology	20.42	Withdrawal of budget 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.
2014-15	08 - Forest, Ecology and Environment	188.75	Excess expenditure was on account of transfer of Forest Development Tax to Forest Development Fund in Public Account. The receipt was more than the anticipated collection and also due to erroneous budgeting.
	10 - Social Welfare	0.06	No specific reasons furnished for the excess.
2015-16	01 – Agriculture and Horticulture	7.93	This was due to error in budgeting. Provision was made under Grant No.18 instead of Grant No.1. However, expenditure was classified under Grant No.1.
	05 – Home and Transport	44.94	No specific reason furnished for the excess.
	06 – Infrastructure Development	*5.11*	This was due to error in budgeting. Provision provided under Voted category instead of under *Charged* category. However expenditure was accounted correctly.
	19 - Urban Development	8.04	
Total		**1,124.66**	

Source: Appropriation Accounts.

2.3.2 Excess expenditure over provision during 2016-17

Excess expenditure of ₹1,085.41crore against Demand No.1-Agriculture and Horticulture, 05-Home and Transport, 14-Revenue, 20 – Public Works and 29 – Debt Servicing incurred during 2016-17 are required to be regularised. The details of which are given in **Table 2.5**.

Table 2.5: Excess expenditure during 2016-17

(Amount in ₹)

Sl. No.	Grant	Provision	Expenditure	Excess
1	01 –Agriculture and Horticulture Capital Voted	1,06,10,00,000	2,82,84,83,304	1,76,74,83,304
2	05 – Home and Transport Capital Voted	7,67,73,11,000	8,23,09,99,503	55,36,88,503
3	14 –Revenue Revenue Voted	79,36,67,94,000	85,68,74,27,666	6,32,06,33,666
4	20 – Public Works Revenue Voted	24,51,18,25,000	25,10,99,26,797	59,81,01,797
5	*29 – Debt Servicing Capital Charged*	*72,58,82,00,000*	*74,20,23,83,927*	*1,61,41,83,927*
	Total	**1,85,20,51,30,000**	**1,96,05,92,21,197**	**10,85,40,91,197**

Source: Appropriation Accounts.

The main reasons for excess expenditure under the above demands are discussed below:

- The excess under Grant No. 1- Agriculture and Horticulture was due to shifting of expenditure (₹186.01 crore) from revenue head (2401-00-108-2-30-059) to capital head (4401-00-800-1-08-436). However, the requisite provision under Demand No. 1 was not made through Supplementary Provision;

- Excess under Demand No.5 – Home and Transport was due to issue of re-appropriation orders between revenue and capital with the authority of the FD (**for details refer Para 2.7.9)**;

- The excess under Grant No. 14 – Revenue was due to release of Government of India's contribution of ₹1,235.52 crore towards NDRF on the last day of the financial year 2016-17, which was transferred to fund account during 2016-17 itself;

- The excess under Grant No.20 - Public Works was due to the transfer of actual receipts collected under Ports, Light Houses and Shipping to Ports and Development Fund. The provision made for transfer was less than the actual collection. The excess was also due to entire GOI grants (received on the last day of March 2017) credited to Consolidated Fund of the State towards Central Road Fund was transferred to the Deposit Account of subvention from Central Road Fund under Public Account; and

- The excess under Grant No.29 – Debt Servicing was due to the provisions for discharge of debts, not being made scientifically based on requirement of funds, but made as per the actuals of previous years, without consultation from the beneficiary departments of such loans, assistance from the funding agencies.

Excess of expenditure over appropriation was in contravention to the provisions requiring Legislative sanction and was indicative of bad planning.

2.3.3 New Service/New Instrument of Service

Article 205 of the Constitution provides that expenditure on a 'New Service' not contemplated in the Annual Financial Statement (Budget) can be incurred only after its specific authorisation by the Legislature. The Government issued orders in August 2015 based on the recommendations of the Public Accounts Committee in its Fourth Report (Fourteenth Assembly), exempting certain items of expenditure for which 'New Service' criteria shall not be applicable and also prescribed the criteria, for treating the expenditure as "New Service'. The revised criteria for 'New Service' became effective from the financial year 2015-16. As per the above order, the cases already provided for and approved by the Legislature but where the expenditure is subsequently expected to exceed the amount originally provided in the budget will not be treated as 'NEW SERVICE', provided the increase over the actual provision does not exceed twice the provision or ₹5 crore, whichever is more.

During the year 2016-17, in five cases, involving five grants, excess expenditure amounting to ₹124.12 crore, which should have been treated as 'New Service/New Instrument of Service', was incurred without the approval of the Legislature as shown in **Table 2.6**.

Table 2.6: Cases of New Service/New Instrument of Service

(₹ in crore)

Sl. No.	Grant No./ Nomenclature	Head of Account	Total Grant	Expendi-ture	Excess
1	01-Agriculture and Horticulture	2851-00-797-0-01-261 Inter-account Transfers	0.00	37.12	37.12
2	02-Animal Husbandry and Fisheries	2405-00-195-0-01-106 Subsidies	1.00	6.97	5.97
3	07-Rural Development and Panchayat Raj	2215-01-001-1-03-003 Pay-Staff	10.73	36.62	25.89
4	14-Revenue	2235-60-102-1-03-059 Other Expenses	24.00	74.00	50.00
5	22-Health and Family Welfare	4210-03-105-1-02-386 Construction	2.31	7.45	5.14
Total					**124.12**

Source: Appropriation Accounts

In reply (December 2017), the Finance Department accepted the audit observations at serial numbers (1), (3) and (5) and in respect of (2) and (4) above, it was stated that the re-appropriation orders were issued to cover the excess expenditure. However, as the re-appropriation orders issued involved criteria of 'New Service', the same were rejected by the office of AG(A&E).

2.4 Scrutiny of Budget Estimates and Supplementary Estimates for the year 2016-17

2.4.1 Errors in budgeting

2.4.1.1 Misclassification between 'Capital' and 'Revenue' section

- During 2016-17, an expenditure of ₹5.57 crore was classified under the Revenue Section (2210-01-110-1-21-147 – 'Land and Building') towards payment to the land owners as compensation for land acquired, for construction of Hospital at Koppal. Since the amount was towards the acquisition of Land, as per Finance Department Circular (15.01.2013), the expenditure in respect of acquisition of land was to be classified as 'capital', as land is an asset. The classification under revenue was incorrect which had the effect of distorting the fiscal indicators *viz.*, revenue surplus. The Finance department while accepting the audit observation, stated (October 2017) that steps were being taken to issue circular instructions for the FY 2017-18 to shift such provisions, if any, under revenue to capital;

- During the year, an amount of ₹19.11 crore was released as grants for four Farm Universities in Karnataka, under the Head of Account 4401-00-800-1-05/06/03/02 – NABARD works, on the concurrence of the Finance department. As this amount was given as grants-in-aid to the Universities, the release made under the capital head 4401 was not in order in the light of IGAS - 2, which stipulates that the grants-in-aid disbursed by a grantor to a grantee, shall be classified and accounted for as revenue expenditure in the financial statements for the grantor (Government), irrespective of the purpose for which, the funds are disbursed. Hence, the booking of expenditure resulted in inflation of capital expenditure;

- Mention was made in the previous reports (Para 2.8.2.9/AR 2014-15 and 2.4.1.1/AR 2015-16) on State Finances that budget provisions were made under capital section for incurring expenditure on salaries instead of revenue account. In the year 2016-17 also, salaries amounting to ₹13.23 crore were booked under the capital account (Major Heads 4700, 4701 and 4711). This inflated the capital expenditure and suppressed revenue expenditure as also expenditure on salaries under revenue account; and

- Mention was made in para 2.6.3.5 of the report on State Finances for the year ending March 2012, wherein it was observed that payment of Haulage charges made under the capital head through the funds released to Karnataka State Tourist Development Corporation was for meeting the revenue expenditure. During the year 2016-17, it was observed that an amount of ₹7.78 crore was drawn under the capital head of account

5452-03-101-05-132 – Capital Expenses and paid to Karnataka State Tourist Development Corporation towards payment of Haulage charges of Golden Chariot train to Railways. This resulted in overstatement of Capital Expenditure to that extent.

While accepting the audit observation, the Finance Department (December 2017) stated that by issuing internal circulars in 2013 and 2017, such cases came down. It also stated that however, concerned sections were instructed not to repeat this in 2018-19.

2.4.1.2 Misclassification between 'voted' and '*charged*' sections while budgeting

A comment was made in the AR 2015-16 (Para 2.4.1.2) regarding the misclassification while budgeting between 'voted' and '*charged*' sections which was rectified in the Supplementary Demand. During the year 2016-17 also, it was noticed that in six cases, provisions were made under voted category, instead of *charged* under Revenue/Capital sections as detailed in **Table 2.7** amounting to ₹5.61 crore which was rectified in Supplementary Demand – I for the year. It was replied (April 2017) that this was due to a technical snag, which went unnoticed during peak budgeting work and that in future, a system would be put in place to ensure such errors do not recur.

Table 2.7: Misclassification between voted and *charged*

(₹ in crore)

Sl. No.	Demand No	Head of Account	Provision
1	4 – Department of Personnel and Administrative Reforms	2012-03-102-0-00-103 Grants-in-aid General	0.35
2		2014-00-102-0-02-103 Grants-in-aid General	0.01
3		2014-00-102-0-03-059 Other Expenses	0.41
4		2014-00-102-0-09-059 Other Expenses	0.23
5		2014-00-102-0-10-059 Other Expenses	0.11
6	19 – Urban Development	4217-60-800-3-01-240 Debt Servicing	4.50
Total			**5.61**

Source: Supplementary Estimates

2.4.1.3 Error in budgeting due to non-provision for transfer of Market Fees/License Fees

Karnataka Silk Worm Cocoon and Silk Yarn Development and Price Stabilisation Fund was created for the purpose of stabilising the prices of cocoons and silk yarn and for the development of rearing of silk worm seed, reeling and twisting of silk yarn and connected therewith. The Fund is credited with all the moneys received by way of Market Fees/License fees and contribution made by the Government. During the year 2016-17, an amount of ₹37.12 crore was collected as License fees/Market fees under the revenue receipt head 0851 in the Consolidated Fund which was to be transferred to the fund in Public Account by operating revenue expenditure head. However, it was noticed that the provision for transfer of revenues to the Public Account was not made in the budget. The expenditure was booked under the revenue head and the same was transferred to the fund account resulting in expenditure without provision, as also attracting the criteria fixed for New Service /New Instrument of Service.

2.4.1.4 Incorrect provision made under Major Heads of Account

- Provision of ₹223.87 crore was erroneously made under the major head 2401-Crop Husbandry-Commercial Crops-Horticulture Department-PMKSY-National Mission on Sustainable Agriculture-Other Expenses instead of under Major head 4401- Capital Outlay on Crop Husbandry – Other Expenditure- Agriculture University- Micro Irrigation Installation – Horticulture-NABARD works and a token provision was made under 4401- Capital outlay on Crop Husbandry in the Supplementary Estimate (III instalment). However, the expenditure was transferred to the capital head 4401 resulting in excess expenditure under the head;
- Provision of ₹15.00 crore was erroneously made under the major head 4860-Capital Outlay on Consumer Industries –Sugar - Investment in Public Sector and Other Undertakings – MYSUGAR -investment and a token provision was made under 6860- Loans for Consumer Industries-Sugar-Investment in Public Sector and Other Undertakings-Working Capital Assistance and Soft Loans – Mysore Sugar Company – Loans, for transfer of expenditure from the former head to the latter head in the Supplementary Estimate-I. However, the expenditure was booked under the latter head of account, which resulted in excess expenditure over the provision under the loan head. Finance Department in its reply (July 2017) stated that such occasions arise only on unforeseen circumstances and steps will be taken to avoid it in future to the extent possible;
- A provisions of ₹0.10 crore was provided in Grant No.29 under the major head 2049 - Interest Payments for payment of interest on compensation bonds instead of under major head 2075-Miscellaneous General Services contrary to the instruction contained in note (1) below major head 2049 in the LMMH;
- In the Supplementary Estimate-III (Grant No.29), under the head of account 2049-60-101-1-00-240 Debt Servicing, a provision of ₹0.88 crore was erroneously made under voted category being interest on delayed refunds of Sales Tax/VAT by Commercial Tax Department. However, under the Demand No.3- Finance, a token provision was taken under the head of account 2020-00-108-0-01-059 stating that the interest on delayed refunds on Sales Tax obtained under the major head 2049 would be shifted. The provision made under the functional major head - 2020 for transfer of interest on delayed refunds was incorrect as it relates to the sub sector (a) below Sector A-Taxes on Income and Expenditure and not sub-sector (c)-Taxes on Commodities and Services from where interest on delayed refunds was proposed to be made. In reply, (May 2017) the department stated that the observation made were noted and necessary action would be taken in future; and

- As a general rule, the classification of transactions in Government Accounts, shall have closer reference to the function, programme and activity of the Government. Due to rationalisation of heads of accounts and aligning the activities of the department to the demand in the year 2003-04, all the activities connected with the department are brought under 29 demands for grants. Contrary to this practice, it was noticed that the provisions/expenditure of ₹25.06 crore relating to the activities connected with functional major head 2205 – Art and Culture were made/incurred under the functional major head 2202 – Education. The department, while accepting the observation, replied (May 2017) that the action will be initiated to change head of account to 2205 – Art and Culture and that further development will be intimated in future course after consultation with the Finance Department. Further, it was also observed that provision/expenditure of ₹0.54 crore relating to the activity connected with the functional major head 2852 – Industries for dealing with Industrial Education, Research and Training, was made under 2202 – Education resulting in erroneous budgeting. The department in its reply stated (May 2017) that suitable action will be taken to provide grants under the respective major heads relating to Industries and Commerce after consultation with Finance Department.

2.4.1.5 Incorrect provision made under Minor Heads

According to the instructions contained in Para 3.10 of LMMH, recoveries of over payments made during the same financial year shall be recorded as reduction of expenditure under the concerned service heads. Recoveries of overpayments pertaining to previous year(s) shall be recorded under distinct minor head '911 – Deduct - recoveries of overpayments' below the concerned Major head/sub-major head without affecting the gross expenditure under the functional major/sub-major head.

On a scrutiny of budget estimate for the year 2016-17, it was noticed that apart from the fund transactions for which deduct entry made in the budget under the minor head 902 - Amount met from (name of the Reserve Fund/Deposit Account), it also had provisions relating to recoveries of overpayments relating to previous years of Zilla Panchayat and Taluk Panchayat under the Grant No 17, 22 etc., where there are no fund transactions, which was erroneous. In reply to audit observation, the Finance Department issued errata (March 2017/December 2017) stating that the in such cases, the Minor Head '902' may be read as '911'. It also stated that this minor head is operated only by FD since departments do not submit budget under this minor head. The reply is not satisfactory as accounting of transactions of excess release of earlier years as recovery of over payment is inconsistent with the provision of LMMH mentioned above.

2.4.1.6 Errors in classification

The budget/expenditure suffered on account of operation of incorrect budget lines for release and accounting of ULB grants at the object level of classification. Distinct heads were to be opened for accommodation of budget/expenditure of the ULB sector. Such details which are to be shown distinctly in a separate budget document are discussed below in **Table 2.8**.

Table 2.8 Details of errors in object level of classification

Item of expenditure	Amount involved (₹ in crore)	Remarks
Pension and other Retirement Benefits	12,486.41	This expenditure included grants released to ULBs for payment of pension (₹54.94 crore), which are not in the nature of pensions paid to Government Servants, to be accounted under Consolidated Fund of the State.
Consolidated Salaries	853.88	This object head is intended for recording the salary expenditure of only Constitutional dignitaries, but has included releases made to ULBs for payment of salary (₹816.48 crore)
Maintenance	2,729.40	This includes releases made to ULBs for maintenance expenditure of (₹949.52 crore).

Source: Finance Accounts

Though this was pointed out in earlier Audit Reports, corrective action was not initiated.

In reply to SFR 2012-13, the Finance Department stated that the object head with respect of ULBs though being the same did not figure in the State section of accounts as the budget heads in the link document of ULBs were not captured under the State Sector. The reply is not tenable as the bills are submitted by the DDOs of the ULBs and the amount drawn from the treasury, the same amount is booked under the same functional object heads as revealed in Statement -4 B. Expenditure by nature of Finance Accounts.

2.4.1.7 Incorrect budgeting

A provision of ₹7.64 crore was provided in the Supplementary Estimate – I for the year 2016-17 under the head of account 2040-00-101-0-10-100 – Financial Assistance for re-imbursement of cane purchase tax and road cess paid by the 12 sugar factories in South Karnataka for the period 01.04.2013 to 21.11.2013. As the sugar factories already paid the purchase tax and road cess for the above period, which formed the tax revenue for that year (2013-14), refund of the amount by making provision in the Supplementary Estimate – I was incorrect. In this circumstance, the correct procedure was to reimburse the money through executive order by following the normal procedure for refund of excess tax paid, as tax expenditure. The Government, on the request of Commercial Tax Department, issued orders (October 2016) for refund of ₹7.48 crore, which was refunded during November 2016.

The department in its reply (August 2017) stated that the issue involved was procedural error due to provision in the supplementary estimate and there was no financial implication as the adjustment carried out in the Books of Accounts was also withdrawn and the provision was treated as surrendered to Government.

However, the fact remains that the provision made in the SE-I was unnecessary and erroneous, which resulted in overstatement of budget provision.

2.4.1.8 Erroneous provision relating to adjustment of Guarantee Commission to Guarantee Reserve Fund

The XII Finance Commission (2005-10) in its Paragraph 12.60 recommended that States should set up Guarantee Redemption Fund through earmarked guarantee fees, which should be preceded by risk weighting of guarantees. The quantum of contribution to the fund should be decided accordingly.

In the Reports on State Finances from 2008-09 onwards, the deviation in the accounting procedure followed with regard to the guarantees discharged due to its invocation by the lenders were commented. With regard to setting up of Guarantee Reserve Fund through earmarked guarantee fees, the Finance Department stated that it would be considered at appropriate stage and that the recommendations of the commission are not binding on the State for setting up of a Fund. With regard to the risk based weighting of guarantees, it was stated that there was no specific policy on guarantees and that one brought out by GOI was under examination.

During the year 2016-17, ₹67.19 crore was made under Demand No.3 in the Supplementary Estimate-I for transfer to Guarantee Reserve Fund already created under Public Account (1999-2000). In the explanatory note, it was stated that the AG would be requested for transfer based on the executive order being issued in due course. However, it was observed by AG (A&E) that this amount pertains to outstanding amount of principal and interest in respect of six[7] corporations and was not in consonance with the recommendations of XII Finance Commission and was also in contrary to the general directions under LMMH, which states that reserve funds are to be used for transferring the intended receipts only.

In reply to the issue raised by AG (A&E), the FD stated that the matter would be considered during 2017-18.

Thus, the provision of ₹67.19 crore made for transfer to Guarantee Reserve Fund through accounting adjustment was not in order and resulted in erroneous budgeting.

2.5 Errors in budgeting under the Fund Accounts

Infrastructure Cess collected under tax revenues is assigned to various Fund Accounts in Public Account (IIF, BMRCL Fund and CMRRD Fund) through accounting adjustment by treating the transaction as Consolidated Fund expenditure. Similarly, the expenditure against revenue/capital heads in respect of fund accounts, initially accounted for under the Consolidated Fund is

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[7] The Karnataka State Co-operative Marketing Federation Limited (₹25.27 crore), BWSSB (₹16.68 crore), Karnataka Minorities Development. Corporation (₹6.64 crore), Karnataka Maharshi Valmiki Scheduled Tribes Development Corporation (₹3.69 crore), D. Devaraj Urs Backward Class Development Corporation (₹5.86 crore) and Dr. B.R. Ambedkar Development Corporation (₹9.05 crore).

withdrawn and transferred to the Public Account through accounting adjustments at the end of the year.

A comment was made vide Paragraph 2.5 of the Report on State Finances for the year ending 2015-16, bringing out the mismatch between the anticipated collection of cess and the provision made for transfer of expenditure. During the year 2016-17, ₹1,101.24 crore was anticipated as collection of cess, which was to be apportioned in the ratio of 57:28:15 among IIF, BMRCL and CMRRD funds respectively. As against this amount, provisions of ₹617.73 crore was made under MH 5465(IIF), ₹1,000 crore was made under MH 6217 (BMRCL) and ₹312.56 crore was made under the Major Head 3054(CMRRD), aggregating to ₹1,930.29 crore in the budget for its transfer to the fund account. Hence, there was a mismatch between anticipated collection and the provision made for expenditure by transfer, which resulted in the excess provision of funds to the extent of ₹829.05 crore.

In reply, the Finance Department stated (December 2017) that the transfer to the fund may also be made from the general revenues of the budget if the fiscal condition is favourable. Therefore, it was incorrect to state that there was an excess provision of funds to be transferred in the cases mentioned.

The reply of the department is not justifiable as the audit comment was with regard to the collection of cess and the provision made for transfer of the related expenditure, which were not in the ratio prescribed for transfer.

2.6 Lack of transparency in Provisioning-Budget Operation of Omnibus Object Head 059-Other Expenses

Provisions/expenditure in Government Accounts are classified according to Sector/Sub-sector/Function/Sub-function/Programme/Detailed/Object head using 15 digit classifications. Expenditure classifications as per 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 classifications 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 provisions/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.

During 2016-17, on a scrutiny of vouchers relating to seven departments, it was noticed that an expenditure of ₹1,265.77 crore was wrongly classified under the object head "059-Other Expenses" instead of under the relevant objects heads, *viz*., 015-Subsidiary expenses, 102 – Grants-in-aid – General, 103 - Grants-in-aid – Asset creation, 106-Subsidy, etc. the details of such misclassification are detailed in **Appendix 2.3**. In reply, the Health and Family Welfare Department stated (September 2017) that from next year, the remuneration paid to Asha and Anganwadi Workers would be provided under '015- Subsidiary expenses'. The Department of Agriculture and Horticulture, in its reply stated that the suggestion made by audit is acceptable and in future, budgeting under New Crop Insurance provided for farmers would be made under 106 – Subsidy. The Finance department, in its reply regarding payment of remuneration to personal staff on contract made under 059 – Other Expenses, stated that the same was set right during 2017-18 by opening a new object head '034 – Contract/Outsource' and currently the payment was being made under the above mentioned head of account.

2.7 Financial Accountability and Budget Management

2.7.1 Appropriation *vis-a-vis* allocative priorities

There were 22 cases of unspent provisions, each exceeding ₹100 crore and above under 16 grants/appropriation, which aggregated to ₹12,628.06 crore during 2016-17. Large unspent provisions were in areas of Rural Development and Panchayat Raj, Finance, Urban Development, Education, Water Resources, and Debt Servicing as indicated in **Table 2.9**.

Table 2.9: Grants/appropriations with unspent provisions of ₹100 crore and above

(₹ in crore)

Sl. No.	Grant/Nomenclature	Provisions			Expenditure	Unspent provision and it's *per cent*
		Original	Suppleme-ntary	Total		
1	01 - Agriculture and Horticulture Revenue – Voted	5,375.75	965.85	6,341.60	5,687.63	653.97(10)
2	03 - Finance Revenue - Voted	19,385.38	102.01	19,487.39	16,458.91	3,028.48(16)
3	04 – Department of Personnel and Administrative Reforms Revenue – Voted	595.49	64.42	659.91	516.76	143.15(22)
4	07 - Rural Development and Panchayat Raj Revenue- Voted Capital – Voted	10,934.34 2,084.02	2,024.81 1.84	12,959.15 2,085.86	12,655.27 1,242.94	303.88(2) 842.92(40)
5	*08 - Forest, Ecology and Environment* *Revenue Charged*	*300.19*	*0.32*	*300.51*	*154.17*	*146.34(49)*
6	10 – Social Welfare Revenue – Voted Capital – Voted	6,897.01 2,441.20	182.20 41.22	7,079.21 2,482.42	6,906.70 2,243.23	172.51(2) 239.19(10)
7	11 – Women and Child Development Revenue – Voted	4,335.14	34.36	4,369.50	4,182.98	186.52(4)
8	13 – Food and Civil Supplies Revenue – Voted	2,090.48	21.74	2,112.22	1,941.69	170.53(8)
9	16 - Housing Revenue - Voted	3,579.17	75.00	3,654.17	3,394.66	259.51(7)
10	17 – Education Revenue - Voted Capital – Voted	21,233.55 790.53	66.08 377.23	21,229.63 1,167.76	20,432.31 1,060.06	867.32(4) 107.70(9)
11	19 – Urban Development Revenue – Voted Capital – Voted	8,744.08 4,348.58	487.06 438.20	9,231.14 4,786.78	8,558.00 3,448.10	673.14(7) 1,338.68(28)
12	20 – Public Works Capital – Voted	5,458.18	2,384.79	7,842.97	7,310.07	532.90(7)

Sl. No.	Grant/Nomenclature	Provisions			Expenditure	Unspent provision and it's *per cent*
		Original	Suppleme-ntary	Total		
13	21 – Water Resources Revenue – Voted Capital – Voted	 1,001.38 9,493.47	 23.00 159.67	 1,024.38 9,653.14	 905.22 8,400.17	 119.16(12) 1,252.97(13)
14	23 - Labour Revenue – Voted	 897.04	 23.63	 920.67	 809.30	 111.37(12)
15	26 - Planning, Statistics, Science and Technology Revenue – Voted Capital – Voted	 795.37 1,020.49	 0.63 0.00	 796.00 1,020.49	 626.35 894.83	 169.65(21) 125.66(12)
16	*29 - Debt Servicing* *Revenue charged*	 *13,206.54*	 *118.32*	 *13,324.86*	 *12,142.35*	 *1,182.51(9)*
Total		**1,25,007.38**	**7,592.38**	**1,32,599.76**	**1,19,971.70**	**12,628.06 (10)**

Source: Appropriation Accounts

Major heads of accounts, under which the unspent provisions including re-appropriation amount was more than ₹25 crore, are detailed in **Appendix 2.4**.

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

Finance

Unspent provision of ₹149.71 crore under the Major Head 3475 – Other General Economic Services –Transfer to Reserve Funds and Deposits Accounts – Transfer of Cess to the Infrastructure Initiative Fund – Inter-account transfers was due to actual collection of Infrastructure Cess less than the estimated receipts that required to be transferred to Reserve Fund under the Public Account.

Unspent provisions of ₹67.19 crore under the Major Head 3475- Other General Economic Services – 800 Other Expenditure – Contribution to Guarantee Reserve Fund was due to revision of Guarantee Redemption amount, which is being adjusted during 2017-18.

Unspent provision of ₹7.64 crore under the head 2040 – Taxes on Sales, Trade etc., - Collection charges- Reimbursement of Cane Purchase Tax and Road Cess was due to erroneous budgeting made for refund of cane purchase tax and road cess to 12 sugar factories.

Rural Development and Panchayat Raj

Unspent provision of ₹10.50 crore under 2515 – Other Rural Development Programme – Panchayati Raj –RDPR Computerization – Other expenses was due to lack/want of sufficient time for purchase of Computer parts from Gemportal.

Education

Unspent provision of ₹14.87 crore under the MH 2202-General Education - Elementary Education-Government Primary Schools-Students Motivation Initiatives, was due to wrong budgeting under the head as funds could not be spent to High schools and PU colleges from this head.

Unspent provision of ₹15 crore under Major Head 2202 - General Education - Elementary Education-Teachers and Other services – Quality Assurance Initiatives, was due to wrong budgeting under the head as funds could not be spent to High schools and PU colleges from this head.

Unspent provision of ₹24.48 crore under the Major Head 2202-General Education-Secondary Education- Government Secondary Schools- Opening of Schools for Girls was due to implementation of the scheme in 2016-17 by utilising funds released to SSA Society during the earlier years.

Urban Development

Unspent Provision of ₹36.01 crore under the Major Head 2217 – Urban Development – Other Urban Development Schemes – Other Expenditure – Housing for All – Urban, was due to non-receipt of proposal for release of funds from the Directorate of Municipal Administration.

Unspent Provision of ₹55.08 crore under the Major Head 2217- Urban Development – General – Direction and Administration – Municipal Administrative Service, was due to vacant posts not filled during the financial year.

Unspent Provision of ₹5 crore under the Major Head 2217 – Urban Development – Other Urban Development Schemes - General – Other Expenditure –Support for KMRP Projects-grants for creation of capital assets, was due to non-receipt of proposal for release from KUIDFC.

Unspent Provision of ₹76.99 crore under the Major Head 2217 – Urban Development – Other Urban Development Schemes – Other Expenditure – Swaccha Bharat-Other expenses, was due to non-receipt of proposal for release of funds from the Directorate of Municipal Administration.

Unspent provision of ₹76 crore under the Major Head 4217 – Capital outlay on Urban Development-Other Urban Development Schemes-Other Expenditure-Bangalore Sub-Urban Rail System- Grants for creation of capital assets, was due to non-issue of policy guidelines for Sub-Urban Rail Project by the Ministry of Railways.

Public Works

Unspent provision of ₹80.55 crore under Major Head '2059'-Public Works-General- Other Expenditure- Administration of sand mining – General Expenses, was due to delay in calling tenders for sand mining.

Unspent provision of ₹8.66 crore under the Major head '3054'- Roads and Bridges-State Highways – Bridges - Maintenance of State Highway bridges, was due to sanction of tender less than the actual estimate.

Unspent provision of ₹17.18 crore under the Major Head 5051 – Capital Outlay on Ports and Light Houses - General- Sustainable Coastal Protection and Management – EAP – Capital Expenses, was due to the tendering process was in progress.

Unspent provision of ₹60.04 crore under the Major Head 5054 - Capital Outlay on Roads and Bridges - State Highways – Road Works - Karnataka State Highway Improvement Project (KSHIP) EAP –II(ADB) – EAP – Roads, was due to non-receipt of bills on time.

Water Resources

Unspent provision of ₹30.85 crore under the Major Head 4702-Capital Outlay on Minor Irrigation –Surface Water- Unspent SCSP-TSP amount as per SCSP-TSP Act, was due to non-approval of works by Technical Advisory Committee.

Unspent provision of ₹65 crore under the Major head 4702-Capital Outlay on Minor Irrigation-Surface water- Lift irrigation schemes, was due to delay in land acquisition.

Unspent provision of ₹198.61 crore under the Major Head 4702-Capital Outlay on Minor Irrigation –Surface Water-Special Component Plan- SCSP, was due to non-approval of works by Technical Advisory Committee.

Unspent provision of ₹81.09 crore under the Major Head 4702 - Capital Outlay on Minor Irrigation – Surface Water - Tribal Area Sub Plan, was due to receipt of approval for estimation of new civil works at the end of the Financial year leading to delay in executing the new civil works.

Health and Family Welfare

Unspent provision of ₹21.71 crore under the Major Head 2210 - Medical and Public Health – Rural Health Services - Allopathy – Other Expenditure - National Health Mission - Other expenses, was due to non-receipt of Government Orders for release of funds.

Unspent provision of ₹10.02 crore under the Major Head 2210 – Medical and Public Health – General – Other Expenditure - Rashtriya Swasthya Bhima Yojana – Other Expenses, was due to non-receipt of release orders from Government.

Debt Servicing

Unspent Provision of ₹192.39 crore under the Major Head 2049 – Interest payments – Interest on Internal debt – Interest on current loans – New Loans of 2015-16 – Debt Servicing, was due to repetitive provision of funds for Debt Servicing of 16 Loans of 2013-14 under this head and also under the distinct line items.

Unspent Provision of ₹292.50 crore under the Major Head 2049 – Interest payments – Interest on Internal debt – Interest on current loans – New Loans of 2016-17 – Debt Servicing, was due to non-availment of Open Market Borrowings in the first half of the financial year.

It was observed that reasons given by the departments in the above cases accounted for only a small fraction of the eventual savings.

PAC, in its 13th Report submitted to the Legislature (December 2011), observed that in order to control over provision/expenditure, unutilised provisions 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. Finance department in its circular dated December 19, 2013 directed all the Administrative department and the Heads of Departments to take appropriate action to surrender the full unspent provisions to Finance Department as soon as it was anticipated without waiting for the year end. However, it was observed in audit that large amounts remained unutilised/un-surrendered, indicating poor quality of control over expenditure, despite PAC recommendations. As the compliance of the executive to the recommendation of the PAC were poor, strict action is required against officers, who are not adhering to the above instructions in the Finance Department's circular.

2.7.2 Persistent Unspent Provision

In one grant, there was persistent unspent provisions of more than ₹100 crore in each case during the last five years, as detailed in **Table 2.10**.

Table 2.10: Persistent unspent provision

(₹ in crore)

Sl. No.	Grant/ Nomenclature Major head	2012-13	2013-14	2014-15	2015-16	2016-17
1	03-Finance (Revenue – Voted)	4,101.04	116.64	489.34	1,215.44	3,028.48
	2070-00-800-11 Filling up of Vacant Post	999.98	500.00	1,181.28	1,250.03	1,575.00

Source: Appropriation Accounts

Reasons for persistent savings in the above grant revealed the following:

- Under the head of account '2070-800-11- Filling up of vacant posts', provisions made remained unutilised. The Finance Department, in its reply (December 2017) stated that the filling up of vacant posts was provided in order to take care of posts that may get filled up during the course of the year. Further, it stated that from 2017-18, some amount would be allocated under the individual demands.

2.7.3 Supplementary Provisions

The supplementary budgets are not 'fiscally neutral' as required by KFRA and commitments of significant amounts are included as a part of the supplementary 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 the original budget. The Government should aim to reduce the number of supplementary Estimate passed through the year to ideally one, as recommended by Fiscal Management Review Committee and limit approvals to a minimum of second installment of Supplementary Estimate.

Supplementary provisions (₹13,955.18 crore) made during 2016-17 constituted eight *per cent* of the original provisions (₹1,72,097.17 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 full 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 2016-17, three installments of Supplementary Estimates (SE) were laid before the Legislature. The statement indicating the supplementary estimates, corresponding curtailment of expenditure and augmentation of revenue are shown in **Table 2.11**.

Table 2.11 Details of curtailment of expenditure, augmentation of revenue, provision for book adjustments in the Supplementary Estimates

(₹ in crore)

	First Supplementary Estimate - 2,916.42	**Second Supplementary Estimate - 3,447.81**	**Third Supplementary Estimate - 7,590.94**
Amount met out of Reserve Funds	606.98	667.33	450.00
Amount covered by Central Assistance	7.00	396.31	816.87
Other receipts	612.04	0.29	342.74
Amount covered by Adjustments	635.17	6.23	0.00
Net cash outgo	**1,055.23**	**2,377.65**	**5,981.33**

Source: Supplementary Estimates

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

2.7.4 Incorrect Supplementary Provision

Out of the funds released for National Rural Drinking Water Programme (NRDWP) over the years, it was noticed that a part remained unutilised with the implementing agencies and remained parked in three banks. The Government constituted a team from State Accounts Department to conduct special audit and investigation including the amount lying unutilised in various banks. It emanated from the special audit that funds to the tune of ₹612.04 crore, including interest, remained in the bank accounts of several scheduled banks. The cabinet in its meeting held on 04.05.2016 decided to get the money remitted to the Consolidated Fund then release the amount again for the purpose of the above scheme. The amount was remitted (receipt head 0515) to Consolidated Fund during May 2016 and the provision for the same amount was made in Supplementary Estimate – I. The action of the Government in obtaining the demand was incorrect as the funds released in earlier years were booked as expenditure to Consolidated Fund and all fiscal indicators of earlier years were worked out accordingly.

The department in its reply (June 2017/December 2017) stated that since the amount was remitted to the Consolidated Fund as per the direction of the Cabinet, there was shortage of funds for committed works and hence provided for through Supplementary Estimate – I.

The reply of the department is not acceptable as it amounts to double provisioning of grant for the same work, thus, resulting in the distortion of fiscal indicators of the current year as well as the concerned previous years.

2.7.5 Unnecessary Supplementary Provision

Supplementary provision of ₹2,047.40 crore made under 16 grants in 15 object heads proved unnecessary (**Appendix 2.5**).

2.7.6 Excessive Supplementary Provision

Supplementary grant of ₹203.82 crore made under 7 object heads relating to 10 grants proved excessive. The resultant unutilised provision in these cases was ₹112.52 crore **(Appendix 2.6)**.

The Finance Department replied (December 2017) that if the supplementary provisions were not made, then it would have definitely resulted in excess expenditure. It was also stated that as the budgeting was an estimating exercise, the expenditure depends on many factors which were administrative in nature. The reply is not justifiable as more than 40 *per cent* of the supplementary provision obtained remained unutilised.

2.7.7 Inadequate Supplementary Provision

Supplementary provision of ₹1,055.39 crore made under nine object heads relating to seven grants proved inadequate. The uncovered excess expenditure in these cases was ₹453.02 crore (**Appendix 2.7).**

2.7.8 Re-appropriation of Funds

A grant or appropriation for disbursement is distributed by functional head/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. 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 utilised in full or will result in unspent provision in the unit of appropriation.

2.7.9 Belated receipt of re-appropriation and surrender orders

The re-appropriation and surrender orders issued by the grant controlling authorities are required to be received in the office of AG(A&E) for incorporation in the accounts before the accounts for the year are closed

(30.06.2017). However, it was observed that six re-appropriation orders involving an amount of ₹33.37 crore in five grants were received after the cut-off date. Similarly, 31 surrender orders involving an amount of ₹395.54 crore in eight grants were received. As the comments in appropriation accounts brings out the reasons for savings/excess as adduced by the executive, it is important that the timelines for sending such orders to the AG(A&E) are adhered to scrupulously.

2.7.10 Unnecessary/Excessive/Insufficient re-appropriation of Funds

In 2016-17, 62 cases of re-appropriation of funds was made injudiciously as compared to 73 cases in 2015-16, resulting either in un-utilised provision or excess over provision in each case **(Appendix 2.8)**, as summarised below:

In 28 cases, the un-utilised provision was not properly assessed as, even after the withdrawal of ₹560.88 crore through re-appropriation, ₹674.87 crore remained un-utilised.

In nine cases, additional funds of ₹81.60 crore, provided through re-appropriation, proved insufficient as the final expenditure exceeded the provision by ₹70.88 crore.

In 22 cases, additional funds ₹497.20 crore, provided by re-appropriation, resulted in overall un-utilised provision of ₹221.95 crore.

In three cases, withdrawal of ₹31.78 crore resulted finally in excess expenditure of ₹21.68 crore.

The Finance department replied (December 2017) that by expecting the savings under a particular head, re-appropriation from that head was made and that if the re-appropriation was not done, it would result in further excess provision under the head. The reply of the department is not satisfactory as it was observed that there were unnecessary, excessive and insufficient re-appropriations in some heads of account.

2.7.11 Defective Re-appropriation

Article 309, 312 and 315(a) of the Karnataka Financial Code *inter alia* stipulated that no re-appropriation should be made from one grant voted by the Legislature to another such grant, from voted items of expenditure to charged items of expenditure, from capital to revenue and *vice versa* if the re-appropriation statement is not self-balanced and not in the prescribed form (Form No.22A of KFC). During 2016-17, 328 re-appropriation orders for an amount ₹2,456.73 crore were issued of which 49 re-appropriation orders for ₹907.68 crore were not acted upon as they violated the provisions stated above (**Appendix 2.9**).

A scrutiny of the defective re-appropriation orders revealed that in 25 cases involving ₹32.45 crore, there were arithmetical inaccuracies in the statement forming part of re-appropriation, which resulted in their rejections. The administrative departments are required to exercise proper checks before they are submitted to AG(A&E) for acceptance.

For re-appropriation, which are issued with the authority of the Finance Department, it was observed in audit that in five cases involving ₹362.73 crore, the re-appropriation was between revenue and capital heads of account. As the appropriations are obtained separately under revenue, capital, the effect of such orders had the effect of altering the destiny of the demand. Hence they were rejected. Finance department replied that it was done with an intention of creating assets, which was necessary, while the same amount would have become savings under revenue heads. The reply is not acceptable for the reasons stated supra.

It was also observed that the treasury uploaded the re-appropriation order and allowed for withdrawal of sums from the capital head of account. Due to inadequate provisioning under the capital head, the expenditure exceeded the provision, which required regularisation (Demand No.5 – Home and Transport).

As per Para 277 of the Budget Manual, plan provision should not be diverted to non-plan items of expenditure and *vice versa* except with the specific approval of the Government. However, it was observed that re-appropriation orders were issued disregarding the provisions of the budget manual in 04 cases, involving ₹211.04 crore, which was not accepted by the Office of AG(A&E).

While accepting the audit observation, Finance Department stated (December 2017) that to avoid technical mistakes such as self-balancing, incorrect budget provision etc., re-appropriation module is introduced, which will take care of such mistakes and henceforth such mistakes will not occur.

2.7.12 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.

Unspent provision not surrendered

In the case of 18 grants/appropriations, the entire unspent provision, aggregating ₹4,387.13 crore, was not surrendered **(Appendix 2.10)**.

Further, in the case of 29 grants /appropriations, there was only partial surrender and around 85 *per cent* (₹11,994.81 crore) of the total unspent provision (₹14,092.72 crore) was not surrendered (**Appendix 2.11**). Besides, in 15 grants where surrender of funds was in excess of ₹five crore, ₹1,789.36 crore was surrendered on the last two working days of the financial year, indicating inadequate financial control (**Appendix 2.12**).

2.7.13 Substantial surrenders

Out of the total provision of ₹1,305.10 crore in 41 cases, ₹989.89 crore (76 *per cent*) were surrendered, which included *cent per cent* surrenders in 11 cases (₹154.91 crore) (**Appendix 2.13**). These surrenders were stated to be due to non-approval of construction of Oceanarium in Pilikula Nisargadama, the revision of Guarantee Commission amount which would be adjusted during 2017-18, delay in calling of tenders for sand mining, late receipt of guidelines etc.

2.8 Contingency Fund

The Contingency Fund of the State was 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 authorisation by the Legislature, would be undesirable. The fund is in the nature of an imprest and its corpus is ₹80 crore. Fund drawn out of Contingency fund are subsequently recouped to the fund through supplementary provisions.

During the year 2016-17, an amount of ₹7.64 crore was released from Contingency Fund, which was recouped to the fund account subsequently through supplementary provision.

2.9 Outcome of review of selected grants

A review on Budgetary Procedures followed and Methodology employed for control over expenditure in respect of two selected grants over a three-year period from 2014-15 to 2016-17 showed the following:

2.9.1 Grant No. 11- Women and Child Development

2.9.1.1 Introduction

The Department of Women and Child Development is entrusted with the objective of promoting social, economic and political empowerment of women through various policies and programme, mainstreaming gender concerns, creating awareness about their rights and facilitating institutional and legislative support for enabling them to develop to their full potential. Also, to ensure, all children in the State to be provided with care and protection that is required for a safe and healthy childhood, thereby laying the foundation for holistic development through various policies and programme.

2.9.1.2 Budget and Expenditure

The overall position of the budget provision, actual disbursements and savings under the functional heads of the grant below Revenue and Capital for the last three years is brought out in **Table 2.12**.

Table 2.12: Budget and Expenditure

(₹ in crore)

Year	Section	Budget Provision	Total	Expenditure	Unutilised Provision and its percentage
2014-15	Revenue-Original (V)*	3,571.94	3,758.77	3,464.08	294.69(8)
	Supplementary	186.83			
	Capital-Original (V)	98.65	118.90	70.17	48.73(41)
	Supplementary	20.25			
2015-16	Revenue-Original (V)	4,164.32	4,213.20	4,007.50	205.70(5)
	Supplementary	48.88			
	Capital-Original (V)	67.66	87.52	76.30	11.22 (13)
	Supplementary	19.86			
2016-17	Revenue-Original (V)	4,335.14	4,369.50	4,182.98	186.52 (4)
	Supplementary	34.36			
	Capital-Original (V)	161.65	189.65	139.74	49.91(26)
	Supplementary	28.00			

Source: Appropriation Accounts

**V – Voted.*

During 2014-15 to 2016-17, under the Revenue section, the deviation of unutilised provisions ranged between 4 and 8 *per cent*, in case of Capital section, the percentage of deviation was between 13 and 41 *per cent.*

2.9.1.3 Budget Revenue and Capital

The budget presented to the Legislature is further bifurcated into Revenue and Capital, Plan and Non-Plan in the detailed demand for grants. The bifurcation of provision/expenditure during the period 2014-15 to 2016-17 under Revenue/Capital is given in **Table 2.13 and Table 2.14**.

Table 2.13: Revenue

(₹ in crore)

Year	Budget including Supplementary		Expenditure		Deviation in Percentage	
	Non-Plan	Plan	Non-Plan	Plan	Non-Plan	Plan
2014-15	1,223.14	2,535.63	1,050.35	2,413.73	(-)14	(-)5
2015-16	1,551.69	2,661.51	1,275.13	2,732.37	(-)18	(+)3
2016-17	1,686.23	2,683.27	1,387.79	2,795.19	(-)18	(+)4

Source: Grant Register.

As can be seen from the **Table 2.13**, the percentage of the deviation was between 14 and 18 *per cent* under non-plan. In respect of plan expenditure, the deviation ranged between 3 and 5 *per cent*.

Table 2.14: Capital

(₹ in crore)

Year	Budget Including Supplementary		Expenditure		Deviation in Percentage	
	Non-Plan	Plan	Non-Plan	Plan	Non-Plan	Plan
2014-15	0	118.90	0	70.17	0	(-)41
2015-16	0	87.52	0	76.30	0	(-)13
2016-17	0	189.65	0	139.74	0	(-)26

Source: Grant Register.

As seen from **Table 2.14**, the percentage of deviation ranged between 13 and 41 *per cent* under capital section. The savings under the capital section was mainly under construction of Anganawadi Buildings – NABARD Works due to partial utilisation of the budget allocation. In reply, the department stated (November 2017) that follow-up action will be initiated to spend the released grants in full and within the financial year.

2.9.1.4 Role of Internal Financial Advisor (IFA)

Government appoints an Internal Financial Advisor for a Department or a Group of Departments in consultation with the Finance Department. As per Notification issued (July 1982), IFA is responsible for ensuring that the budget estimates are properly framed, the time schedule is scrupulously followed, and to examine and advice for all new schemes of new expenditure etc. The inputs of IFA in Secretariat's decision making process, are to examine and advise on all issues having an impact on the department's budget having financial implication of a short, medium or long term nature. He will render advice on financial prudence, preparation of department budget, tracking audit reports and action taken reports and the items covered in the Government of Karnataka

Rules and circulars/orders issued from time to time. During the review of departmental records, it was noticed that the files were not submitted to the Internal Financial Advisor for scrutiny and formulation of budget proposals in accordance with the instructions issued.

In reply (September 2017) the department stated that it would follow protocol issued in Notification dated 15 July 1982, in respect of consultation with Internal Financial Advisor for ensuring of the preparation of budget and matter connected therewith.

2.9.1.5 Non-release of Government of India grants to Sneha Shivir Scheme

Sneha Shivir is a new scheme introduced in the year 2014-15, in which, 4-5 anganwadi centers in a cluster are selected and parents and caregivers of severely and moderately malnourished children are given training for twelve days in preparation of nutrition food, feeding practices, health and hygiene.

This scheme is a Centrally Sponsored Scheme with a sharing pattern of 75:25 between Centre and State. The Guidelines for the scheme were issued during 2013-14. For the year 2014-15, an amount of ₹4.24 crore was allocated for this scheme, out of which, the GOK's share of ₹1.06 crore was released in anticipation of receipt of GOI's share. An expenditure of ₹0.58 crore was incurred towards training programme. The share of GOI was not received in spite of reminders to the Ministry of Women and Child Development.

Further, it was seen that though the provision for ₹1.06 crore (State's share) was made during 2015-16 and 2016-17, no amount was released and the scheme was not implemented. The action of the department to make provisions of ₹1.06 crore each year was not correct, as the provision could have been made after the receipt of Union Government funds in the supplementary estimates.

The department in their reply (August 2017) stated that the State Government made provision of ₹4.24 crore in the budget for 2014-15 towards the scheme and released an amount of ₹1.06 crore. It also stated that the provisions for 2015-16 and 2016-17 was made in anticipation of release of budget grants by GOI, which was not received.

2.9.1.6 Delay in submission of action plan to Union Government - Multi Sectorial Nutrition Programme

A Centrally Sponsored Scheme *viz*., Multi Sectorial Nutrition Programme was proposed by the Government of India with a sharing pattern of 75:25 to address the maternal and child under nutrition in 200 high burden districts under National Nutrition Mission. The GOI released ₹0.08 crore as an advance to the State Government for setting up of District Nutrition Councils and for preparation of District Nutrition Action Plans. However, it was noticed that the State Government did not submit the action plan within the stipulated time. Hence, the GOI (July 2014) directed the State Government to refund the amount of ₹0.08 crore released for this purpose. The Finance Department (February 2017) directed the administrative department to refund ₹0.08 crore to the Central Government. However, the amount is yet to be refunded (August 2017).

Hence, the provisions of ₹1.55 crore, ₹0.39 crore, and ₹0.50 crore made for the above scheme from 2014-15 to 2016-17 respectively was unutilised and the scheme, which was intended to address the maternal and child undernutrition was not implemented as there was a delay in submission of action plan by State Government.

2.9.1.7 Non-implementation of Assured Income Scheme for Orphan and Destitute Children Programme

A new scheme *viz*., 'Assured Income scheme for Orphan and Destitute Children Programme' was included in the budget for the year 2014-15 based on the Budget Speech. The scheme was intended to provide with insurance for livelihood security to orphan and destitute children undergoing long term Rehabilitation in the Government Child Homes under Juvenile Act. An allocation of ₹2.50 crore was provided in the budget for the year 2014-15 for this purpose. It was noticed that the implementing agency (Karnataka State Integrated Child Protection Society) submitted the draft guidelines/proposal during November 2014 i.e, after a delay of nearly 8 months. The budget provision made during 2014-15 was unutilised as the guidelines for the scheme, financial concurrence and the approval of the planning department were not obtained.

During the years 2015-16 and 2016-17, provision of ₹0.50 crore and ₹0.24 crore respectively was made in the budget. However, it was noticed that no expenditure was incurred. The financial concurrence was obtained during May 2016 and the planning department suggested some modification to the draft guidelines submitted by the department. Finally, the department submitted the revised guidelines during April 2017. The Government Order is yet to be issued in this regard.

Hence, due to the delay in formulation and approval of guidelines, the scheme which was to be implemented in the year 2014-15 was not taken up till date (October 2017).

The department in their reply (November 2017) stated that the scheme would be taken up once the Government Order in this regard is issued.

2.9.1.8 Additionality amount not regularised in the Supplementary Estimate – III Instalment

Under the provisions contained in Article 205 (1) of the Constitution, the Governor shall

a) If the amount authorised by any law made in accordance with the provisions of the Article 204 to be expended for particular service for the current financial year is found to be insufficient for the purpose of that year or when a need has arisen during the current financial year for supplementary or additional expenditure upon some new service is not contemplated in the annual financial statement for that year, or

b) If any money is spent on any service during a financial year in excess of the amount granted for that service and for that year, cause to be laid before the House or the Houses of the Legislature, another statement showing the estimated amount of that expenditure or cause to be presented to the Legislative Assembly, a demand for such excess, as the case may be.

During the financial year 2016-17, provision of ₹8 lakh each were made in the budget under the Heads of Account 2235-00-101-0-30-103 – Financial Assistance (2235-02-196-1-03-405 Shivamogga and 410 - Hassan). Further, the Finance Department in its order dated 18 March 2017, approved an amount of ₹19.34 lakh (₹9.67 lakh each) to these districts through additionality order stating that the same would be regularised in the Supplementary Estimate – III instalment. However, it was noticed that this amount was not regularised in the Supplementary Estimate – III, which was placed in the Legislature during the fag end of March 2017. Hence, the excess expenditure incurred was not regularised, which was in contravention to the provision contained in Article 205(1) (b) of the Constitution.

2.9.1.9 Persistent Savings

It was observed that a portion of the budget allocation was unutilised every year under certain heads of accounts during 2014-15 to 2016-17, indicating non-achievement of the projected financial outlays in the respective years. This indicates that the budget allocations were made without considering the previous years' expenditure as required under Paragraph 110 of the KBM, as shown in **Table 2.15**.

Table 2.15: Persistent saving

(₹ in crore)

Sl. No.	Head of Account / Nomenclature	2014-15	2015-16	2016-17
1	2235-02-001-0-01 Directorate of Women and Children Welfare	3.44	2.19	2.83
2	2235-02-101-0-53 NPDRP Programme for Disabled	1.88	1.46	1.77
3	2235-02-101-0-55 Placement Cell for Different Abled	2.43	1.00	2.13
4	2235-02-101-0-99 Welfare of Physically & Mentally Challenged	4.04	5.97	9.73
5	2235-02-102-0-05/ CSS (100 %) Training of Anganwadi Workers and Helpers	13.02	13.61	15.94
6	2235-02-102-0-36 Integrated Child Protection Scheme	18.94	30.84	1.33
7	2235-02-102-0-38 Sneha Shivir	3.18	1.06	4.24
8	2235-02-102-0-40 Maintenance of Anganwadis	12.82	2.84	8.10
9	2235-02-103-0-41	10.54	1.27	1.86

Sl. No.	Head of Account / Nomenclature	2014-15	2015-16	2016-17
	Sthree Shakti - Revolving fund for SHGs			
10	2235-02-103-0-46 Rajiv Gandhi Scheme for Empowerment of Adolescent Girls (SABALA)	3.26	1.27	3.60
11	2235-02-103-0-61 Indira Gandhi Mathruthva Shahayoga Yojane	12.22	8.94	34.49
12	2235-02-104-2-04 Senior Citizen Policy	1.80	1.07	1.55
13	2236-02-197-6-01 Block Grants	202.13	6.08	3.69

Source: Appropriation Accounts

2.9.1.10 Rush of Expenditure

As per paragraph 6 of instruction issued by Finance Department, GOK dated 09 September 2004, regarding releases, drawal and accounting of funds, the Administrative Departments and the Heads of Departments 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 were 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.

It was noticed that the percentage of expenditure during March ranged between 41 and 100 *per cent* during the year 2016-17. The detailed head-wise expenditure is detailed in **Appendix 2.14**.

2.9.2 Grant No. 20 – Public Works

2.9.2.1 Introduction

The Public Works, Ports and Inland Water Transport Department is the Administrative Department and in charge of all matters relating to Public Works, Ports and Inland Water Transport. The department is entrusted with an objective to plan, design, construct and maintain a safe, technically sound and cost effective road network for socio-economic growth of the State; efficient and high quality public buildings and minor ports; and need based inland water transport.

This grant of the Appropriation Accounts, apart from covering the budget and expenditure on functional major Heads on Public works also covers the other functional heads as detailed below:

1. Public Works
2. Other Administrative Services
3. Housing
4. Ports and Light Houses
5. Roads and Bridges

6. Inland Water transport

During the year 2014-17, more than 90 *per cent* of the budget allocation and expenditure was under major Heads 2059-Public works, 3054-Roads and Bridges, 4059-Capital Outlay on Public Works and 5054- Capital Outlay on Roads and Bridges. Owing to the vastness of transactions, the scope of the grant review was restricted to the aforementioned four functional heads.

A review of budgetary procedure and control over expenditure in the Grant No. 20 – Public Works, showed the following:

2.9.2.2 Budget and Expenditure

The overall position of budget provisions, actual disbursements and savings under the functional heads of the grant for the last three years (2014-15 to 2016-17) is detailed in **Table 2.16**.

Table 2.16: Budget and Expenditure

(₹ in crore)

Year	Section	Budget Provision	Total	Expenditure	Unutilised provision/Excess and its percentage
2014-15	Revenue Original(V)*	2,395.48	2,490.08	2,188.89	301.19 (12)
	Supplementary	94.60			
	*Revenue Original(C)**	*0.00*	*26.00*	*19.82*	*6.18(24)*
	Supplementary	*26.00*			
	Capital Original(V)	3,651.84	5,748.15	5,009.88	738.27(13)
	Supplementary	2,096.31			
	Capital Original (C)	*0.00*	*45.00*	*45.00*	*0.00*
	Supplementary	*45.00*			
2015-16	Revenue Original(V)	2,217.10	2,263.27	2,009.86	253.41(11)
	Supplementary	46.17			
	Revenue Original(C)	*26.65*	*26.65*	*17.72*	*8.93(34)*
	Supplementary	*0.00*			
	Capital Original(V)	4,564.89	6,592.25	6,450.82	141.43(2)
	Supplementary	2,027.36			
	Capital Original(C)	*44.00*	*44.00*	*43.61*	*0.39(1)*
	Supplementary	*0.00*			
2016-17	Revenue Original(V)	2,177.26	2,234.19	2,319.69	(+) 85.50(4)
	Supplementary	56.93			
	Revenue Original(C)	*27.50*	*27.50*	*16.76*	*10.74(39)*
	Supplementary	*0.00*			
	Capital Original(V)	5,177.23	7,531.02	7,049.40	481.62(6)
	Supplementary	2,353.79			
	Capital Original(C)	*42.50*	*42.50*	*28.42*	*14.08(33)*

Source: Grant Register

**V – Voted; C - Charged*

During 2014-15 and 2015-16 as a percentage of total provision, under Revenue voted section, unutilised provision was 12 and 11 *per cent* respectively and during 2016-17, there was an excess of 4 *per cent*. Under Revenue *charged* section, the deviation varied between 24 and 39 *per cent* and between 2 and 13 *per cent* under Capital Voted Section and 01 and 33 *per cent* under Capital charged Section.

2.9.2.3 Budget Revenue and Capital

The budget is presented under Revenue and Capital, Plan and Non-plan in the detailed demand for grants. The bifurcation of provision/expenditure during the period 2014-15 to 2016-17 under revenue and capital are given in **Table 2.17 and 2.18**.

Table 2.17: Revenue

(₹ in crore)

Year	Section	Budget including Supplementary		Expenditure		Deviation of Percentage	
		Non Plan	**Plan**	**Non-Plan**	**Plan**	**Non-Plan**	**Plan**
2014-15	Voted	2,152.20	337.88	1,870.22	318.67	13	6
	Charged	*26.00*	*0.00*	*19.82*	*0.00*	*24*	*0*
2015-16	Voted	1968.27	295.00	1,696.15	313.71	14	(+)6
	Charged	*26.65*	*0.00*	*17.72*	*0.00*	*34*	*0*
2016-17	Voted	2,066.55	167.64	1,692.68	627.01	18	(+)274
	Charged	*27.50*	*0.00*	*16.76*	*0.00*	*39*	*0*

Source: Grant Register

As can be seen from the table above, under voted plan section, there was saving of 6 *per cent* during 2014-15 and there was an excess of 6 *per cent* in 2015-16. During 2016-17, the expenditure was in excess of budget allocation due to the provision made (₹171.85 crore) for transfer of subventions to be paid from Central Road Fund to the State for expenditure on road development schemes was less than the actual amount transferred (₹489.63 crore) to the fund account (Public Account).

In respect of non-plan section, the deviation ranged from 13 to 18 *per cent* under voted section and 24 to 39 *per cent* under *charged* Section. It was due to the provision made for debt servicing obligation for the year 2015-16 in respect of the off-budget entity namely, M/s. KRDCL was far more than the actual requirement of funds. It was also noticed that the department was aware of the reduction in rate of interest leading to less requirement of funds for debt servicing. However, the budget was made for the subsequent year disregarding the facts known beforehand. The Internal Financial Advisor replied (October 2017) that the amount of ₹5.65 crore during 2015-16 and ₹9.40 crore during 2016-17 was withdrawn by the Finance Department. The fact, however, remains that the budget prepared was more than the actual requirement of funds.

Table 2.18: Capital

(₹ in crore)

Year	Section	Budget including Supplementary		Expenditure		Deviation of Percentage	
		Non Plan	**Plan**	**Non-Plan**	**Plan**	**Non-Plan**	**Plan**
2014-15	Voted	45.00	5,703.15	0.00	5,009.88	100	12
	Charged	*45.00*	*0.00*	*45.00*	*0.00*	*0*	*0*
2015-16	Voted	0.00	6,592.25	0.00	6,450.82	0	2
	Charged	*44.00*	*0.00*	*43.60*	*0.00*	*1*	*0*
2016-17	Voted	0.00	7,531.02	0.00	7,049.40	0	6
	Charged	*42.50*	*0.00*	*28.42*	*0.00*	*33*	*0*

As seen from the table above, the deviation under Plan (voted) expenditure was between 2 and 12 *per cent*. Under Non-plan (voted), the deviation was 100 *per cent* during 2014-15 due to an error in the budgeting, where the provision was provided under voted section instead of *charged* section, which was surrendered and the provision was obtained under the *charged* section in the supplementary estimate to comply with the amended provision to Section 2 of KFRA Act 2002. The percentage of deviation was 33 *per cent* during 2016-17 under *charged* section due to provision being made far in excess of the required amount for debt servicing obligation in respect of M/s. KRDCL, an Off-budget entity. It was also observed in audit that the budget making exercise was not effective resulting in unnecessary provision of funds thereby inflating the capital expenditure for the year in the budget. The Internal Financial Advisor replied that the provision to the extent of ₹6.80 crore was withdrawn by the Finance Department during the year. However, even after the withdrawal by FD there remained unutilised provision of ₹7.28 crore for which, no tangible reasons were forthcoming.

2.9.2.4 Inclusion of new works without obtaining administrative/technical sanction

Paragraphs 132 and 134 of KBM provides that the Chief Engineers should ensure that new major works which are administratively approved and technically sanctioned are only included in the budget estimates. However, during 2014-15 and 2016-17, out of 3,551 works (budget estimate of ₹7,378.34 crore), 3,366 works constituting 94 *per cent* (budget estimate of ₹6,890.42 crore), which were not administratively approved and technically sanctioned were proposed and included in the budget estimates as detailed in the **Table 2.19** below:

Table 2.19: Details of works included in the budget which are not administratively approved

(₹ in crore)

Year*	Head of Account	Total No. of works	Amount
2014-15	5054	1,687	3,640.74
2016-17	5054	1,705	3,534.75
	4059	159	202.85
Total		**3,551**	**7,378.34**

Source: Appendix-E of PWP &IWTD

**for the year 2015-16, Appendix – E for the new major works was not prepared.*

On this being pointed out, it was replied that only after budget provision and scrutiny of Appendix –E by the Finance Department, administrative approval and technical sanction would be given to fresh works included in Appendix –E. The reply is not acceptable in view of the rule provisions stated above.

2.9.2.5 Lapse of Budget /surrender of savings

According to Paragraph 264 of the Karnataka Budget Manual (KBM) and Article 314 of the Karnataka Financial Code (KFC), all savings anticipated by the Controlling Officers should be reported by them with full details and reasons to the Finance Department immediately after these are foreseen. No amounts out of the savings should be held in reserve for meeting additional expenditure not definitely foreseen or not already approved by the competent authority. This provision was violated as the amount surrendered was lesser/nil than the total unutilised provision. Thus, the instructions contained in the manual were not scrupulously followed by controlling officers. The position of surrender of unutilised provision is brought out in the **Table 2.20**.

Table 2.20: Surrender of unutilised provision

(₹ in crore)

Year	Section	Savings		Amount surrendered	
		Revenue	Capital	Revenue (percentage)	Capital (percentage)
2014-15	Voted	301.19	738.27	0.00(0)	510.39(69)
	Charged	*6.18*	*0.00*	*0.00(0)*	*0.00(0)*
2015-16	Voted	253.41	141.43	132.49(52)	123.08(87)
	Charged	*8.93*	*0.39*	*8.93(100)*	*0.39(100)*
2016-17	Voted	(+)85.50	481.62	218.20	351.06(73)
	Charged	*10.74*	*14.08*	*10.74(100)*	*14.08(100)*

Source: Grant Register

It is seen from the table that the percentage of surrender was between 52 and 100 *per cent* in revenue section and between 69 and 100 *per cent* in capital section.

2.9.2.6 Persistent savings

It was observed that a substantial portion of the budget allocation remained unutilised every year under certain Heads of Accounts during 2014-17, indicating non-achievement of the projected financial outlays in the respective years. This indicates that the budget allocations were made without considering the previous years' expenditure as required under Rule 110 of the KBM, which resulted in persistent savings under the several Heads of Accounts as shown in **Table 2.21** below.

Table 2.21: Persistent Savings

(₹ in crore)

Sl. No.	Head of Account	Savings		
		2014-15	2015-16	2016-17
1	2059-80-053-4-00-200 Maintenance	34.78	29.71	42.69
2	2059-80-800-0-06-051 General Expenses	42.68	78.18	80.55
3	3054-03-102-0-01-200 Maintenance	8.67	2.53	8.66
4	3054-04-105-0-01-200 Maintenance	3.92	1.38	4.53
5	3054-80-190-0-01-240 *Debt Servicing(charged)*	*6.18*	*8.93*	*10.74*
6	5054-04-337-0-01-422 Special Component Plan	10.52	0.87	187.58
7	5054-04-337-0-01-423 Tribal Development Plan	5.84	3.92	72.59
8	5054-04-337-0-84-436 NABARD Works	27.90	72.82	25.12
9	5054-03-337-0-86-172 Roads	274.05	66.51	99.04

Source: Grant Register

In reply the department stated that timely action will be taken to utilise the grants provided in the budget.

2.9.2.7 Rush of Expenditure

As per Paragraph 6 of instructions issued by the Department of Finance, GOK dated 09 September 2004, regarding releases, drawal and accounting of funds, the Administrative Department 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 the percentage of expenditure during March was between 36 and 66 *per cent* during the year 2016-17. The object-head wise details of expenditure are detailed in **Table 2.22**.

Table 2.22: Rush of expenditure

(₹ in crore)

Sl. No.	Head of Account	2016-17		
		Total Expenditure	Expenditure during the last Quarter and its percentage	Expenditure during the month of March and its percentage
1	2059-80-053-4-00-200 Maintenance	302.16	228.86(76)	178.66(59)
2	3054-03-102-0-01-200 Maintenance	39.74	30.48(77)	26.34(66)
3	3054-03-337-0-05-200 Maintenance	305.43	218.25(75)	167.73(55)
4	3054-04-337-1-09-172 Roads	263.16	237.59(79)	126.94(48)
5	3054-04-337-1-10-200 Maintenance	363.76	222.10(61)	138.19(38)
6	4059-80-051-0-32-386 Construction	245.96	82.53(42)	69.54(36)
7	5054-03-101-0-02-132 Capital Expenses	90.30	52.18(58)	50.02(55)
8	5054-80-190-0-01-132 Capital Expenditure	332.00	215.32(65)	215.34(65)

Source: Grant Register

2.10 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 sixty five 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 2016-17, it was noticed that in 151 cases relating to 32 District Treasuries, Public Sector Banks made payments of Family Pension at enhanced rates beyond the period mentioned in the Pension Payments Orders, resulting in excess payment of ₹1.39 crore (**Appendix 2.15**). Further, in respect of 21 District Treasuries, excess payment of ₹0.55 crore was noticed during 2015-16 in 79 cases, despite the excess payments in these cases having been pointed out in earlier years, resulting in cumulative continued excess payments of ₹1.23 crore (**Appendix 2.16**).

Failure on the part of the Banks to monitor/incorporate a validation check to facilitate adherence to the cutoff date for payment of Family Pension at enhanced rates resulted in the excess payments.

To a similar observation brought out in the Report of the State Finances 2015-16, the Government replied (December 2016) that action would be taken to recover the excess amount immediately and instructions were issued to all treasuries to send alert messages to all the bank branches in their jurisdiction, a month in advance to avoid excess payment. However, excess family pension continued during 2016-17 also indicating that the steps taken to prevent excess payment was inadequate.

Further, as the excess amount of ₹1.39 crore was reimbursed to the banks, Government incurred an avoidable loss of interest of ₹0.04 crore (**Appendix 2.17**) that could have accrued, had the amount been invested in 14 days Treasury Bills. (The interest calculated refers to cases pointed out during 2016-17 only and the period is reckoned from the month of issue of Inspection Report to the end of March 2017).

2.11 Conclusion

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

- Against the total provision of ₹1,86,052.34 crore during 2016-17, an amount of ₹1,73,045.02 crore was incurred. This resulted in unspent provision of ₹13,007.32 crore (seven *per cent*). The budgetary exercise should be more rigorous as an amount of ₹45.69 crore was misclassified under the capital/revenue section affecting the fiscal indicators;

- Executive orders for expenditure, prior to approval of the Legislature, were issued for ₹6,057.11 crore forming 43 *per cent* of Supplementary Estimate. Resorting to executive route of incurring expenditure before Legislature's sanction should be the barest minimum and resorted to only in exceptional circumstances as recommended by PAC. Further, the executive orders issued in three cases involving ₹1.03 crore was not regularised subsequently in Supplementary Estimates resulting in excess expenditure of ₹0.44 crore;

- Excess expenditure of ₹2,210.07 crore relating to the period 2012-13 to 2016-17 required regularisation under Article 205 of the Constitution;

- In five cases, involving five grants, excess expenditure amounting to ₹124.12 crore, 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 savings under other demands to make the transaction revenue neutral as required under sub section (5) of Section (6) of KFRA, 2002;
- Supplementary provision of ₹2,047.40 crore in 15 object heads was unnecessary and ₹203.82 crore made under 7 object heads proved excessive;
- Re-appropriation in 62 cases was made injudiciously resulting in either un-utilised provision or excess over provision;
- In 15 grants, ₹1,789.36 crore was surrendered in the last two working days of the financial year; and
- Excess payment of family pension was noticed.

2.12 Recommendation

- ***Budgetary control should be strengthened in all the departments to avoid cases of provision remaining unutilised;***
- ***Scrupulous scrutiny of the budget proposals, rigorous monitoring of pace of expenditure and strict compliance with provisions of Karnataka Budget Manual are essential to eliminate the possibility of excess expenditure. Top priority should be accorded to regularise the excess expenditure from the year 2012-13 by bringing those cases before the PAC;***
- ***Excessive/unnecessary supplementary provision should be avoided;***
- ***The re-appropriation orders should be issued in conformity with the provisions of the Karnataka Financial Code; and***
- ***Validation checks for facilitating adherence to cutoff date for payment of family pension is to be ensured.***