CHAPTER IV
QUALITY OF ACCOUNTS AND FINANCIAL REPORTING PRACTICES

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A sound internal financial reporting system with relevant and reliable information significantly contributes to efficient and effective governance by the State Government. Compliance with financial rules, procedures and directives as well as the timeliness and quality of reporting on the status of such compliance is, thus, one of the attributes of good governance. Reports on compliance and controls, if effective and operational, assist the Government in meeting its basic stewardship responsibilities, including strategic planning and decision-making.

Issues related to completeness of accounts

4.1 Funds outside Consolidated Fund or Public Account of the State

Article 266 (1) of the Constitution of India, subject to the provisions of Article 267, provides that all revenues received by the Government of a State, all loans raised by that Government by the issue of treasury bills, loans or ways and means advances and all moneys received by that Government in repayment of loans shall form one consolidated fund to be entitled 'the Consolidated Fund of the State'. Article 266 (2) provides that all other public moneys received by or on behalf of the Government of a State shall be credited to the public account of the State, as the case may be.

4.1.1 Non-remittance of levies into the Consolidated Fund of the State

4.1.1.1 The Building and Other Construction Workers' Welfare Cess

The Building and Other Construction Workers' Welfare Cess Act, 1996 provides for levy and collection of labour welfare cess at a rate of minimum one *per cent* on the cost of construction. Also, the provision of Rule 5 of The Building and Other Construction Workers' Welfare Cess rules (1998) provided that the Cess collected is to be transferred to (Building and Other Construction Workers Welfare Board) the Board along with the form of challan prescribed (and in the head of account of the Board) under the accounting procedures of the State. Audit observed that no rules have been framed by the State Government of Kerala for accounting of Building and Other Construction Workers' Welfare Cess. Neither a sub-head has been opened by the State Government under concerned revenue receipt Major Head (MH) for accounting of Cess collected nor a functional revenue expenditure head has been opened for transfer of the Cess amount to Building and Other Construction Worker's Welfare Board by various Departments/ Agencies etc. The Cess amount collected is not routed through the Consolidated Fund of the State as required under Article 266 (1) of the Constitution of India and is instead being credited directly to Special Treasury Saving Bank (STSB) account of the Board/ Accounts in

Nationalised Banks maintained by Board. The cess amount received by the board from 2015-16 to 2019-20 is shown in the **Table 4.1** given below.

Table 4.1: Year-wise receipt of Building and Other Construction Workers' Welfare Cess by the Board

(₹ in crore)

Year	2015-16	2016-17	2017-18	2018-19	2019-20	Total
Building and Other Construction Workers' Welfare Cess received by the Board	189.11	203.58	192.45	248.95	232.84	1066.93

Source: Information collected from Building and Other Construction Workers' Welfare Board

It was noticed that the Board had received an amount of ₹1,066.93 crore as cess amount from 2015-16 to 2019-20 which included ₹232.84 crore in 2019-20 alone, without being routed through the Consolidated Fund of the State. This was in contravention to Article 266 (1) of the Constitution of India. Non-remittance of Government revenue to the Consolidated Fund resulted in understatement of non-tax revenue and other fiscal parameters derived from it, during the concerned years.

Non-remittance of revenue receipts escapes the scrutiny by the Legislature. Therefore, a system for remittance/release of such money needs to be put in place by opening suitable heads of account under revenue receipts and revenue expenditure for tracking the revenues/expenditure for assurance to indicate that the money generated from the cess collection is transferred to the Board.

Finance Department replied (July 2020) that, though General Administration (Labour) Department had been called for to frame rules and to furnish proposal for opening new heads of account under revenue receipt side and its corresponding expenditure side for the accounting of Kerala Building and other Construction Workers Welfare Cess, the compliance report has not been received from the authorities concerned.

4.1.1.2 Contributions to District Mineral Foundation Trust

District Mineral Foundation Trust (erstwhile Quarry Safety Fund[38]) was established in all districts under the aegis of District Collector as per Kerala District Mineral Foundation Rules, 2018 intended to work for the interest and benefit of the persons and areas affected by mining related operations in the district. The contributions being made to the District Mineral Foundation Trust comprises of the following revenues of the State Government.

[38] Quarry Safety Fund was constituted by the District Collectors in all the districts as per the Kerala Minor Mineral Concession Rules, 2015 to meet necessary expenses for ensuring safety to the abandoned quarries. Quarry Safety Fund as per Kerala Minor Mineral Concession Rules, 2015 was substituted with District Mineral Foundation Trust established as per Kerala District Mineral Foundation Rules, 2018, which came into force w.e.f 22.02.2018.

- Payment made by the lessees of major minerals at a rate of 30 *per cent* of Royalty.
- Payment made by the lessees and quarrying permit holders of minor minerals at a rate of 10 *per cent* of Royalty.
- Payment made by holder of minor mineral leases/ permits at a rate of 10 *per cent* of Royalty or consolidated Royalty.

The revenue realized by above means are being credited directly to a joint Special Treasury Savings Bank Accounts (STSB) managed by District Collectors and District Geologists of respective districts. The amount received by District Mineral Foundation Trust and the erstwhile Quarry Safety Fund from 2015-16 to 2019-20 is shown in the **Table 4.2** given below.

Table 4.2: Year-wise receipts to District Mineral Foundation Trust (erstwhile Quarry Safety Fund)

(₹ *in crore*)

Year	2017-18	2018-19	2019-20	Total
District Mineral Foundation Trust (erstwhile Quarry Safety Fund)	5.09*	9.09	9.53	23.71

Source: Information collected from Directorate of Mining and Geology
**Collection for 2017-18 includes arrear collection from 2015 onwards*

It was noticed that the contributions amounting to ₹23.71 crore was made to District Mineral Foundation Trust from 2017-18 to 2019-20 which included an amount of ₹9.53 crore in 2019-20 alone. This amount was transferred to the Trust without being routed through the Consolidated Fund of the State despite being a Government revenue. This was in contravention of Article 266 (1) of the Constitution of India. Consequently, the non-tax revenue and the fiscal parameters derived from them were under-stated to that extent during the years concerned.

4.1.1.3 Funds of Regulators outside Government Account

The Regulatory Authorities, are 'State' within the meaning of Article 12 of the Constitution. Money being received by them are on account of discharge of functions 'on behalf of the Government'. Hence, their Funds need to be housed in the Public Account of India/ States.

However, Audit observed that funds of Kerala State Electricity Regulatory Commission are kept outside Government Account.

Kerala State Electricity Regulatory Commission stated that their fund has been constituted in line with section 103 of the Electricity Act 2003 and stated that as per sub rule (3) of rule 3 of the Kerala State Electricity Regulatory Commission Fund Rules 2013, the main account of the Fund shall be maintained in any nationalised bank and subsidiary accounts at such other branches of such banks, as the commission considers appropriate.

The reply is not tenable since public money received on behalf of the State Government is to be credited to public account of the state as per Article 266 (2) of the Constitution and not doing so involves a breach of the said Article of the Constitution.

4.2 Non-inclusion of clear cut liabilities incurred during the financial year

The Government of Kerala issued (March 2020) orders for shifting the bills submitted at treasuries after 27 March 2020 to treasury queue[39]. These bills kept under treasury queue were intended to be cleared in the subsequent financial year thereby deferring a substantial amount of clear cut liabilities incurred during the financial year to the succeeding year. Though the State Government had released a cut-off date for the year 2019-20 for clearing the bills at Treasuries, it was noticed that bills submitted at Treasury from October 2019 onwards were also placed at treasury queue.

As per the data furnished by the Directorate of Treasuries, State Government had kept total bills amounting to ₹2,974.64 crore under treasury queue during 2019-20. Deferring of clear cut liabilities incurred during the financial year to the succeeding year has understated the fiscal deficit of the State during the year 2019-20 by ₹2,974.64 crore.

Further, as per the data furnished by Information Kerala Mission[40], out of the total bills placed under treasury queue as on 31 March 2020, the State Government had kept Local Self Government Institutions (LSGI) bills related to Fourteenth Finance Commission (FFC) Grants amounting to ₹624.08 crore under the treasury queue during the year 2019-20. These unpaid LSGI bills (FFC Grants as referred in para 2.3.2.4 of Chapter 2) being purely revenue in nature had not only deferred the clear cut liabilities incurred by the LSGIs during the year to succeeding year but also understated the revenue deficit and consequently, fiscal deficit of the State for the year 2019-20 by ₹624.08 crore.

Though the bills kept under treasury queue are passed in the succeeding year, the fact remains that through treasury queue, the government is deferring expenditure for the year (both Revenue and Capital nature) to the succeeding year. As such, the amount of such clear cut liabilities are left out from the calculation of fiscal indicators of the State for the year.

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[39] The bills submitted at treasuries and that has not been passed in a year are shifted to treasury queue as per orders issued by the State Government during the year. Such bills will be cleared in the succeeding financial year.

[40] Information Kerala Mission (IKM), an autonomous institution under Local Self Government Department, Government of Kerala has been setup with a mandate to strengthen the local self-governance through ICT applications. It is the largest and most comprehensive local body computerization initiative in the country, which envisage computerizing and networking the Local Self Government Institutions in Kerala.

4.3 Non-discharge of liability in respect of interest towards interest bearing deposits

The Government has a liability to provide and pay interest on the amounts in the Interest-bearing Deposits (Major Heads of Accounts 8336 to 8342).

However, audit scrutiny has revealed that no provision has been made in the year 2019-20 in the Budget for the discharge of the interest liability on interest bearing deposits as shown in **Table 4.3**.

Table 4.3: Non discharge of liability in respect of interest towards interest bearing Deposits

(₹ in crore)

Sl. No.	Name of the Interest bearing deposit	Balance as on 31st March 2020	Amount of Interest not provisioned*
1	Civil Deposits	0.15	0.01
2	Deposits of State Housing Boards	0.07	0.01
3	Defined Contribution Scheme	0.34	0.03

**interest is calculated @ 8 and 7.9 per cent on the basis of interest rates admissible to GPF during the financial year 2019-20.*
Source: Finance Accounts

Consequent to the non-provision/non-payment of interest, Revenue Expenditure was understated by ₹0.05 crore.

4.4 Funds transferred to State Implementing Agencies outside the State budget

Government of India has been transferring substantial amount of funds directly to the State Implementing Agencies for implementation of various schemes and programmes. In the present system, these funds are not routed through the State Budget and hence these are not reflected in the Accounts of the State Government.

Details of funds directly transferred to the State Implementing Agencies during 2015-16 to 2019-20 are presented in **Table 4.4**. The details of funds transferred directly to the State Implementing Agencies outside the State Budget are included in Appendix VI of the Finance Accounts by capturing data from the PFMS portal of the Controller General of Accounts (CGA) (unaudited figures).

Table 4.4: Funds transferred directly to State Implementing Agencies during 2015-16 to 2019-20

(₹ in crore)

Years	2015-16	2016-17	2017-18	2018-19	2019-20
Funds transferred by GoI directly to implementing agencies (₹ in crore)	2511.70	3722.96	5242.39	4960.11	7507.33
Rate of Growth (*per cent*)	43.65	48.22	40.81	-5.38	51.35

Source: Finance Account of respective years
**During 2014-15, the funds transferred by GoI directly to implementing agencies was ₹1,748.47crore.*

An amount of ₹7,507.33 crore was directly transferred by GoI to the State Implementing Agencies during 2019-20, registering a substantial increase of ₹2,547.22 crore (51.35 *per cent*) over the previous year which was the highest during the five-year period.

Audit scrutinised GoI funds directly transferred to State Implementing Agencies, implementing nine major schemes (includes schemes with total release of ₹10 crore and above) as shown in **Table 4.5** given below.

Table 4.5: Funds transferred directly to State Implementing Agencies (includes schemes with total release of ₹10 crore and above during 2019-20)

(₹ in crore)

Sl No.	Name of the Schemes of Government of India	Name of the Implementing Agencies	Previous year Balance	2019-20		Unspent balance
				Amount Released 2019-20	Amount utilised 2019-20	
1	Mahatma Gandhi National Rural Employment Guarantee Scheme	Mahatma Gandhi National Rural Employment Guarantee Fund Society, Kerala	14.26	3194.78	3173.94	35.10
2	Pradhan Mantri Kisan Samman Nidhi	Department of Agriculture	0	1954.32	1954.32	0
3	Food subsidy for decentralized Procurement of food grains under NFSA	Kerala State Civil Supplies Corporation Limited	0	469.30	469.30	0
4	MP's Local Area Development Scheme (MPLADS)	District Collectors	-	172.50	28.83**	-
5	Pradhan Mantri Matru Vandana Yojana	Department of Women and Child Development, Kerala	28.43	64.19	57.09	35.53
6	National AIDS and STD control programme	Kerala State AIDS Control Society	5.18	35.54	28.68	12.04
7	National Programme for Dairy Development	Kerala Co-operative Milk Marketing Federation Limited	17.32	30.97	23.65	24.64
8	Sugar Subsidy payable under PDS	Kerala State Civil Supplies Corporation Limited	-2.88*	15.08	12.20	0
9	Pilgrimage Rejuvenation and Spiritual Augmentation Drive (PRASAD)	Kerala Tourism Infrastructure Limited	0	14.93	11.84	3.09
10	Other Programmes[41]	112 other programmes	-	1555.72	-	-
	Total		**62.31**	**7507.33**	**5759.85**	**110.40**

[41] Since other Programmes include releases for 112 schemes with amount less than ₹10 crore per scheme, the amounts utilised was not obtained from the agencies concerned.

Source: Data obtained from PFMS portal of CGA, Finance Account of respective years and information furnished by implementing agencies
**₹2.88 crore was expended in 2018-19 prior receipt of funds in 2019-20, **Utilisation of GoI funds under MPLADS Scheme during 2019-20: Palakkad (₹8.10 crore); Idukki (₹4.37 crore); Ernakulam (₹8.85 crore); Kannur (₹7.51 crore); Reply from other districts are awaited.*

As these funds were not routed through the State budget/State treasury system, the Annual Finance Accounts did not capture these funds flow and to that extent, the State's receipts and expenditure as well as other fiscal variables/parameters derived from them did not present the complete picture.

4.5 Deposit of Local Funds

As per sub section 6 of Section 212 of the Kerala Panchayat Raj Act, the District Panchayat, Block Panchayat and the Grama Panchayat etc. will maintain their respective fund accounts with the Treasury under Public account under the head of account 8448-109-Panchayat Bodies Funds. Details of Deposits of Panchayat Raj Institutions for the period from 2015-16 to 2019-20 are given below in **Table 4.6**.

Table 4. 6 : Deposits of Local Funds *(₹ in crore)*

Year				2015-16	2016-17	2017-18	2018-19	2019-20
District Panchayat Fund	**(8448-109-96-01)**	**Opening Balance**	1	-4.10	-16.45	-22.47	-22.47	-22.47
		Receipt	2	0.00	0.00	0.00	0.00	0.00
		Expenditure	3	12.35	6.02			1.00
		Closing Balance	4	-16.45	-22.47	-22.47	-22.47	-23.47
Block Panchayat fund	**8448-109-96-02**	**Opening Balance**	5	-0.15.	-2.41	-8.74	-9.48	-10.05
		Receipt	6	0.00	0.00	0.00	0.00	0.00
		Expenditure	7	2.26	6.33	0.74	0.57	1.33
		Closing Balance	8	-2.41	-8.74	-9.48	-10.05	-11.38
Village Panchayat Fund	**(8448-109-96-03)**	**Opening Balance**	9	147.69	122.85	100.86	100.16	98.60
		Receipt	10	0.00	0.00	0.00	0.00	0.00
		Expenditure	11	24.84	21.99	0.70	1.56	1.92
		Closing Balance	12	122.85	100.86	100.16	98.60	96.68
Total Closing Balance at the end of the year			(4+8 +12)	103.99	69.65	68.21	66.08	61.83
Municipal Fund	**(8448-102)**	**Opening Balance**	13	746.71	-4.47	-15.99	-16.00	-18.77
		Receipt	14	180.81	3.28	0.12	0.00	Nil
		Expenditure	15	931.99	14.81	0.14	2.77	0.34
		Closing Balance	16	-4.47	-15.99	-16.00	-18.77	-19.11

A scrutiny of Finance Accounts for the last five years has disclosed that all the fund accounts of Local bodies except Village Panchayat show a minus balance and it shows a gradual increase over the five-year period from 2015-16 to 2019-20. It is stated in the Finance Accounts that the reasons for the minus balances are under investigation.

The Village Panchayat Fund shows a gradual decrease in the accumulation of unutilised funds over the five-year period from ₹122.85 crore to ₹96.68 crore.

When the accumulation of unutilised funds was brought to the notice of the Director of Panchayats, it was replied in November 2020 that the Department has no mechanism to find out the status of unutilised funds in District and Grama Panchayats.

Issues related to transparency

4.6 Delay in submission of Utilisation Certificates

Article 208 of the Kerala Financial Code stipulates that the State may make such Grants-in-aid for public purposes or activities carried on by private institutions or local bodies as are in conformity with Article 282 of the Constitution of India. Financial rules[42] stipulate that the authority sanctioning grant-in-aid has to stipulate, in every order sanctioning the grant, a time limit not exceeding one year from the date of sanction for utilisation of the grant and a time limit of nine months for the submission of audited accounts. The utilisation certificate should be furnished within three months from the date of receipt of audited accounts. The Utilisation Certificates (UC) for grants-in-aid exceeding ₹2,00,000 have to be forwarded to the Accountant General (Accounts and Entitlement), Kerala. It was observed that four utilisation certificates for ₹5.45 crore were not received (June 2020) by the AG (A&E). The year-wise position of delays in submission of Utilisation Certificates is summarised in **Table 4.7**.

Table 4.7: Year-wise arrears in submission of Utilisation Certificates

(₹ in crore)

Year of UC due	Number of UCs	Amount
Upto 2014-15	4	5.45
2015-16 to 2019-20	0	0
Total	4	5.45

Source: Details furnished by Accountant General (A&E)

[42] Article 210 of the Kerala Financial Code (Vol I)

Among the four UCs pending, three Utilisation Certificates pertain to Art & Culture Department (₹0.45 crore) and one pertains to Higher Education (₹ five crore) Department. These are pending from 2014-15 onwards.

The pendency of UCs was fraught with the risk of misappropriation of funds and fraud. Timely submission of UCs should not only be insisted upon but also ensured.

4.6.1 Recording of Grantee Institution as "Others"

Since Grants-in-Aid constitute a significant portion of the total expenditure of the State, it is essential that the Government provides the details and nature of the Grantee institution to which it is providing funds, in the interests of transparency of accounts.

On a scrutiny of Statement No.10 of the Finance Accounts for the year 2019-20, Audit observed that a total of ₹10,921.82 crore was paid as Grant-in-aid to various Grantee institutions in 2019-20, out of which, an amount of ₹923.25 crore was classified as "others" without any details of grantee institutions. It works out to 8.45 *per cent* of the total grant in aid paid during the year 2019-20.

The government may consider introducing a mechanism of allotting institute codes to the various bodies and authorities receiving Grants-in Aid from government and ensure that such Grants are accounted against each code, in the interest of transparency of accounts.

4.7 Abstract Contingent bills

The drawal of contingent charges on items of expenditure by a State Government, for which final classification and supporting vouchers is not available at the time of drawal are made on 'Abstract Contingent' (AC) Bills. Initially made as advance, its subsequent adjustments are ensured through submission of Detailed Contingent (DC) bills within a stipulated period of drawal of AC bill. DC bill consists of abstract of expenditure along with sub-vouchers for amount drawn through AC bill. Drawing and Disbursing officers are required to present Detailed Countersigned Contingent (DC) bills duly countersigned by the Controlling Officer in all these cases within the period prescribed in the State Treasury Rules.

Table 4.8: Year wise progress in submission of DC bills against the AC bills

(₹ in crore)

Year	Opening Balance		Addition		Clearance		Closing Balance	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Up to 2016-17	0	0	0	0	0	0	0	0
2017-18	0	0	0	0	0	0	0	0
2018-19	0	0	1	0.01	0	0	1	0.01
2019-20	1	0.01	2	0.0015	0	0	3	0.0115

As per Article 107 of Kerala Financial Code, the abstract contingent bill should be submitted to the Countersigning Authority not later than 10th of the succeeding month of drawal of advance and as per Article 108 of KFC, it should be forwarded to the Accountant General not later than 20th of the month.

However, Audit observed that there was an inordinate delay ranging from one to two years in the submission of Detailed Contingent Bill duly countersigned by the Controlling officer as shown in **Table 4.8**.

All the three abstract contingent bills amounting to ₹0.0115 crore pending clearance relate to Prison department**.** Out of the total pending DC Bills for an amount of ₹0.0115 crore, ₹0.01 crore was drawn for the purchase of Medicines and the remaining ₹0.0015 crore was drawn as fuel advance under the section of Revenue Expenditure.

Non submission of detailed bill enhances the risk of misappropriation of Public money.

4.8 Personal Deposit Accounts

Personal Deposit (PD) Accounts are in the nature of special banking accounts kept for certain classes of Deposits, which include transactions of a public or quasi-public nature for which it is not necessary to treat each disbursement as made against a particular receipt.

PD accounts are, maintained in the nature of a bank account in the treasury. As per Art 282 (d) of Kerala Financial Code Vol-I, Chapter X, in cases of PD accounts that are opened by orders of the State Government for specific purposes, where, funds are transferred from the Consolidated Fund by booking the expenditure under Service heads, the administrators of these PD accounts should close these PD accounts at the end of the financial year and credit the unspent balances back to the Consolidated Fund under the concerned expenditure heads of accounts from where the amount initially transferred, unless such Personal Deposit accounts were created by Law or Rules having the force of Law.

Further, the PD accounts which have been opened by transfer of funds other than from the Consolidated Fund, should be reviewed every year and the accounts which are in-operative for more than three complete financial years should be closed and balance lying in such accounts should be credited to Government accounts.

4.8.1 Inoperative and non-reconciled PD Accounts

PD accounts are maintained under MH-8443-Civil Deposit-106-Personal Deposit and 8443 Civil Deposits -123- Deposits of Educational Institutions.

The number of live PD Accounts under MH-8443-Civil Deposit-106-Personal Deposit was 1,233 as on 31 March 2020 and the aggregate balance in these PD accounts was ₹67.48 crore as per records of the Accountant General (A&E). However, as per information received from State Government, there were only 830 PD Accounts and the balance in these accounts amounted to ₹254.36 crore. The Director of Treasuries informed that the mismatch of figures of PD Accounts as per the records of Accountant General and as per details furnished by Director of Treasuries was due to non-transfer of all PD Accounts data from Treasury Information System[43] to Core Treasury Information System[44]. Treasury officials also stated that this discrepancy will be cleared after the closing of all the inoperative PD accounts.

Under Major Head 8443-Civil Deposits -123- Deposits of Educational Institutions, the State Government is operating 6,648 PD accounts. As per details furnished by the Government, the balance in these accounts amounted to ₹277.03 crore. As per the Statement No.21 of the Finance Accounts, closing balance under Major Head 8443-Civil Deposits-123-Deposits of Educational Institutions was however ₹128.71 crore only. Further, out of these, 241 PD accounts with a balance of ₹1.11 crore are in-operative.

Directorate of Treasuries informed the Accountant General (A&E) that amount pertaining to 8443-00-123 Deposit of Educational Institutions was misclassified under MH 8443-00-106 in many cases in the past several years.

The reconciliation of PD accounts with the Administrators of deposit accounts is to be conducted by the treasuries concerned. The variations in the records maintained in the Treasury Department and the PAG (A&E) is due to lack of timely reconciliation. The treasury department also failed to identify all inoperative accounts and transfer the balance amount to government accounts, even from accounts which were identified as inoperative.

Non-reconciliation of balances in PD accounts and not transferring the unspent balances lying in PD accounts to Consolidated Fund of State is fraught with risk of misuse of public funds, fraud and misappropriation.

4.8.2 Operation of Treasury Savings Bank Accounts

Introduction

As per Rule 37 of Kerala Treasury Code, Treasury Savings Bank (TSB) Accounts are being maintained in the Treasuries. Kerala inherited the system of Treasury Savings Scheme from the erstwhile Travancore Administration.

The objective of the Government in establishing Treasury Savings Bank Scheme was to provide a ready means for the deposit of savings and to encourage thrift. Subsequently, funds released for various purposes from the Consolidated Fund such as grants-in-aid, loans and investments to State PSUs & Statutory Corporations, funds for Centrally Sponsored Schemes, were also credited to the Special Treasury Savings Bank Account (STSB) temporarily for keeping the unspent balance for a specified period on the basis of various Government Orders.

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[43] Treasury Information System is an application for doing the transactions (Receipt and Payment) online in a Treasury and for the preparation of accounts.

[44] After the introduction of IFMS, all transactions of Treasury are performed through a set of new Software namely Core-Treasury Information System.

Government also permits Public Sector Undertakings/Autonomous Bodies/ Institutions and Welfare Fund Boards to deposit their own funds in the Treasury Savings Bank accounts. The State Government also accepts deposits from its employees, pensioners, institutions and the general public through treasuries and accounts it under TSB accounts. The amounts credited to TSB Accounts are booked under subhead '99' below minor head '102 Savings Bank Deposits' below major head '8031-Other Savings Deposits'. Deposits under Term Fixed Deposits are booked under '8031-00-102-98-Fixed & Time Deposits'.

There are two categories of TSB accounts maintained in the Treasury viz., Individual TSB accounts (Pensioners Savings Bank accounts, Employees Treasury Savings Bank accounts etc.) and Institutional TSB Accounts (Social Security Pension accounts, Special Treasury Savings Bank account (STSB), Treasury Public account(TPA), Plan Scheme TSB account (PSTSB) etc.). In Kerala, the plan scheme funds are being credited to the Plan scheme TSB accounts. The TSB account by any person in treasury of the State is being regulated by the instructions contained in Appendix 3 to the Kerala Treasury Code. As on 31.03.2020 the amount lying in TSB Accounts under the head 8031-00-102-99 was ₹7,466.04 crore. An amount of ₹38,592.44 crore was also outstanding under Term Fixed Deposit accounts in Treasuries as on 31.03.2020 under the head of account 8031-00-102-98.

Audit conducted a field study on Treasury Savings Bank Accounts in the State. A few important observations noticed in audit are detailed in the succeeding paragraphs.

Resumption of funds from TSB accounts to a common head of account

State Government resumed funds amounting to ₹14,544.27 crore parked in the STSB Accounts of various Government departments, PSUs, Autonomous Bodies etc. during the last three years i.e. 2017-18, 2018-19 and 2019-20 into the Consolidated Fund of the State. Out of ₹14,544.27 crore resumed, an amount of ₹10,510.70 crore was resumed to a common head of account '2075-00-911-94 Deduct Recoveries-Refund of amounts resumed from the idling STSB accounts' during the three years as shown in **Table 4.9**.

Table 4.9: Details of amount resumed

(₹ in crore)

Sl. No.	Year	Amount resumed from STSB Accounts	Amount resumed to '2075-00-911-94'
1	2017-18	8,298.22*	5,583.44*
2	2018-19	2,568.24**	2,568.24**
3	2019-20	3,677.81**	2,359.02**
Total		**14,544.27**	**10,510.70**

**As per Finance Accounts 2017-18 **Figures furnished by Treasury Dept.*

As per para 3.10 of General Directions contained in List of Major and Minor Heads (LMMH) of Controller General of Accounts, recoveries of overpayments pertaining to previous year/years under revenue expenditure are to be recorded under distinct minor head (Deduct Recoveries of Overpayments) below the concerned major/sub major head from where the expenditure was initially incurred. As per para 4.3 of the General Directions, in the case of Capital Expenditure, distinct subheads (Deduct- Receipts and Recoveries on Capital Account) are to be opened below the relevant minor heads under the various Capital major/sub major heads where the capital expenditure was initially incurred. Credit back of amounts originally debited under various Revenue, Capital and Loans heads of accounts to the common head of account 2075-00-911 is in violation of the General Directions contained in paras 3.10 and 4.3 of the List of Major and Minor Heads (LMMH) published by the Controller General of Accounts and will distort all key indicators of fiscal position of Government.

Refund of resumed funds

Finance department released funds amounting to ₹4,927.26 crore[45] resumed under '2075-00-911-94 - Deduct Recoveries-Refund of amounts resumed from the idling STSB accounts' on 31 March of 2018-19 and 2019-20, to the STSB accounts concerned during the first week of April of the succeeding financial year without waiting for receipt of any proposal for refund from the institutions concerned. The release of entire funds which were resumed at the end of the financial year under '2075-00-911', during the beginning of the next financial year (1st week) itself without receipt of any proposal from the institutions concerned defeated the basic purpose of the resumption, *viz*. preventing inappropriate parking of funds, as the re-issued funds continued to be parked in the TSB Account. Government has resorted to resumption mainly for the purpose of reducing the public account liability at the year-end in order to increase the borrowing space of Government.

Finance Department stated (February 2021) that funds resumed from STSB accounts having deposits from Non-plan fund are allotted during the next financial year without receipt of any proposal from the institutions concerned as the same is required in the next financial year for its smooth functioning. In case of PSTSB accounts, resumed funds are released in the next financial year only after receipt of proposals from the institutions.

The reply from Finance Department is not acceptable due to the following reasons. Government had introduced PSTSB accounts for managing the release and utilisation of Plan fund for the Government departments and agencies from 2018-19 onwards. Prior to 2018-19, both Plan and Non-plan funds were being routed through STSB accounts. Hence the funds resumed from STSB accounts also included unutilized balance of Plan funds released up to 2017-18 period. Moreover, the State Government refunded the entire amount of ₹2,568.24 crore resumed during 2018-19 including ₹1,342.68 crore resumed from PSTSB accounts without receipt of any proposal from the institutions concerned.

[45] ₹2,568.24 crore resumed in 2018-19 under 2075-00-911-94, ₹2,359.02 crore resumed in 2019-20 under 2075-00-911-94, ₹11.43 lakh resumed in 2019-20 under 2408-01-101-98-33 (NP) &₹10 lakh resumed in 2019-20 under 3604-00-200-86-03-35 (NP).

Inoperative TSB accounts

As per information furnished by the Director of Treasuries, Government money amounting to ₹2,502.30 crore was lying in 769 number of STSB accounts which have been lying inoperative for the last three financial years. Of this, an amount of ₹2,498.42 crore pertains to Kerala Infrastructure Investment Fund Board (KIIFB). KIIFB stated that these funds were provided by the State Government as corpus fund during 2015-16 & 2016-17 for facilitating external borrowings.

Resumption of Government of India funds

Audit scrutinized records relating to transactions in STSB/PTSB accounts maintained by eight[46] institutions selected on random basis. Scrutiny revealed that State Government had resumed Government of India funds parked in STSB accounts of two[47] institutions amounting to ₹14.48 crore into the Consolidated Fund of the State during 2017-18. Of these resumed GoI funds, an amount of ₹14 crore has not been refunded till date.

Resumption of funds received from GoI for the implementation of Centrally Sponsored Schemes to the Consolidated Fund of the State is irregular.

Other observations

- Departments/Agencies implementing more than one scheme are allowed to deposit funds relating to schemes into one Special TSB account. Over a period of time, it became difficult for the institutions themselves to trace the source of funds and they were being utilized for various purposes. Consequently, the details of funds amounting to ₹3.27 crore which were resumed by State Government on various occasions from such STSB Accounts are not readily available with three[48] institutions. As the source of funds could not be traced, the details as to whether the amounts resumed were GoI funds or State Government funds, the purpose for which the resumed funds were originally credited to the STSB/PSTSB Accounts, the impact of resumption etc. could not be ascertained.
- Government of India (GoI), Ministry of Tribal Affairs introduced a scheme of 'Pre matric scholarship for Scheduled Tribes students studying in classes IX & X' during the year 2012-13. As per the procedure for claiming the Central Assistance, the scholarship is to be paid out of the State budget against which reimbursement can be claimed from GoI. The Director drew ₹3.90 crore under the head of account '2225-02-277-37(Plan) -Pre matric scholarship for ST students studying in classes IX & X (100 % CSS) in 2014-15 (₹ one crore each on 26.02.2015 & 12.03.2015 and ₹1.90 crore on 27.3.2015) and credited the amount in ICICI Bank for distributing the scholarship as DBT to the ST students. Only a meagre amount of ₹1.09 lakh

[46] Directorate of Fisheries; Directorate of ST development; Directorate of SC development; Directorate of Agriculture; State Mission Management Unit-AMRUT; RUSA; SSK and Kerala State Library Council

[47] Director of Agriculture; State Mission Management Unit-Amrut.

[48] Directorate of Fisheries (₹0.99 crore), Directorate of SC development (₹1.26 crore), Directorate of ST development (₹1.02 crore)

was given as scholarship under the scheme out of these funds during 2014-15. The unutilized amount along with the interest accrued in the bank account amounting to ₹4.16 crore was transferred to STSB Account No 701001140000118 of Director of ST Development with District Treasury in March 2017. However, the fund continued to remain unutilised in the STSB account and it was later resumed by State Government into the Consolidated Fund on 19 January 2018. An amount of ₹5.17 crore was resumed by the State Government from this STSB Account in January 2018 including the above unutilised amount of ₹4.16 crore. The failure of the department to implement the scheme in 2014-15 had deprived the benefits of the scheme to the intended beneficiaries.

The Director, Scheduled Tribes Development Department replied that the funds could not be utilized as the bank account details of the students were not available. It was also stated that the State Government was already implementing another State scheme 'Pre matric studies (2225-02-277-99 – NP)' which also included component of scholarship to ST students for class 9 and 10.

The reply is not acceptable due to the following reasons. As per the GoI guidelines for the scheme, States which are already giving scholarship to ST students from their own resources, would have to either continue to provide scholarship at the rate over and above the scholarship under the proposed Centrally Sponsored Scheme or if it chooses to reduce its own expenditure on its scheme because of the new scheme, such savings effected has to be utilised only on other educational programmes of ST students. However, department failed to comply with either of these conditions resulting in parking of ₹4.16 crore (including interest accrued) in the STSB account which was later resumed by the State Government.

Advice of Reserve Bank of India on TSB

RBI advised the State Government on multiple occasions to phase out the Treasury Savings Bank Scheme in view of distortionary impact on the interest rate structure and distortion of fiscal discipline. However, the State Government has not taken any steps to phase out the Treasury Savings Bank Scheme till date.

4.9 Indiscriminate use of Minor head 800

Minor head 800 relating to Other Receipts and Other Expenditure is intended to be operated only when the appropriate minor head has not been provided in the accounts. Routine operation of minor head 800 is to be discouraged, since it renders the accounts opaque.

Chart 4.1: Operation of Minor Head 800-Other Expenditure during 2015-20

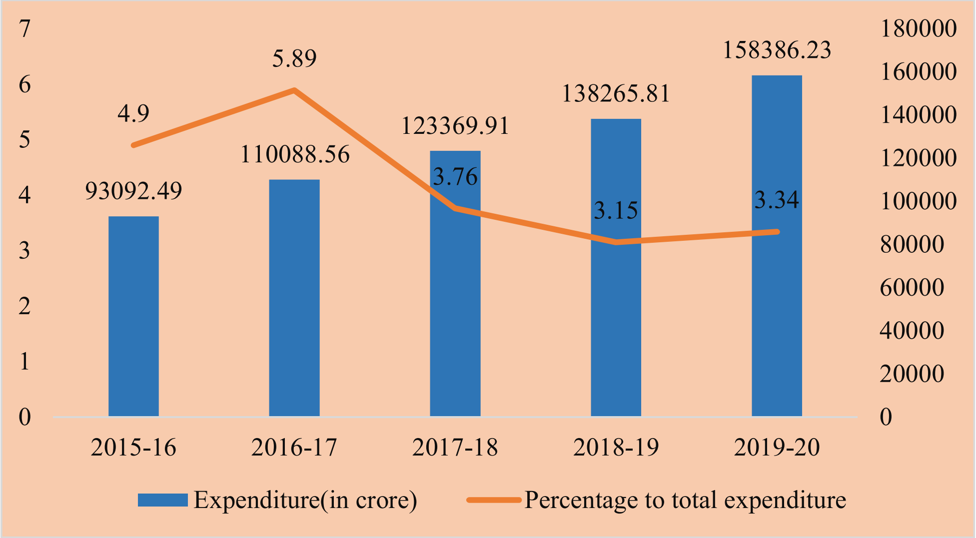


Table 4.10 : Significant expenditure booked under Minor Head 800-Other Expenditure (above ₹10 crore) during the financial year 2019-20

(₹ in crore)

Sl. No	Major Head	Description	Expenditure under Minor Head 800	Total Expenditure	Percent
1	2014	Administration of Justice	91.24	892.94	10.22
2	2029	Land Revenue	12.71	642.99	1.98
3	2071	Pensions and Other Retirement Benefits	24.08	19064.29	0.13
4	2075	Miscellaneous General Services	2477.71	8590.35	28.84
5	2202	General Education	11.34	17151.38	0.07
6	2203	Technical Education	30.33	949.93	3.19
7	2210	Medical and Public Health	501.05	6742.42	7.43
8	2215	Water Supply and Sanitation	27.50	334.23	8.23
9	2216	Housing	20.56	74.44	27.62
10	2217	Urban Development	88.33	1058.85	8.34
11	2220	Information and Publicity	24.08	73.19	32.90
12	2225	Welfare of Scheduled Castes, Scheduled Tribes, Other Backward Classes and Minorities	71.97	1942.68	3.70
13	2401	Crop Husbandry	32.70	931.04	3.51
14	2405	Fisheries	84.14	287.71	29.25
15	2406	Forestry and Wildlife	37.53	516.49	7.27
16	2408	Food, Storage and Warehousing	12.38	1190.81	1.04

Sl. No	Major Head	Description	Expenditure under Minor Head 800	Total Expenditure	Percent
17	2435	Other Agricultural Programmes	11.06	255.20	4.33
18	2515	Other Rural Development Programmes	309.45	970.95	31.87
19	2700	Major Irrigation	12.72	129.32	9.83
20	2702	Minor Irrigation	49.54	189.28	26.17
21	2810	New and Renewable Energy	13.24	14.34	92.34
22	3054	Roads and Bridges	79.78	1404.90	5.68
23	3055	Road Transport	21.75	21.75	100.00
24	3452	Tourism	32.56	155.90	20.88
25	4202	Capital Outlay on Education, Sports, Art and Culture	86.41	311.15	27.77
26	4210	Capital Outlay on Medical and Public Health	22.44	244.23	9.19
27	4215	Capital Outlay on Water Supply and Sanitation	15.00	271.58	5.52
28	4225	Capital Outlay on Welfare of Scheduled Castes, Scheduled Tribes, Other Backward Classes and Minorities	13.56	117.34	11.56
29	4250	Capital Outlay on Other Social Services	80.90	96.27	84.03
30	4402	Capital Outlay on Soil and Water Conservation	21.12	37.39	56.50
31	4515	Capital Outlay on Other Rural Development Programmes	183.09	916.32	19.98
32	4700	Capital Outlay on Major Irrigation	36.62	68.21	53.69
33	4701	Capital Outlay on Medium Irrigation	45.25	51.17	88.42
34	4885	Other Capital Outlay on Industries and Minerals	12.18	135.57	8.98
35	5054	Capital Outlay on Roads and Bridges	163.44	2302.80	7.10
36	5075	Capital Outlay on Other Transport Services	439.37	451.13	97.39
37	7610	Loans to Government Servants Etc.	12.63	12.63	100.00

Audit scrutiny revealed that under eight major heads the expenditure booked under the minor head 800 exceeded 50 *per cent* of the total expenditure of the respective Major heads.

Further, it is also observed that in two Major Heads viz. 3055- Road Transport and 7610- Loans to Government servants etc. the entire expenditure of the major head concerned was booked under the Minor Head '800-Other Expenditure'.

The total expenditure incurred during the year 2019-20 was ₹82,364.33 crore, out of which an amount of ₹5,298.49 crore was booked under the Minor Head '800-Other expenditure'. This works out to 6.43 *per cent* of the total expenditure of the Consolidated Fund.

Table 4.11 : Significant receipts booked under Minor Head 800-Other Receipts (above ₹10 crore) during the financial year 2019-20

(₹ in crore)

Sl. No.	Major Head	Receipts under Minor Head 800	Total Receipts	Percentage
1	0006-State Goods and Services Tax	665.74	20446.95	3.26
2	0029-Land Revenue	202.31	332.42	60.86
3	0030-Stamps and Registration Fees	120.37	3615.01	3.33
4	0039-State Excise	36.36	2255.28	1.61
5	0041-Taxes on Vehicles	53.13	3721.14	1.43
6	0049-Interest Receipts	38.16	84.95	44.92
7	0070-Other Administrative Services	83.18	208.26	39.94
8	0202-Education ,Sports, Art and Culture	37.21	237.68	15.65
9	0230-Labour and Employment	19.86	34.25	57.99
10	0405-Fisheries	11.05	23.26	47.51
11	0406-Forestry and Wild Life	11.69	255.85	4.57
12	0425-Co-operation	187.21	202.41	92.49
13	0515-Other Rural Development Programmes	10.14	10.13	99.88
14	1051-Ports and Light Houses	29.87	30.69	97.32
15	1054-Roads and Bridges	31.53	31.54	99.97

Analysis revealed that out of the amount of ₹62,483.83 crore received during the year 2019-20, receipts amounting to ₹1,632.39 crore was booked under the Minor Head '800- Other Receipts' which works out to 2.61 *per cent* of the total receipts during the year.

Classification of large amounts under the omnibus Minor Head '800' affects transparency in financial reporting and distorts proper analysis of allocative priorities and quality of expenditure.

4.10 Outstanding balance under major Suspense and DDR heads

Certain intermediary/adjusting heads of accounts known as 'Suspense Heads' are opened in Government accounts to reflect transactions of receipt and payments which cannot be booked to a final head of account due to lack of information such as non-furnishing of Schedule of Settlement by the Treasuries/ PAOs, Non-receipt of clearance memos from RBI, non-receipt of vouchers etc. These heads of accounts are finally cleared by minus debit or minus credit when the accounts under them are booked to their respective final heads of accounts. If these amounts remain uncleared, the balance under the suspense heads would accumulate and would not reflect Government's receipt and expenditure accurately.

Remittances embrace all transactions which are adjusting Heads of Account and the debits or credits under these heads are eventually cleared by corresponding credit or debit within the same or in another circle of accounting.

The net balances under Suspense and Remittance Head can be obtained from Finance Accounts. The outstanding balances under these heads are worked out by aggregating the outstanding debit and credit balances separately under various heads.

Clearance of suspense and remittance items depends on the details furnished by the State Treasuries/ Public Works and Forest Divisions, etc. The details of outstanding balances under a few major suspense and remittance heads from 2017-18 to 2019-20 are given in **Table 4.12**.

Table 4.12: Balances under Suspense and Remittance Heads

(₹ in crore)

Minor Head	2017-2018		2018-19		2019-20	
Major Head 8658 - Suspense	**Dr.**	**Cr.**	**Dr.**	**Cr.**	**Dr.**	**Cr.**
101 - PAO suspense	259.48	0.68	293.03	0.13	333.57	-8.72
Net	**258.80**		**292.90**		**342.29**	
102 - Suspense Account-Civil	405.78	183.89	440.83	9.33	378.64	12.60
Net	**-221.89**		**-431.50**		**-366.04**	
107 - Cash Settlement Suspense Account	44.17		43.10		20.03	
Net	**44.17**		**43.10**		**20.03**	
109 - Reserve Bank Suspense - Headquarters	2.13	2.72	-2.81	-	3.60	0.44
Net	**-0.59**		**-2.81**		**3.16**	
110 - Reserve Bank Suspense - CAO	-0.78		12.19		69.12	
Net	**-0.78**		**12.19**		**69.12**	
112 - Tax Deducted at Source (TDS) Suspense		316.79		35.15		75.93
Net	**316.79**		**35.15**		**75.93**	
123 - A.I.S Officers' Group Insurance Scheme		0.12		0.10		0.15
Net	**0.12**		**0.10**		**0.15**	
Major Head 8782-Cash Remittances						
102 - P.W. Remittances	657.90	12.69	688.59	10.43	701.24	1.31
Net	**645.21**		**678.16**		**699.93**	
103 - Forest Remittances	61.10	6.63	45.11	0.41	41.84	
Net	**-54.47**		**44.70**		**41.84**	

Source: Finance Accounts of respective years

The total accumulation of receipts (Cr) under suspense works out to ₹80.40 crore during 2019-20 against the total receipts (excluding borrowings) of ₹90,547.47 crore, the percentage of which works out to 0.09 and the expenditure items held under suspense heads mentioned above amounting to ₹804.96 crore against the revenue and capital expenditure to the tune of ₹1,14,385 crore, the percentage of which works out to 0.70.

Accumulations under suspense heads except Cash settlement suspense showed an increasing trend from the year 2017-18 to 2019-20. These accumulations affect the accuracy of the Government Accounts.

4.11 Non-reconciliation of Departmental figures

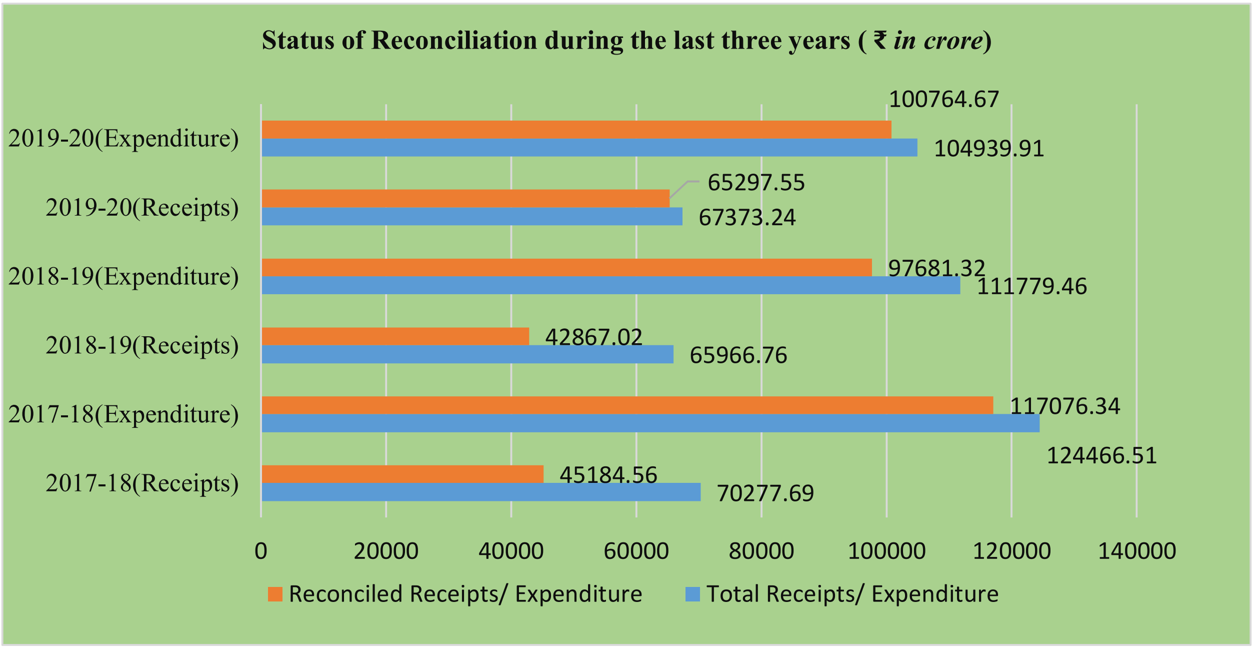
To enable Controlling Officers of the Departments to exercise effective control over spending to keep it within the budget grants and to ensure accuracy of their accounts, Para 74 of the Kerala Budget Manual stipulates that receipts and expenditure during the financial year recorded in their books be reconciled by them every month with that recorded in the books of the Accountant General (A&E).

Reconciliation and verification of figures is an important tool of financial management. Failure to exercise/adhere to the codal provisions and executive instructions in this regard not only results in misclassification and incorrect booking of receipts and expenditure in the accounts, but also defeats the very objective of budgetary process. Status of reconciliation done by the Controlling Officers (COs) for three years is given in **Table 4.13**.

Table 4.13: Status of Reconciliation of Receipts and Expenditure figures by Controlling Officers

Year	Total No. of Controlling Officers	Fully Reconciled	Partially Reconciled	Not reconciled at all
Receipts				
2017-18	70	65	5	Nil
2018-19	67	58	9	Nil
2019-20	65	65	Nil	Nil
Expenditure				
2017-18	215	184	18	13
2018-19	215	160	38	17
2019-20	207	150	38	19

Chart 4.2 : Status of reconciliation during the last three years



Audit scrutiny revealed that percentage of non- reconciliation of expenditure initially increased from 5.94 *per cent* in 2017-18 to 12.61 *per cent* in 2018-19 and then declined to 3.98 *per cent* in 2019-20. This indicates that the department and Office of the Accountant General (A&E) are giving adequate attention to reconciliation.

Similarly, the percentage of non-reconciliation of receipts also showed a decline from 35.71 *per cent* in 2017-18 to 35.02 *per cent* in 2018-19 and then to 3.08 *per cent* in 2019-20.

4.12 Reconciliation of Cash Balances

There should be no difference between the Cash Balance of the State as per the books of Accounts of the Accountant General (A&E), and the Cash Balance as reported by the Reserve Bank of India.

However, a scrutiny of Finance Accounts for the year 2019-20 has revealed that the cash balance of the State of Kerala for the year ending March 2020 as per the books of Accountant General (A&E) was ₹221.02 crore (Credit) whereas the Cash balance reported by Reserve Bank of India was ₹1.19 (Debit). Thus, there is a difference of ₹219.83 crore (Debit).

It is stated in the Finance Accounts that ₹201.17 crore (net credit) would be cleared in 2020-21 and the balance difference of ₹421.00 crore (net debit) is under investigation.

Issues related to disclosure

4.13 Compliance with Accounting Standards

As per article 150 of the Constitution of India, the President of India may, on the advice of the Comptroller and Auditor General of India, prescribe the form of accounts of the Union and of the States. Further, the Comptroller and Auditor General of India set up a Government Accounting Standards Advisory Board (GASAB) in 2002, for formulating standards for government accounting and financial reporting, to enhance accountability mechanisms. On the advice of the Comptroller and Auditor General of India, the President of India has so far notified three Indian Government Accounting Standards (IGAS). Compliance to these Accounting Standards by Government of Kerala in 2019-20 and deficiencies therein are detailed in **Table 4.14**.

Table 4.14: Compliance to Accounting Standards

Sl. No.	Accounting Standards	Essence of IGAS	Compliance by State Government	Impact of deficiency
1.	**IGAS-1:***Guarantees Given by the Government – Disclosure requirements*	The Financial Statement shall disclose maximum amount for which Guarantees have been given during the year, additions, deletions, amount of Guarantee invoked, Guarantees outstanding at the beginning and end of the year, Guarantee Commission received etc.	Complied (Statements 9 and 20 of Finance Accounts)	Not applicable
2.	**IGAS-2:***Accounting and Classification of Grants-in-Aid*	This standard prescribes the principles for the accounting and classification of Grants-in-aid in the Financial Statements of the Government both as a Grantor and as a Grantee. The financial statement shall include disclosures such as Grants-in-aid received in kind, total funds released to the grantees, funds allocated for creation of capital assets etc.	Not complied (Statement 10 of Finance Accounts)	(1) ₹14.70 crore released to Kerala State Cashew Development Corporation (KSCDC) for disbursement of gratuity to the workers, which was in revenue nature, was booked under Capital head. (ii) Details of Grants-in-aid received in kind were not included in the Financial Statement, since the State Government did not furnish this information to AG (A&E)

Sl. No.	Accounting Standards	Essence of IGAS	Compliance by State Government	Impact of deficiency
3.	**IGAS-3:** *Loans and Advances made by Government*	This standard prescribes the norms for Recognition, Measurement, Valuation and Reporting in respect of Loans and Advances made by the Government in the Financial Statements to ensure complete, accurate and uniform accounting practices. The financial statement shall include disclosures such as details of fresh loans and advances made during the year, information on loans of which, terms and conditions have not been settled, repayment in arrears from loanee entities etc.	Not complied (Statement No. 7 & 18 of Finance Accounts)	Terms and conditions of loans of ₹27.37 crore advanced to KSEB in 2002-03 for renovation and upgrading of Neriamangalam hydroelectric power project under Indo Swiss mixed scheme where detailed accounts are maintained by AG (A&E) have not been settled so far. Terms and conditions of loans aggregating to ₹ 406.56 crore where detailed accounts are maintained by the State Departments have also not been fixed by the State Government.

4.14 Submission of Accounts/ Separate Audit Reports of Autonomous Bodies

As per Section 19(2) of the CAG's DPC Act, the duties and powers of Comptroller and Auditor General in relation to the audit of accounts of Corporations established by or under law made by Parliament shall be performed and exercised by him in accordance with the provisions of the respective legislations. As per Section 19(3) of the CAG's DPC Act, the Governor/ Administrator may, in the public interest, request the CAG to audit the accounts of a Corporation established by law made by the Legislature of the State or of the Union Territory, as the case may be, and where such request has been made, the CAG shall audit the accounts of such corporation and shall have, for the purposes of such audit, right of access to the books and accounts of such Corporation.

Apart from Section 19, where the audit of the accounts of any body or authority has not been entrusted to the CAG by or under any law, he shall, if requested so to do by the President, or the Governor of a State or the Administrator of a Union Territory having a Legislative Assembly, as the case may be, undertake the audit of the accounts of such body or authority on such terms and conditions as may be agreed upon between him and the concerned Government and shall have, for the purposes of such audit, right of access to the books and accounts of that body or authority under Section 20(1) of CAG's DPC Act.

On completion of financial audit, audit certificate is issued in case of above stated Autonomous bodies and authorities provided CAG is the sole auditor. Apart from audit certificate, the audit office also issues separate audit report (SAR) that is part of the audit certificate on the accounts. These SARs are to be placed before the State legislature.

The audit of accounts of 27 Autonomous Bodies in the State was entrusted to the Comptroller and Auditor General of India under Sections 19(2), 19(3) and 20 (1) of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971. The status of entrustment of audit, rendering of accounts to audit, issuance of Separate Audit Reports (SAR) and their placement in the Legislature are indicated in **Appendix 4.1**.

The Autonomous bodies coming under the audit purview as per Section 19 or 20 of CAG's DPC Act are required to submit annual accounts to audit before 30 June every year. In respect of 21 Autonomous bodies which were to render annual accounts to C&AG, there were arrears in submission of accounts ranging from one to six years (**Table 4.15**).

Table 4.15: Arrears of accounts of Autonomous bodies due up to financial year 2019-20

Sl. No.	Name of Autonomous body	Accounts pending since	No. of accounts pending up to FY 2019-20
1	Kerala Khadi and Village Industries Board, Thiruvananthapuram	2017-18	2
2	Kerala Institute of Labour & Employment, Thiruvananthapuram	2017-18	2
3	Kerala Building & Other Construction Workers Welfare Board, Thiruvananthapuram	2018-19	1
4	Kerala State Human Rights Commission	2018-19	1
5	Kerala State Legal Services Authority, Ernakulam.	2018-19	1
6	Permanent Lok Adalath, Thiruvananthapuram	2018-19	1
7	Permanent Lok Adalath, Kozhikode	2017-18	2
8	District Legal Services Authority, Thiruvananthapuram	2018-19	1
9	District Legal Services Authority, Kollam	2014-15	5
10	District Legal Services Authority, Pathanamthitta	2018-19	1
11	District Legal Services Authority, Ernakulam	2015-16	4
12	District Legal Services Authority, Thrissur	2018-19	1
13	District Legal Services Authority, Palakkad	2016-17	3
14	District Legal Services Authority, Malappuram	2016-17	3
15	District Legal Services Authority, Kozhikode	2015-16	4
16	District Legal Services Authority, Wayanad	2014-15	5
17	District Legal Services Authority, Kannur.	2014-15	5

Sl. No.	Name of Autonomous body	Accounts pending since	No. of accounts pending up to FY 2019-20
18	District Legal Services Authority, Kasaragod	2012-13	6
19	District Legal Services Authority, Kottayam	2017-18	2
20	District Legal Services Authority, Alappuzha	2018-19	1
21	National and State Commissions for Protection of Child Rights (CPCR) (*Women and Child Development Department*)	2013-14	6

Source: Information collected from respective functional wings handling the autonomous bodies

Major pendency in submission of Accounts pertained to National and State Commissions for Protection of Child Rights and District Legal Services Authorities namely Kollam, Wayanad, Kannur and Kasaragod. The inordinate delays in submission of Accounts and their presentation to the State Legislature result in delayed scrutiny of the functioning of these bodies by the Legislature where Government investments are made.

4.14.1 Cases of adverse opinion

The Autonomous bodies and authorities are required to prepare annual accounts and submit to AG (Audit) for audit. The audit certificate issued in this regard may be subject to such observations and qualifications as the circumstances may warrant. An adverse certificate may be given if the observations and qualifications are of such nature as may not warrant certification of accounts as presenting a true and fair view of the financial position of the Corporation. The instances where audit has given an adverse opinion on financial statements of autonomous bodies are given in **Table 4.16** given below.

Table 4. 16 : Cases of adverse opinion

Sl No.	Body or Authority	Year of Account	Reasons
1	Kerala Water Authority	2014-15	The financial statements does not give a true and fair view mainly due to following reasons: (a)The fixed asset register has not been updated since 31.3.2012. (b)Sundry Debtors balances worth ₹725.34 crore have not been reconciled and no provision has been made for doubtful debts. (c)The transactions from balances in various Treasury/Bank accounts worth ₹451.28 crore is not maintained in Cash book.
2	Kerala Khadi and Village Industries Board	2015-16	The accounts of the Board do not reflect a true and fair position mainly due to following reasons: 1. The Board has not maintained a proper fixed asset register. 2. Immovable property ₹70.41 crore not accounted or disclosed in accounts. 3. The method of provisioning for damaged goods has not been disclosed in the Notes forming part of accounts.

4.14.2 Non-entrustment of Autonomous Bodies/ authorities to audit

Section 20(2) of CAG's DPC Act provides that the Comptroller and Auditor General may propose to the President, the Governor of a State or the Administrator of a Union Territory having a Legislative Assembly to authorise him to undertake the audit of the accounts of any body or authority not entrusted to him if he is of the opinion that such audit is necessary, in public interest, because of substantial investments in or advances made to such body or authority by the Central or State or Union Territory Government.

Table 4.17 depicts the quantum of State Government funds transferred from 2015-16 to 2019-20 to Kerala Infrastructure Investment Fund Board (KIIFB), whose audit has not been entrusted, despite request from Audit under Section 20(2) of CAG's DPC Act.

Table 4.17 : Cases of Non-entrustment of audit

(₹ in crore)

Sl No.	Body or Authority	Quantum of funds transferred during last 5 years					Total
		2015-16	2016-17	2017-18	2018-19	2019-20	
1	Kerala Infrastructure Investment Fund Board (KIIFB)	873.85	2354.09	1100.89	1616.57	2200.00	8145.40

Source: Information collected from KIIFB

The State Government replied that in addition to the audit under Section 14(1) of C&AG's DPC Act, KIIFB is also subject to an external audit by a Chartered Accountant as provided in the KIIF Act and as such both the audits would co-exist. The fact, however, remains that the State Government has not yet entrusted the audit of the accounts of KIIFB under Section 20 (2).

4.15 Departmental Commercial Undertakings

The departmental undertakings of certain Government Departments performing activities of commercial and quasi-commercial nature are required to prepare proforma accounts in the prescribed format annually, showing the working results of financial operations, so that the Government can assess their working. The finalized accounts of departmentally managed commercial and quasi-commercial undertakings reflect their overall financial health and efficiency in conducting their business.

In the absence of timely finalization of accounts, results of the investment of the Government remain outside the purview of State Legislature and escape scrutiny by audit. Consequently, corrective measures, if any, required for ensuring accountability and improving efficiency cannot be taken in time. Besides, the delay renders the system vulnerable to the risk of fraud and leakage of public money.

The Heads of Departments in the Government are to ensure that the departmental undertakings prepare such accounts and submit the same to the Accountant General (Audit) within a specified time frame.

The department-wise position of arrears in preparation of *pro forma* accounts and investments made by the Government in respect of three such undertakings, are given in **Appendix 4.2**. Out of the three, two were running in loss (State Water Transport Department and Text Book Office). Accounts of Text Book Office were in arrears from 1987-88. The State Government decided (December 2008) to dispense with the preparation of *pro forma* accounts for the period from 1975-76 to 1986-87 in respect of State Text Book Office. Decision on preparation of *pro forma* accounts for the period from 1987-88 to 2003-04 was pending with the Government. In the absence of up-to-date accounts, the current financial status of the Text Book Office could not be ascertained.

4.16 Non-submission of details of grants/ loans given to bodies and authorities

Sections 14 and 15 of the Comptroller and Auditor General's (CAG) (Duties, Powers and Conditions of Service) Act, 1971 (DPC Act) envisages audit of receipt and expenditure of institutions receiving Government grants, subject to conditions stipulated based on the quantum of the grants received. In order to identify the institutions / organisations which attract audit under Sections 14 and 15 of the Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act 1971(C&AG's DPC Act), the Government / HODs are required to furnish to Audit every year

- detailed information about the financial assistance given to various institutions,
- the purpose for which the assistance is granted, and
- total expenditure of the institutions.

Further, Regulation on Audit and Accounts, 2007 provides that Governments and Heads of departments which sanction grants and/ or loans to bodies or authorities shall furnish to the audit office by end of July every year a statement of such bodies and authorities to which grants and/ or loans aggregating ₹10 lakh or more were paid during the preceding year indicating (a) the amount of assistance; (b) the purpose for which the assistance was sanctioned; and (c) the total expenditure of the body or authority.

Only three[49] out of 44 departments had furnished the details of grants-in-aid given to various bodies and authorities during the preceding year 2018-19. In the absence of the information from remaining 41 departments**,** reasonable assurance could not be provided to the Legislature/Government about the manner in which the grants sanctioned / released by them had been utilised. This dilutes the legislative control over the Government expenditure system.

[49] General Education Department; Higher Education Department; Cultural Affairs Department.

4.17 Timeliness and Quality of Accounts

Number of accounts excluded from monthly Civil Accounts during 2019-20

The due date of closing of Monthly Civil Accounts is the 25th of succeeding month. First List of Payments (LOP) containing supporting schedules and vouchers is due to be received by the A&E Office by 18th of the same month and the second LOP along with supporting documents is due to be received by 8th of succeeding month.

It is commendable that there were no delays in monthly rendition of accounts by the account rendering units and no exclusion was noticed in the Monthly Civil Accounts.

4.18 Misappropriations, losses, thefts, etc.

Article 297 of the Kerala Financial Code provides that cases of defalcation or loss of public money, stamps, stores or other property should be reported to the Accountant General (General and Social Sector Audit)/Accountant General (Economic and Revenue Sector Audit), Kerala as well as to the Heads of Departments.

The final action on 147[50] cases of misappropriation, defalcation, etc., involving Government money amounting to ₹25.39 crore was pending with the State Government.

Table 4.18: Profile of misappropriations, losses, defalcations, etc.

A. Age-profile of the pending cases			B. Nature of the pending cases		
Range in years	**Number of cases**	**Amount involved (*₹ in lakh*)**	**Nature/characteristics of the cases**	**Number of cases**	**Amount involved (*₹ in lakh*)**
Less than 5 years	29	590.02	Theft	20	126.39
5 – 10	31	1235.75			
10 – 15	17	86.81	Misappropriation/ loss of material	127	2412.56
15 – 20	29	495.61			
20 – 25	24	102.58			
25 and above	17	28.18			
Total	**147**	**2538.95**	**Total pending cases**	**147**	**2538.95**

Source: Cases reported by departments of the State Government

The reasons for delay in finalisation of outstanding cases were analysed by Audit and are summarised in **Table 4.19.** Department wise details are also shown in **Appendix 4.3**.

[50] This includes cases detected by Audit during local audit as well as cases reported by Government departments as per codal provisions.

Table 4.19 Reasons for outstanding cases of misappropriations, losses, defalcations, etc.

Sl. No.	Reasons for the delay/outstanding pending cases	Number of cases	Amount (₹ in lakh)
1.	Awaiting departmental and criminal investigation	**14**	**174.32**
2.	Departmental action initiated but not finalised	**36**	**1454.62**
3.	Awaiting orders for recovery or write off	**83**	**808.20**
4.	Pending in the courts of law	**14**	**101.81**
	Total	**147**	**2538.95**

Source: Information received from Departments of the State Government

Timely action needs to be taken to settle the misappropriation cases in order to bring defaulters to book and to have a deterrent effect on others.

4.19 Follow up action on State Finances Audit Report

In Kerala State the PAC/Finance Department require the line Departments to provide a *suo motu* Explanatory Note (EN) on the paragraphs featuring in the Audit Reports within two months of placing the Reports in the Legislature. The line Departments are also required to provide Action Taken Notes (ATNs) to the AG (for vetting and onward transmission to the PAC) within two months of tabling the Reports.

At the instance of the Public Accounts Committee (PAC), the Finance Department issues instructions to all the Departments to initiate *suo moto* action on all paragraphs and reviews featuring in the Audit Reports irrespective of whether the cases had been taken up for examination by PAC or not.

However, only one sitting of PAC was conducted during 2019-20 to discuss the paras in the SFAR and discussion of all paras in the SFAR up to the year 2014-15 only had been completed.

4.20 Conclusions

Positive Indicators

1. No exclusion was observed in monthly civil accounts.
2. No delay in monthly rendition of accounts by the account rendering units.

Negative Indicators

1. Persistent trend of cess/royalty/fund not being credited to Consolidated Fund of the State.
2. Continuing cases of regulators maintaining 'Fund' outside Public Account of the State (Funds of the Kerala State Electricity Regulatory Commission).
3. Increased tendency to postpone liabilities due, to the next financial year.
4. Increasing number of outstanding UCs.
5. Increasing arrears in respect of annual accounts of Autonomous bodies and PSUs.
6. Increasing amount under Suspense Heads.
7. Non reconciliation with and accumulation of funds in Bank Accounts.
8. Classification of large amounts under the omnibus Minor Head '800' affecting transparency in financial reporting and distorting proper analysis of allocative priorities and quality of expenditure.

4.21 Recommendations

1. ***The Government may bring all the funds lying outside the Consolidated Fund/ Public Accounts in breach of constitutional provisions, within the fold of Consolidated Fund/ Public Accounts.***

2. ***Government should avoid deferring clear cut liabilities.***

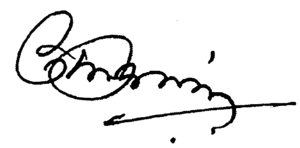
3. ***The Government may ensure timely submission of utilisation certificates by the departments in respect of the grants released for specific purposes.***

4. ***The Finance Department may review all PD/STSB/PSTSB accounts to ensure that all amounts unnecessarily lying in these PD/STSB/PSTSB accounts are immediately remitted to the Consolidated Fund. Further, the Finance Department may reiterate the instructions contained in the financial rules and ensure that appropriate action is taken against departmental officers who fail to follow the rules.***

5. ***Finance Department may consider evolving a system to expedite the process of compilation and submission of annual accounts by autonomous bodies and departmentally run undertakings in order to assess their financial position.***

6. ***The Government may consider preparing a time bound framework for taking prompt action in cases of misappropriation, loss, theft, etc. and strengthening the internal control system to prevent recurrence of such cases.***

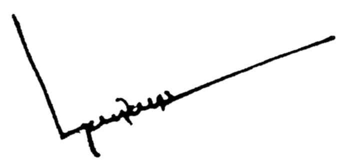
7. ***The Finance Department may, in consultation with the Accountant General (A&E), conduct a comprehensive review of all items presently appearing under minor head 800 and ensure that all such receipts and expenditure are in future booked under the appropriate heads of account.***



(K. P. ANAND)
Principal Accountant General
(Audit-II), Kerala

Thiruvananthapuram,
The 16 September 2021

Countersigned



(GIRISH CHANDRA MURMU)
Comptroller and Auditor General of India

New Delhi,
The 04 October 2021