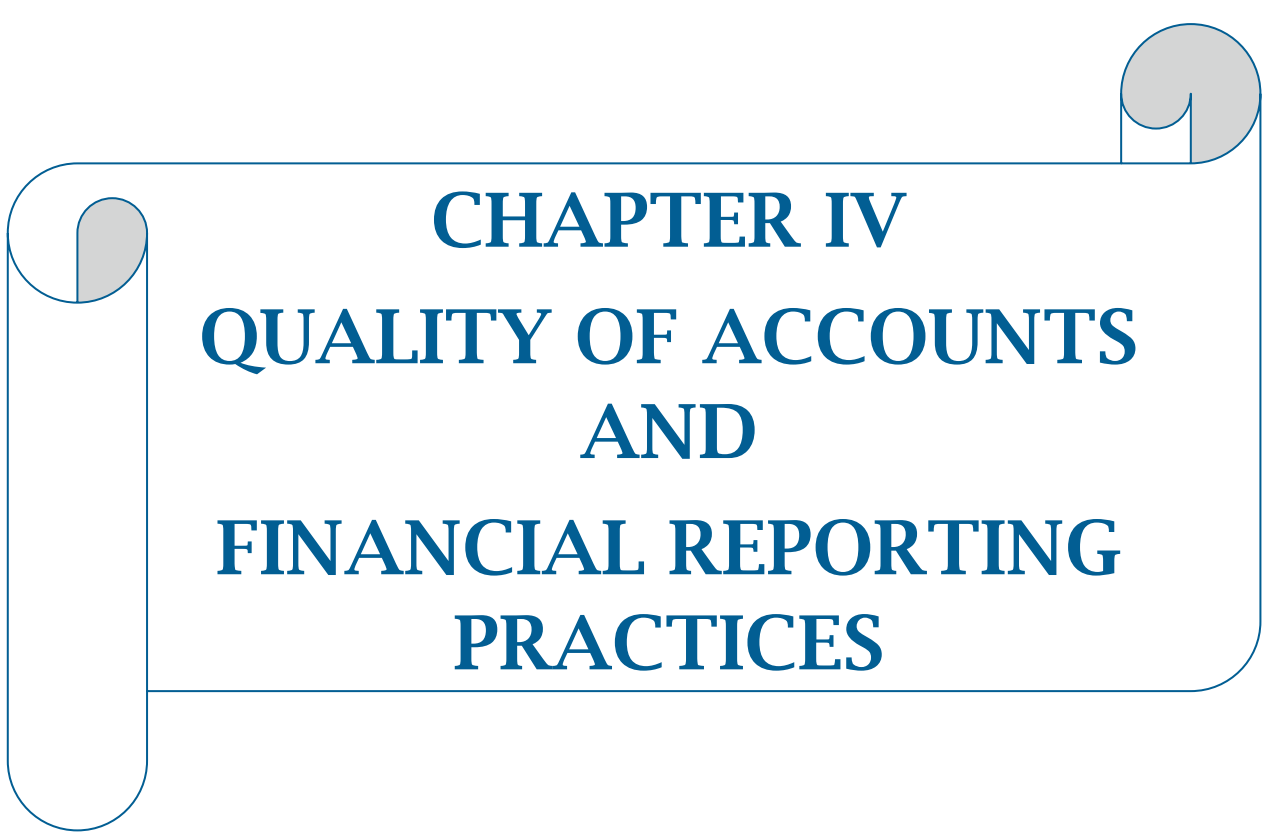


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CHAPTER IV

QUALITY OF ACCOUNTS AND FINANCIAL REPORTING PRACTICES

CHAPTER IV

QUALITY OF ACCOUNTS AND FINANCIAL REPORTING PRACTICES

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 are, thus, 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.

A. Issues related to Completeness of Accounts

Completeness of Accounts means that the accounts have incorporated every item/transaction that should be included for a financial year. Thus, completeness ensures that there are no omissions of significance.

4.1 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 2023-24 in the Budget for the discharge of the interest liability on interest bearing deposits as shown in **Table 4.1**.

Table 4.1 Non-discharge of liability in respect of interest towards interest bearing Deposits

(₹ in crore)						
Sl. No.	Name of the Interest bearing deposit/ fund	Opening Balance as on 01.04.2023	Interest Rate (percentage)	Interest due	Interest paid	Interest short paid
(1)	(2)	(3)	(4)	(5)	(6)	(7)
1	State Compensatory Afforestation Fund	46.42	3.35	1.59	Nil	1.59
Total				1.59	Nil	1.59

Source: Finance Accounts for the year 2023-24

Non-payment of interest has resulted in understatement of revenue and fiscal deficit by ₹ 1.59 crore.

4.2 Direct transfer of Central Scheme Funds to Implementing Agencies in the State (Funds routed outside State Budget)

Government of India (GoI) transfers substantial funds directly to State Implementing Agencies for implementation of various Schemes and Programmes. The details of funds transferred by Government of India directly to State Implementing Agencies as per the Public Financial Management System (PFMS) portal of the Controller General of Accounts (CGA) is listed in Appendix VI of Volume-II of the Finance Accounts. During the year 2023-24, as per the PFMS portal of the CGA, an amount of ₹8,947.24 crore was directly received by the implementing agencies including ₹6.70 crore received by the intermediaries (Societies, NGOs, Trusts etc.) in the State. The details of Direct transfer of Central Scheme Funds to Implementing Agencies in the State during 2023-24 are given in **Appendix 4.1**.

4.3 Non Transfer of Compounding Fee to Kerala Road Safety Fund

As per section 11(3) of Kerala Road Safety Authority Act, 2007, State Government shall contribute to Kerala Road Safety fund every year, an amount equal to 50 *per cent* of the compounding fee collected in the previous year. Out of total collection of compounding fee of ₹116.49 crore during 2022-23, ₹58.25 crore have to be transferred to the Kerala Road Safety Fund during the year 2023-24. However, this was not done resulting in understatement of revenue and fiscal deficits by ₹58.25 crore.

B. Issues related to transparency

Transparency ensures that everything should be properly disclosed and easily understandable.

4.4 Unadjusted Abstract Contingent (AC)/Temporary Advance Bills

The Government of Kerala discontinued the system of drawal of Abstract Contingent (AC) bills followed by submission of Detailed Contingency (DC) bills to the Office of the Accountant General (A&E). Instead, the Drawing and Disbursing Officers (DDOs) have been empowered to draw Temporary Advances (TAs) under Article 99 of Kerala Financial Code (KFC) Volume I.

Out of 3,187 temporary advance bills amounting to ₹61.56 crore drawn during 2023-24, 382 bills amounting to ₹9.28 crore were drawn in March 2024. Adjustment bills in respect of 854 Temporary Advance Bills drawn during 2023-24 amounting to ₹31.52 crore due for submission up to 31 March 2024 were not received.

Details of Temporary Advance bills pending as on 31 March 2024 are shown in **Table 4.2**.

Table 4.2: Details of Temporary Advance bills pending as on 31.03.2024

Year	No. of pending Temporary Advances	Amount (₹ in crore)
Upto 2022-23	2,018	89.36
2023-24	854	31.52
Total	2872	120.88

Source: Finance Accounts

4.5 Delay in Submission of Utilisation Certificates

In terms of Article 210(1) Chapter VIII of Kerala Financial Code 1963 as amended, Utilization Certificates (UCs) in respect of Grants-in-Aid received by the grantee should be furnished by the grantee to the authority that sanctioned it, within two years (maximum time limit of one year as period of utilisation, nine months for submission of audited accounts to the signing or countersigning authority from the expiry of the period fixed for the utilisation of the grant and three months for submission of Utilisation Certificates from the date of receipt of audited accounts) from the date of receipt of grant or before applying for a further grant on the same object, whichever is earlier. To the extent of non-submission of UCs, there is a risk that the amount shown in Finance Accounts may not have reached the beneficiaries.

During the year 2023-24, ₹88.43 crore pertaining to 119 outstanding conditional UCs for the period up to 2022-23 was cleared as against the balance of 126 UCs valuing ₹89.44 crore as at 31st March 2023. The position of outstanding conditional UCs as on 31 March 2024 is shown in **Table 4.3**:

Table 4.3 Details of Pending Utilisation Certificates

Year*	Number of UCs Outstanding	(₹ in crore)
		Amount
2022-23	7	1.01
2023-24	15	10.06
Total	22	11.07

Source: Finance Accounts

* The year mentioned above relates to "Due year" i.e., after 24 months/2 years of actual drawal.

4.6 Treasury Savings Bank Accounts

4.6.1 Introduction

The Government of Kerala does not follow the system of operating PD Accounts for implementation of schemes by transferring funds from the Consolidated Fund. This purpose is served through Treasury Savings Bank Accounts maintained in the State Treasuries as per Rule 37 of Kerala Treasury Code.

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 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. 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 amounts credited to TSB Accounts are booked under sub head '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'.

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 March 2024, the amount lying in TSB Accounts under the head 8031-00-102-99 was ₹1,578.76 crore. An amount of ₹71,050.89 crore was also outstanding under Term Fixed Deposit accounts in Treasuries as on 31 March 2024 under the head of account '8031-00-102-98'

4.6.2 Resumption of Funds from Treasury Savings Bank Accounts

State Government vide Government Order²⁶ dated 26 March 2024 issued orders to resume funds lying in the STSB accounts of Government departments, State owned Public Sector Undertakings/Autonomous Bodies etc into the Consolidated Fund of the State. Accordingly an amount of ₹3,609.41 crore kept in various STSB accounts of Government departments, Public Sector Undertakings/Autonomous Bodies were resumed to the Consolidated Fund of the State through District Treasury Officers.

Out of ₹3,609.41 crore resumed, an amount of ₹3,179.19 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 year.

As per para 3.10 of General Directions contained in List of Major and Minor Heads 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. Recovery of over payment during the same financial year in which such over payments are made shall be recorded as reduction of expenditure under the concerned expenditure head of account.

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.

²⁶ GO(P) No.24 dated 26.3.2024 of Finance (Streamlining) Department

Credit back of amounts originally debited under various Revenue and Capital heads of accounts to the common head of account '2075-00-911' is in violation of the General Directions contained in paragraphs 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.

State Government replied (December 2024) that an automated resumption from STSB accounts is being planned with NIC based on which a provision to identify the source head of transfers to STSB could be provided.

4.6.3 Resumption of Non-Government funds to the Consolidated Fund

Scrutiny revealed that non-Government funds amounting to ₹40.02 crore maintained in the STSB account of Roads and Bridges Development Corporation of Kerala Limited was resumed to the Consolidated Fund of the State under the Head of Account '2075-00-911-94-Deduct Recoveries- Refund of amounts resumed from the idling STSB accounts' on 26 March 2024. The funds were provided by KIIFB to Roads and Bridges Development Corporation of Kerala for land acquisition of KIIFB funded projects. Resumption of non-Government money parked in the STSB account into the Consolidated Fund of the State is irregular and has resulted in understatement of revenue deficit and fiscal deficit by ₹40.02 crore.

State Government replied (December 2024) that on specific receipt of request from account holders, the non-Government funds resumed would be transferred to TSB (Institution) accounts of institutions concerned which have been exempted from resumption.

4.6.4 Resumption of funds originally debited under Capital and Loan Heads of Account to a Common Head of Account '2075-00-911-94'

Scrutiny also revealed that funds amounting to ₹35.02 crore maintained in the STSB accounts of three institutions given under Capital heads of Account (₹14.72 crore) and Loan Head of Account (₹20.30 crore) were resumed to the common Head of Account '2075-00-911-94-Deduct Recoveries- Refund of amounts resumed from the idling STSB accounts' on 26 March 2024 as shown in **Table 4.4** below. This has resulted in understatement of revenue deficit by ₹35.02 crore. Consequently, the capital expenditure has been overstated by ₹14.72 crore and disbursement of loans has been overstated by ₹20.30 crore.

Table: 4.4 Resumption of funds given under Loan/ Capital Heads of Account to the common Head of Account ‘ 2075-00-911-94’

(₹ in crore)

Sl No.	Name of the Institution	Amount resumed	Head of Account under which originally debited	Head of Account to which resumed	Remarks
1	Kerala State Road Transport Corporation	20.30	7055-00-190-99	2075-00-911-94	Understatement of revenue deficit and overstatement of Loan head by ₹20.30 crore
		2.74	5055-00-190-99	2075-00-911-94	Understatement of revenue deficit and overstatement of Capital Expenditure by ₹2.74 crore
2	Kerala Water Authority	11.16	4215-01-800-93	2075-00-911-94	Understatement of revenue deficit and overstatement of Capital Expenditure by ₹11.63 crore
		0.47	4215-02-190-99	2075-00-911-94	
3	Roads and Bridges Development Corporation of Kerala Limited	0.35	5054-80-107-97	2075-00-911-94	Understatement of revenue deficit and overstatement of Capital Expenditure by ₹0.35 crore
	Total	35.02			

Source: Details collected from various institutions

State Government replied (December 2024) that Director of Treasuries have been given instructions to file alteration memorandum to AG for re-classifying the resumed funds to correct Recovery of Overpayment (ROP) Head of Accounts during reallocation of resumed funds

4.7 Clubbing of unrelated expenditure in common heads

4.7.1 Indiscriminate operation of Minor Head 800 – Other receipts and other expenditure

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.

➤ Minor Head 800-Other Expenditure

During the year 2023-24, ₹10,047.22 crore under 69 Major Head of accounts, constituting 6.43 *per cent* of the total Revenue and Capital expenditure (₹1,56,210.79 crore) was classified under the Minor Head 800-Other Expenditure in the accounts. During the previous year 2022-23, expenditure aggregating to ₹7,248.36 crore, constituting 4.65 *per cent* of the total Revenue and Capital expenditure (₹1,55,947.49 crore), was classified under Minor Head 800-Other Expenditure in respect of 67 Major Heads of account involving both Revenue and Capital sections. Compared to previous year expenditure under Minor Head-800 increased by 38.61 *per cent* during 2023-24.

It was observed that in nine Major Heads, expenditure exceeding ₹100 Crore were classified under Minor Head 800 during 2023-24 as given in **Table 4.5**

Table 4.5: Expenditure of more than ₹100 crore under the Minor Head 800

(₹ in crore)

Sl.No	Major Head	Expenditure booked under Minor Head 800	Total Expenditure under Major Head	Percentage of amount booked under Minor Head 800
1	2075 – Miscellaneous General Services	6,521.24	14,741.69	44.24
2	2210 – Medical and Public Health	806.66	8,657.54	9.32
3	5075 – Capital Outlay on Other Transport Services	510.73	510.73	100.00
4	4515 – Capital Outlay on Other Rural Development Programme	386.98	1,190.17	32.51
5	4885 – Other Capital Outlay on Industries and Minerals	200.38	335.05	59.81
6	2217 – Urban Development	190.65	1,059.72	17.99
7	4217 – Capital Outlay on Urban Development	131.62	146.33	89.95
8	3054 – Roads and Bridges	123.65	989.23	12.50
9	2014 – Administration of Justice	100.46	1,226.82	8.19

Source: Finance Accounts

A scrutiny of selected cases of booking under Minor Head 800 revealed that in some instances, a valid Minor Head, other than 800 was available in the List of Major and Minor Head (LMMH) for booking these transactions which is summarised in **Table 4.6**.

Table 4.6 : Booking under Minor Head 800 instead of Valid Minor Head

(₹ in crore)

Sl No.	Heads of Account as per State budget	Amount	Suitable Minor head as per LMMHA
1	3055-00-800-94 - Implementation of e-Governance in MVD-Training and Capacity Building	0.34	3055-00-003 Training
2	2435-01-800-99- Market Development	5.80	2435-01-101 Marketing Facilities
3	3435-60-800-99 Strengthening of Department of Environment	0.61	3435-03-102-89 Department of Environment and Climate change
4	6250-60-800-94-Loan to Rehabilitation Plantation Limited	8.40	6250-60-190-Loans to Public Sector and other Undertakings
5	2203-00-800-91-C-apt Kerala State Centre for advanced printing and training	3.73	2203-00-188-Assistance to Autonomous Bodies

Source: Finance Accounts

➤ Minor Head 800-Other Receipts

During 2023-24, ₹1,420.31 crore under 47 Major Heads of Account, constituting 1.14 per cent of the total Revenue Receipts (₹1,24,486.15 crore) was classified under 800-Other Receipts in the accounts. During the

previous year 2022-23, receipts aggregating to ₹1,459.48 crore under 48 Major Heads of account constituting 1.10 *per cent* of the total revenue receipts (₹1,32,724.65 crore) were classified under the Minor Head 800- 'Other Receipts' in the Accounts. Compared to the previous year, booking of receipts under Minor Head-800 decreased by 2.68 *per cent* during 2023-24.

It was observed that in respect of three Major Heads, receipts aggregating more than ₹100 crore were classified under the Minor Head 800 during 2023-24 as shown in **Table 4.7**

Table 4.7: Receipts of more than ₹100 crore under the Minor Head 800

(₹ in crore)

Sl No.	Major Head	Receipts booked under Minor Head 800	Total Receipts under Major Head	Percentage of amount booked under Minor Head 800
1	0070 – Other Administrative Services	524.69	691.06	75.93
2	0029 – Land Revenue	428.81	711.71	60.25
3	0030 – Stamps and Registration Fees	149.32	5,694.88	2.62

Source: Finance Accounts

4.8 Opening of New Sub Heads/ Detailed Heads of Accounts without advice

According to Article 150 of the Constitution of India, the accounts of the State are to be kept in the form as advised by the Comptroller and Auditor General of India. During 2023-24, the State Government opened 14 new Sub Heads (nine under the Revenue Section and five under the Capital section) in the budget, without seeking the advice of the Comptroller and Auditor General as required under the Constitution. The State Government provided budget provisions under these heads and incurred expenditure of ₹0.23 crore under the Revenue Section and ₹1.05 crore under the Capital Section in these heads during 2023-24. Opening of new Sub Heads of accounts without seeking advice from Comptroller and Auditor General of India is in violation of the Constitutional provisions.

State Government replied (December 2024) that new subheads / detailed heads were opened without AG's advice as new schemes could not be revealed before the presentation of the Budget and Supplementary Demands for Grants (SDG) to the Legislative Assembly in order to maintain secrecy. The reply is not acceptable as opening of new sub heads of account without seeking advice from Comptroller and Auditor General of India is in violation of the Constitutional Provisions.

C. Issues related to Measurement

4.9 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 unclear, the balance under the suspense heads would accumulate and does not reflect the Government’s receipts and expenditures 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 Heads can be obtained from Finance Accounts. The outstanding balances under these heads worked out by aggregating the outstanding debit and credit balances separately under the Heads 8658, 8782 and 8793 as on 31 March 2024 was ₹158.32 crore (debit).

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 2021-22 to 2023-24 are given in **Table 4.8**.

Table 4.8: Balances under Suspense and Remittance Heads

(₹ in crore)

Minor Head	2021-22		2022-23		2023-24		Earliest period to which balances are outstanding
Major Head 8658 - Suspense	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	
101 - PAO suspense	392.72	0.82	440.62	0.20	407.05	0.52	1980-81
Net	391.90		440.42		406.53		
102 - Suspense Account-Civil	951.21	14.78	25.04	11.22	21.69	189.08	1973-74
Net	936.43		13.82		(-) 167.39		
107 - Cash Settlement Suspense Account	-	-	-		-		
Net	-		-		-		
109 - Reserve Bank Suspense - Headquarters	2.69		2.50		6.10		1981-82
Net	2.69		2.50		6.10		
110 - Reserve Bank Suspense - CAO	7.84		(-) 423.28		263.74		2004-05
Net	7.84		(-)423.28		263.74		

Minor Head	2021-22		2022-23		2023-24		Earliest period to which balances are outstanding
Major Head 8658 - Suspense	Dr.	Cr.	Dr.	Cr.	Dr.	Cr.	
112 - Tax Deducted at Source (TDS) Suspense		1099.52		176.29		268.79	2019-20
Net		1099.52		176.29		268.79	
123 - A.I.S Officers' Group Insurance Scheme		0.19		0.25		0.23	
Net		0.19		0.25		0.23	
Major Head 8782-Cash Remittances							
102 - P.W. Remittances	1015.06		484.12		(-) 1400.21		1975-76
Net		1015.06		484.12		(-)1400.21	

Source: Finance Accounts of respective years

Non clearance of outstanding balances under these heads affects the accuracy of receipt/expenditure figures and balances under different heads of Accounts (which are carried forward from year to year) of the State Government.

4.10 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 2023-24 has revealed that the cash balance of the State of Kerala for the year ending March 2024 as per the books of Accountant General (A&E) was ₹238.68 crore (Debit) whereas the Cash balance reported by Reserve Bank of India was ₹1.25 crore (Debit). Thus, there was a difference of ₹239.93 crore (Credit) as on 31 March 2024. Out of the difference, an amount of ₹152.01 crore (net debit) has been cleared in 2024-25. The balance difference of ₹391.94 crore²⁷ (net credit) is under reconciliation.

4.11 Adverse balance under DDR Heads

Adverse balance is a situation, when a head of account closing to balances at the end of the financial year reflects minus balance, debit/(-) credit balance representing liability heads or heads where it should normally have credit balance, and credit/(-) debit balance representing Asset heads or heads where it

²⁷ Difference between Cash balance of 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. (₹ in crore)

	Debit	Credit
Cash balance as per AG's Books	238.68	
Cash balance reported by RBI	1.25	
Difference		239.93
Reconciled during 2024-25	152.01	
Balance under reconciliation		391.94

should normally have debit balance. Adverse balances as on 31 March 2024 are detailed in **Table 4.9**.

Table 4.9: Adverse balances appearing in the accounts during the year 2023-24

Head of Accounts (Till Minor Head)	Description	(₹ in crore) Amount
6885-60-800	Other Loans	(-)14.71
7052-60-800	Loans for Shipping-Other Loans	(-)0.06
7610-00-202	Advances for the purchase of Motor conveyances	(-)0.61
7610-00-203	Advances for the purchase of other conveyances	(-)0.28
7610-00-204	Advances for the purchase for computers	(-)0.38
8443-00-106	Personal Deposits	(-)28.65
8448-00-102	Municipal Funds	(-)19.11
8448-00-105	State Transport Corporation Funds	(-)57.91
8448-00-109	Panchayat Bodies Funds	(-)150.79
8671-00-101	Departmental Balances-Civil	(-)7.63
8782-00-102	Public Works Remittances	(-)1400.21
8793-00-124	Inter State Suspense Accounts – Andaman Nicobar Islands	(-)1.06

Source: Finance Accounts

Adverse balance in a Head of Account arises due to misclassification, more disbursement than the availability of funds, more disbursement than the contribution received, non-carrying forward of balances from one accounting unit to another, administrative reorganisation leading to creation of States/more accounting units etc. Necessary action for clearing the adverse balances is required to be taken.

4.12 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 four Indian Government Accounting Standards (IGAS). Compliance to these Accounting Standards by Government of Kerala in 2023-24 and deficiencies therein are detailed in **Table 4.10**.

Table 4.10: Compliance to Accounting Standards

Sl. No.	Essence of IGAS	Compliance by State Government	Impact of deficiency
1	IGAS-1 : Guarantees given by the Government – Disclosure requirements		
	IGAS-1 requires that sector-wise and class-wise disclosures on guarantees given by State Government should be incorporated in Finance Accounts	Complied (Statement 9 & 20 of Finance Accounts)	The Statements 9 & 20 are prepared in accordance with the provisions of IGAS-1 based on the information provided by the State Government.
2	IGAS-2 : Accounting and Classification of Grants-in- Aid		
	As per IGAS-2, expenditure relating to Grants-in-aid should be classified as revenue expenditure even if it involves creation of assets, except in cases specifically authorized by the President on the advice of the Comptroller and Auditor General of India.	Complied (Statement 10 of Finance Accounts).	Accounting and classification of Grants-in-aid given by the State Government have been depicted in Statement 10 and Appendix III which are prepared as per the requirements of IGAS-2.
3	IGAS-3: Loans and Advances made by Government		
	IGAS – 3 requires disclosures on Loans and Advances made by the Union and the State Governments.	Partly complied (Statement No. 7 & 18 of Finance Accounts).	The details of loans and advances reported in Statement No.7 & 18 of the Finance Accounts are based on information received through the accounts rendered to the Accountant General (Accounts & Entitlement) and detailed accounts maintained by the Accountant General (Accounts & Entitlement) in respect of loans and advances made to Government servants. The closing balances depicted in Statements 7 & 18 as on 31 March 2024 have not been reconciled with the Loanee Entities/State Government. The State Government has also not furnished the figures in respect of certain loans and advances for which they maintain detailed accounts
4	IGAS – 4: Prior Period Adjustment		
	IGAS – 4 requires Prior Period Adjustments including errors once identified shall be presented in the current period (the financial year) under the cash basis of accounting.	Complied	The state Government carries out adjustment as per the existing procedure and discloses such information, which pertain to the prior period errors and covers entries requiring prior period adjustments arising out of changes in Government decisions. Such adjustments are given as footnotes in the respective statements in the Finance Accounts.

Source: Finance Accounts

D Issues related to Disclosure

Disclosure in the accounts means that the recorded transactions have been properly classified and disclosed wherever appropriate. This implies that the Receipts and Expenditures are booked to the proper account head and the

disclosures in the notes and footnotes in the accounts are appropriate and adequate.

4.13 Off Budget borrowings

The borrowings of the State Government are governed by Article 293(1) of the Constitution of India, under which the State Governments can borrow money within the territory of India upon security of the Consolidated Fund of the State. The limits on such borrowings are regulated under Article 293(3) of the Constitution of India under which the State must obtain prior consent of the Government of India (GoI) to raise any loan. The State Government is, therefore, required to furnish to GoI, the financial statements showing the estimates of receipts and repayments of all sources of borrowings including open market borrowings, other liabilities arising out of Public Account transfers, etc. based on which the Government of India gives the consent for raising loans and fixes the borrowing ceiling for the State Government. Government of India had fixed Net Borrowing of the State for 2023-24 in line with the recommendations of Finance Commission at three *per cent* of the estimated GSDP.

The details of the off-budget borrowings are given in Paragraph 2.7.1 of this Report, wherein it has been stated that the State Government has an outstanding liability of ₹ 32,942.14 crore as at the end of March 2024, towards servicing the off-budget borrowings. The off-budget borrowings of the State Government during 2023-24 increased by ₹2,573.55 crore and the total cumulative outstanding liability of the State Government on account of off-budget borrowings at the end of March 2024 had increased by ₹3,466.17 crore (11.76 *per cent*).

Though the Government had undertaken to service these borrowings through its own revenue resources, the details of these borrowings have not been disclosed in the State Budget.

Non-disclosure of off-budget borrowings in the State budget has the impact of diluting public financial management and oversight role of the Legislature.

4.14 Reconciliation of Receipts and Expenditure between CCOs and Accountant General (A&E)

All Controlling Officers are required as per provisions contained in Para 74 of Kerala Budget Manual to reconcile receipts and expenditure of the Government with the figures accounted for by the Accountant General (A&E), Kerala. During the year 2023-24, revenue receipts amounting to ₹77,337.29 crore (62.13 *per cent* of total revenue receipts) and revenue expenditure amounting to ₹1,17,805.57 crore (82.60 *per cent* of total revenue expenditure) and capital expenditure amounting to ₹12,759.74 crore (93.93 *per cent* of total capital expenditure) were reconciled by the State Government. Loans and Advances given by the State Government amounting to ₹2,556.76 crore (77.58 *per cent* of total loans and advances given by the State Government) was reconciled.

In comparison, revenue receipts amounting to ₹90,680.28 crore (68.32 *per cent* of total revenue receipts of ₹1,32,724.65 crore) and revenue expenditure amounting to ₹1,41,950.94 crore (100 *per cent* of total revenue expenditure of ₹1,41,950.94 crore) were reconciled by the State Government during 2022-23. Loans and Advances given by the State Government amounting to ₹2,134.34 crore (76.47 *per cent* of total loans and advances given by the State Government) were reconciled during the year 2022-23.

Non-reconciliation of receipts and expenditure of Government with the figures accounted by the Accountant General (A&E) would lead to probable misclassification of receipts and expenditure in the accounts of the State Government.

4.15 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 26 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 4.2**.

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 25 Autonomous bodies which were to render

annual accounts to C&AG, 61 accounts were in arrears ranging from one to 10 years as shown in **Table 4.11**. The institution wise details are shown in **Appendix 4.3**.

Table 4.11: Arrears in accounts of Autonomous Bodies

Years from which accounts pending	No. of Autonomous bodies	Years of pendency	No. of Accounts pending
2014-15	01	10	10
2017-18	01	7	7
2019-20	03	5	15
2020-21	01	4	4
2021-22	01	3	3
2022-23	04	2	8
2023-24	14	1	14
Total	25		61

Source: Information collected from various Autonomous Bodies

The State Government should issue specific directions to all the Administrative departments to instruct the autonomous bodies under them to clear the arrears in accounts and to fix responsibility on the heads of autonomous bodies which defaulted in clearing the accounts.

4.16 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 finalised 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 finalisation of accounts, the results of the investment of the Government remain outside the purview of State Legislatures and escape the 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 **Table 4.12**.

Table 4.12: Statement of finalisation of *pro forma* accounts and Government investment in Departmentally managed commercial and quasi-commercial undertakings

(₹ in crore)

Sl. No.	Name of the undertaking	Accounts finalized up to	Government investment as per the last accounts finalized	Profit/loss as per the last accounts	Government investment for the last four years (2020-21 to 2023-24)		Remarks
1	State Water Transport Department	2021-22	868.21	(-)89.35	2020-21	0.71	
					2021-22	0.89	
					2022-23*		
					2023-24*		
2	Kerala State Insurance Department	2017-18	Nil	843.15			Accounts finalised upto 2017-18 only
3	Rubber Plantations at Open Prison & Correctional Home, Nettukalthery	2020-21	Not available from the last submitted accounts	0.15	Not traceable from the submitted accounts		

Source: Information collected from various Institutions

* Information yet to be received from the institution

4.17 Misappropriations, Losses and Defalcations

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 (Audit I)/ Accountant General (Audit II), Kerala as well as to the Heads of Departments.

The final action on 84²⁸ cases of misappropriation, defalcation, involving Government money amounting to ₹2,192.15 lakh was pending with the State Government. Details are given in **Table 4.13**.

Table 4.13: Profile of misappropriations, losses and defalcations

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	19	1,781.96	Theft	5	1.23
5 – 10	10	83.93			
10 – 15	14	88.43	Misappropriation/ loss of material	79	2,190.92
15 – 20	5	17.34			
20 – 25	15	144.00			
25 and above	21	76.49			
Total	84	2,192.15	Total pending cases	84	2,192.15

Source: Cases reported by various Departments of the State Government

The reasons for delay in finalisation of outstanding cases were analysed by Audit and are summarised in **Table 4.14**. Department-wise details are shown in **Appendix 4.4**.

²⁸ This includes cases detected by Audit during local audit as well as cases reported by Government departments as per codal provisions.

Table 4.14: 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	13	1,061.42
2.	Departmental action initiated but not finalised	14	462.82
3.	Awaiting orders for recovery or write off	37	142.15
4.	Pending in the courts of law	20	525.76
Total		84	2,192.15

Source: Information received from various 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.

4.18 Follow up Action on State Finances Audit Report

In Kerala State the Public Accounts Committee (PAC)/ Finance Department requires 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 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.

The receipt of ATNs from the line departments in respect of the State Finances Audit Report from the year 2018-19 to 2021-22 are pending. The details are shown in Table 4.15.

Table 4.15: Number of Audit Paras for which ATN due from Government

Sl. No.	Year of Audit Report	Total Number of ATNs
1	2018-19	03
2	2019-20	10
3	2020-21	08
4	2021-22	31
Total		52

Source: Information collected from PAC

The discussion of paras in the State Finance Audit Report up to the year 2017-18 was completed on 07 August 2024.

4.19 Conclusions

- The arrears in submission of accounts by Autonomous Bodies ranged from one to 10 years.
- There were delays in initiating departmental action, fixing liability, issuing orders of recovery, etc, in respect of cases of misappropriation/loss of public money.

- As compared to previous year, the expenditure booked under Minor head 800- other expenditure increased by 38.61 *per cent* and receipts booked under Minor Head 800- other receipts declined by 2.68 *per cent*.

4.20 Recommendations

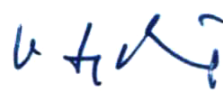
1. *The Government may consider preparing a time bound framework for taking prompt action in cases of misappropriation, loss, theft etc and strengthening the internal control system to prevent recurrence of such cases.*
2. *Finance Department may consider evolving a system to expedite the process of compilation and submission of annual accounts by autonomous bodies and departmentally run undertakings in order to assess their financial position.*

Thiruvananthapuram,
The 14 MAY 2025


(VISHNUKANTH P. B)
Accountant General (Audit II), Kerala

Countersigned

New Delhi,
The 27 MAY 2025


(K. SANJAY MURTHY)
Comptroller and Auditor General of India