

CHAPTER III

BUDGET MANAGEMENT

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The objective of Integrated Financial Management System (IFMS-K) is to integrate Finance and Treasury management functions to ensure effective budgetary control in expenditure management. This could not be ensured as the budget estimation module was limited to Chief Controlling Officer (CCO) level and not integrated with Human Resources (HR) application and the entirety of estimation was not automated. The Budget 2.0 application could not accurately evaluate savings within the grant leading to excessive additional authorisations. Voucher Level Computerisation (VLC) System of Office of AG (A&E) was not integrated with the Budget 2.0 application and the business rules were not properly mapped in the BAMS module leading to incurring expenditure without proper budget provisions.

3.1 Introduction

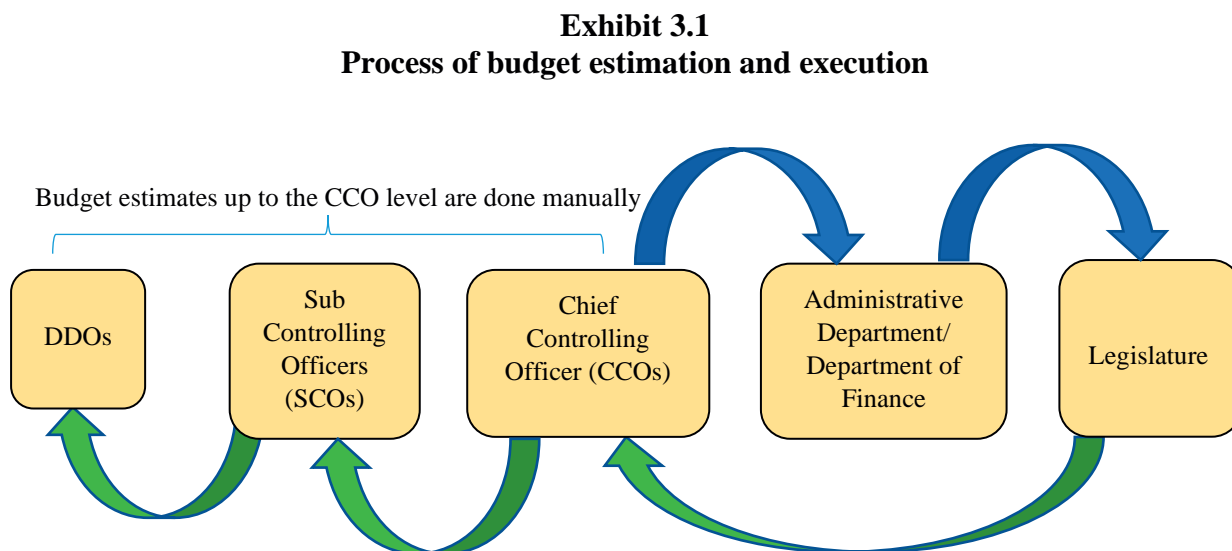
IFMS-K aims to provide effective financial control over budget estimation, budgeting, and the allocation of the approved budget for the State Government. The core applications involved in this process are:

- **Budget Monitoring System (BMS):** Used for budget estimation, receiving proposals from the CCOs *etc.*
- **Budget 2.0:** Utilised by the Department of Finance for budget preparation, additional authorisation, supplementary demand for grant *etc.*
- **Budget Allocation and Monitoring System (BAMS):** Employed for allocating the budget up to Drawing and Disbursing Officer (DDO) level.

The data flow in the budget applications starts with the Chief Controlling Officers (CCOs) providing the budget estimates, to the Administrative Department through the BMS. The Department of Finance after scrutinising the estimates received through Administrative Departments, uploads the data into the Budget 2.0 for the preparation of the State Budget. Once the budget is passed by the Legislature, the allocation of the budget is managed through the BAMS up to the level of DDO. Budget data from the Department of Finance are also ported into the VLC system of Accountant General (A&E). Based on the allocated budget, DDOs raise bills and forward them to the respective Treasuries for processing and payment to the beneficiaries. The major/ sub-major head wise transaction data generated in each District Treasury is electronically transferred by the Director of Treasuries monthly to AG (A&E). AG (A&E) then ports this data into different sets of tables in the VLC system. The AG (A&E) prepares the monthly Accounts (monthly Appropriation and monthly Civil Accounts)

and Annual Accounts (Appropriation Accounts and Finance Accounts) of the State Government from the VLC data.

The process of budget estimation and execution is given in **Exhibit 3.1** below:



3.2 Deficiencies in the Automation/ Integration in the Budget Monitoring System (BMS)

As per para 12 of Kerala Budget Manual (KBM), 'Preparation of the budget' marks the first of the budgetary stages which is a purely executive function. As per circulars issued by Department of Finance, all Heads of Department (HOD) shall submit the budget estimates to the Department of Finance before mid-September that year. The HODs prepares estimates based on the estimates submitted by Regional/ District Officers and the Administrative Department, after scrutinising the estimates submitted by HODs, forward it to Department of Finance for further scrutiny. The Department of Finance captures this process through the BMS application of Budget module.

Audit observed gaps in automation/ integration of budget preparation process in the BMS as given below:

- 1) Sub Controlling Officers (SCOs) and DDOs submit their estimates manually to CCOs, who consolidate them in prescribed formats and upload them into the BMS. Non-capture of estimates by the BMS from the primary level indicates incomplete automation of business rules. It was also noticed that the proposals for plan schemes are still submitted in physical formats, bypassing the BMS application entirely.
- 2) Since the BMS lacks integration with the Budget 2.0 application, the Department of Finance manually downloads departmental estimates

figures from the BMS, scrutinises them, and issues final orders¹⁶ on Part I and Part II estimates by January and re-uploads into the Budget 2.0 as proposals. Before issuing final orders, the estimation is required¹⁷ to be communicated to Administrative Departments for seeking subsequent proposals, if any. The communication of estimates and subsequent proposals between the Department of Finance and Administrative Departments are conducted manually, highlighting significant gaps in automation and system integration.

Government stated (November 2024) that steps are being taken to address the deficiencies with the authorities concerned and to devise a long-term solution. The workflow for integrating the BMS with the Budget 3.0 to capture proposals has been prepared and is in the developmental stage, with implementation expected in the near future.

The reply is not tenable as automation/ integration of budget preparation process was to be incorporated at the implementation stage itself and in a comprehensive manner.

Recommendation No. 4

Government should initiate the automation of the BMS and its integration with the Budget application in a timely manner.

3.3 Deficiencies in the Budget 2.0 application

Budget 2.0 is the application for preparing the Budget of the Kerala Government. This software manages budget activities like Budget Estimation, Preparation of Budget, Preparation of Budget Documents, and post budget activities like Additional Authorisation, Supplementary Demands for grants, Contingency Fund Management, Re-appropriation of Funds, Resumption, Regularisation of Funds, surrender of savings and preparation of Alteration Memorandum.

The final approved estimates prepared by Department of Finance are manually entered into the Budget 2.0 application as estimate against proposals and then the Annual Finance Statement and supporting documents are generated.

Prior to the financial year 2021-22, expenditure amounts were manually entered into the Budget system, based on data furnished by the CCOs concerned. In 2021-22, a new feature was implemented in the Budget system for automatically capturing expenditure figures from the BAMS. Therefore, the audit analysis of the Budget data covers the financial years 2021-22 and 2022-23 only. The deficiencies noticed are discussed in the succeeding paragraphs.

¹⁶ Para 50 of KBM.

¹⁷ Para 48 of KBM.

3.3.1 Limitation of the system in restricting Additional Authorisation

Para 95(3) of the Kerala Budget Manual stipulates that when an additional appropriation is required urgently and no savings are foreseen, the authority concerned should apply to the Administrative Department in Government for permission to incur the expenditure. The Administrative Department with the concurrence of the Department of Finance, authorises the expenditure, and informs the Accountant General, through the Department of Finance, that provision will be made later, either by re-appropriation, or by obtaining a supplementary grant. The grant as a whole should not be exceeded before the supplementary grant has been made by the Legislature.

Authorisation of additional funds and re-appropriation of budget is carried out by the Budget Section in Department of Finance based on the requests received from HODs/ COs after obtaining approvals from respective Administrative Departments. The fund so authorised is released through the Budget 2.0 application.

Audit verified the data in demand table¹⁸ of the Budget 2.0 application database and found that in the capital head for the year 2021-22 under Grant XII – Police, the expenditure exceeded the overall grant even though the additional expenditure was not regularised by the Legislative Assembly under seven heads as given in **Appendix 3.1**.

Audit observed that the Budget 2.0 application lacks validation controls to restrict additional authorisation up to the limit of savings available in other units of appropriation, after the final session of the Legislative Assembly for the financial year has been concluded.

Government stated (November 2024) that the Additional authorisation is being provided for incurring expenditure against unavoidable items for which immediate savings could not be located for re-appropriation. However, all possibilities shall be explored to develop modules in budget and the BAMS applications for avoiding the occurrences of excess grant due to non-regularisation of additional expenditure incurred.

The reply is not tenable, as proper validation controls would have ensured that expenditure under a specific head of account does not exceed the overall grant and the system should restrict the expenditure under a head up to the savings available for re-appropriation.

Recommendation No. 5

Government may augment the budget module to accurately identify savings within grants and develop a system to monitor and track any additional authorisations to ensure timely regularisation of expenditure.

¹⁸ Table that captures head-wise approved grant, re-appropriation, supplementary grant, expenditure, additional expenditure *etc.*

3.3.2 Absence of controls to validate and limit expenditure in salary heads

Audit noticed that no validation control existed to check for budget availability prior to incurring expenditure in salary heads resulting in excess expenditure. The excess expenditure incurred during 2021-22 attributed to salary heads are detailed in **Appendix 3.2**.

Government stated (November 2024) that as per GO(P) No.49/74/Fin dated 01 March 1974, excess disbursement relating to salaries, wages and pension is exempted from the purview of appropriation on the good intention that payment under these items should not be interrupted for want of funds. However, a more realistic approach shall be taken in budget estimation to avoid excess expenditure against budget provision under these items.

The fact remains that Government has failed to tap into the potential of the data available in SPARK for predicting trends in salary disbursement.

3.3.3 Discrepancy between expenditure in the books of Accountant General (A&E) and Budget Data

The AG (A&E) prepares Monthly Accounts from the electronic data rendered by the Directorate of Treasuries. Adjustments to expenditure are made by AG (A&E) through Transfer Entries based on requests from the Treasuries. Recovery of Overpayments (ROP), reflected as negative expenditure, is carried out by the Directorate of Treasuries after expenditure has been incurred under the respective head. AG (A&E) also undertakes annual adjustments for specific heads of accounts. Since re-appropriation is done through the Budget 2.0 application, the final expenditure booked under each head of account by AG (A&E) must align with the figures in the Budget 2.0 to ensure accurate re-appropriation.

Audit cross-checked the expenditure data captured in the Budget 2.0 application with that of Books of Accounts maintained by AG (A&E) for the year 2021-22 and 2022-23 and noticed that out of 7,263 heads of account, 2,653 heads showed discrepancies between the expenditure amount booked by AG (A&E) and the Budget 2.0 data. In 14 of these heads, the differences exceed ₹50 crore. Audit test checked these 14 heads of account and found that the discrepancies were due to non-capturing of Recovery of Overpayment (ROP) booked by Treasuries and modifications/ alterations made by AG (A&E) through Transfer entries in the Budget 2.0.

Illustrative cases:

1. **5054-03-337-97 Kerala State Transport Project (World Bank Aided): Difference due to Transfer Entry by AG**

The expenditure shown under the head 5054-03-337-97 Kerala State Transport Project (World Bank Aided) in the Budget 2.0 for 2021-22 was ₹644.54 crore. However, the books of AG (A&E) recorded only ₹391.64 crore, resulting in a discrepancy of ₹252.90 crore. Audit analysis revealed

that AG (A&E) made a Transfer Entry, as per the letter from the District Treasury Officer, to transfer back an amount of ₹252.90 crore to this head which was initially credited under the head 2075. This overstatement of expenditure in the Budget 2.0 could have been avoided if there is integration between the Budget 2.0 and the VLC.

2. **2700-01-800-99 Interest and pension on Capital expenditure:**
Annual adjustment by AG

As per books of AG (A&E), ₹8.57 crore and ₹9.00 crore were booked under the head 2700-01-800-99 in 2021-22 and 2022-23 respectively. But no amount of expenditure was shown in the Budget 2.0 for these heads. These amounts represent the pension and interest contributions of Departmental Commercial Undertakings which were adjusted by AG (A&E) as Annual Adjustment.

From the above it can be concluded that the modification subsequently made by AG (A&E) in the expenditure figures are not reflected in the Budget 2.0 application. As IFMS-K system could not ascertain the exact savings under the heads, savings were not surrendered. Illustrative cases of savings which were not surrendered during 2021-22 and 2022-23 is detailed in **Appendix 3.3**.

Government stated (November 2024) that for recovery of overpayment, a new feature has been developed for CCOs in the BAMS.

The reply is not tenable as Government has not developed any system for integration of the final expenditure booked by AG (A&E) with the budget figures.

Recommendation No. 6

Government should initiate steps to automate budget module to continuously track and update figures in the heads of accounts while keeping a trail of the changes made and figures booked by the AG (A&E) need to be captured in the budget module for improving efficiency and accuracy in the budgeting process.

3.4 Deficiencies in the Budget Allocation and Monitoring System (BAMS)

After Budget is passed and Appropriation Bill is enacted, Administrative Departments, in consultation with the Department of Finance, divide the appropriation against each head of account among Chief Controlling Officers (CCOs) concerned. CCOs allocate the grants to SCOs and SCOs to DDOs as per requirement in due course. DDOs are responsible for making expenditure within the allocated amount. The distribution of budget provision is being done through a web-based application, namely the BAMS. BAMS envisages online allocation of budget provision up to the level of DDO. The deficiencies noticed in the BAMS application are given below:

3.4.1 Absence of functionality for Additional Fund request in the BAMS

After the initial allotment to SCO/ DDO, subsequent release of funds by the CCOs are based on request from the DDO/ SCO for meeting the expenditure. When the amount provided under a unit is insufficient, expenditure can be incurred through re-appropriation or through additional authorisation of funds.

Audit noticed that no functionality exists in the BAMS module for making request for re-appropriation, additional authorisation, surrender or resumption of funds by the DDOs/ SCOs. Whenever additional fund is required, DDOs/ SCOs make request for balance funds by way of correspondence through letter/ e-mail to their respective Administrative Departments and the Administrative Department approaches the Department of Finance through e-office for sanctioning funds either through re-appropriation or through additional authorisation. Lack of functionality for post-budgetary activities in the IFMS-K prevented DDOs from submitting proposals for additional funds through the system and hindered CCOs from ensuring the availability of funds within the Grant for re-appropriation.

Government stated (November 2024) that an additional fund request module in the BAMS for online submission of additional authorisation proposals from CCO to the Finance Department has already been developed and is under testing stage. The scope of extending the facility to DDOs/ SCOs for submission of proposals to CCO will be examined.

Recommendation No. 7

Government should establish a time frame for developing the functionality for additional fund request in the BAMS at the DDO/ SCO level.

3.4.2 Non-mapping of Business Rules of Kerala Budget Manual in the BAMS

As per Para 84 of the Kerala Budget Manual, the Department of Finance holds exclusive powers for re-appropriation between minor heads within a grant, while re-appropriation between subordinate heads under a minor head is delegated to Administrative Departments and Chief Controlling Officers. Para 93(1) states that re-appropriation and resumption of savings can only be ordered by the competent authority until the end of the financial year.

Audit noticed:

- that currently all re-appropriation/ additional authorisation/ surrender of funds even between subordinate heads are done by the Department of Finance. The system is not allowing re-appropriation of funds between subordinate heads by Administrative Department/ CCOs, though there is provision for it in Kerala Budget Manual.

- on verifying re-appropriation and surrender data from the VLC, that more than 75 per cent of re-appropriation and more than 90 per cent of surrender entries were made after the close of the financial year. The re-appropriation and surrenders effected during 2021-22 and 2022-23 are given in **Table 3.1** below.

Table 3.1

| Reappropriation Orders | | | | Surrender Orders | | | |
|----------------------------------------------------|------------|---------------|----------------|----------------------------------------------------|------------|---------------|----------------|
| From | To | No. of orders | No. of entries | From | To | No. of orders | No. of entries |
| 01-04-2022 | 31-03-2023 | 339 | 1,258 | 01-04-2022 | 31-03-2023 | 3 | 483 |
| After the close of the FY 01-04-2023 to 30-06-2023 | | 70 | 3,781 | After the close of the FY 01-04-2023 to 30-06-2023 | | 68 | 13,773 |

(Source: The VLC data of AG (A&E)).

Government replied (November 2024) that:

- the delegation of re-appropriation powers is currently limited due to technical constraints in the Budget 3.0 and the BAMS systems, but the Department of Finance is developing a new module in the BAMS to streamline re-appropriation proposals and enable further delegation after consultations and legislative approval.
- re-appropriation after the financial year's closure primarily regularises additional expenditures already incurred, with necessary certifications issued by the Finance Secretary to the Accountant General annually.

The reply regarding re-appropriation after the financial year's closure is not tenable as it involves adjustments for expenditure already incurred without prior approval.

3.4.3 Absence of controls in the Budget Allocation and Monitoring System (BAMS) to validate and limit expenditure within allotments

An analysis of the Head of Account-wise¹⁹ allotment and expenditure by DDOs from 2016-17 to 2022-23, it was noticed that IFMS-K system permitted DDOs to book expenditure that exceeded the allotment made by the Controlling Officers.

Audit observed during database analysis that in respect of 117 instances, in various Head_IDs excluding pay object heads (01, 02), expenditure was booked by DDOs in excess of the allotted amount. DDO-wise details of

¹⁹ Table: 'DDO_HEAD_ALLOCATION_SUMMARY' in the BAMS application.

Head_IDs in which expenditure was booked more than the allotted amount are detailed in **Appendix 3.4**.

Due to absence of validation controls in the system to limit the expenditure within the allotment, the DDOs could incur excess expenditure in violation of the provision of the budget manual.

Government stated (November 2024) that fruitful remedial measures for rectifying the same will be taken up with concerned officials in a time bound manner.

The reply is not tenable, as the lack of functionality/ validation controls resulted in expenditure being incurred over and above the allotted limits.

3.4.4 Discrepancies in reports generated by the Budget Allocation and Monitoring System (BAMS)

Audit observed several discrepancies in the reports generated by the BAMS, which adversely affect the reliability and accuracy of budget allocation and monitoring processes. Deficiencies were identified in the following reports:

- **Head-wise Expenditure Report:** This report is designed to generate Head of Account-wise details for a financial year, displaying available provisions, allocated amounts, and expenditure. However, inaccuracies like allocated amounts exceeding the available provisions were found in the report whereas the inaccuracy was not found in the database table²⁰ indicating flaws in data validation and report generation.
- **Allocation Expenditure Report:** This report generates CCO-wise details of budget allocation and expenditures. Audit noticed that the original CCO and cross-mapped CCOs²¹ were shown with identical budget and expenditure amounts for cross-mapped Head of Accounts. This duplication made it impossible to ascertain which CCO was allocated the budget and the corresponding expenditure.
- Analysis of data²² (October 2023) showed that the system allowed booking of negative figures in respect of budget 'Allotted Amount' under specified Head_IDs. It was observed that the report generated²³ also showed the Budget/ received amount in negative figures²⁴. The negative figure appearing in Reports generated through the BAMS establishes that it is unreliable.

Illustrative cases are given below in **Table 3.2**.

²⁰ From 'CCO_HEAD_ALLOCATION_SUMMARY' database table in the BAMS.

²¹ CCO of a different department who has to spend part of the budget allocated under a head of account along with Original CCO in some schemes.

²² In 'CCO_HEAD_ALLOCATION_SUMMARY' table related to the BAMS application.

²³ Allocation-Expenditure Report in the BAMS.

²⁴ 'CCO wise Over Expenditure Report' in the BAMS.

Table 3.2
Illustrative cases of budget amount in negative value

| Sl. No. | Financial Year | CCO Code | Head of Account | Allotted amount (₹) | Allocated amount | Expenditure |
|---------|----------------|--------------------------------------|-------------------------|---------------------|------------------|-------------|
| 1 | 2021-22 | 020A Director of Agriculture | 2401-0-109-61-1-0-0-P-V | (-) 79,03,28,000 | 0 | 0 |
| 2 | 2021-22 | 250A Chief Conservator of Forests | 2406-2-110-38-1-0-0-P-V | (-) 2,00,00,000 | 0 | 0 |

(Source: CoreTIS database).

The negative budget amount appearing in Head_IDs are detailed in **Appendix 3.5**.

Government stated (November 2024) that fruitful remedial measures would be taken up with the concerned officials to rectify these discrepancies in a time-bound manner. It was also stated that efforts are being made to enhance the system's functionality to ensure accurate report generation and data reliability.

Recommendation No. 8

Government should conduct a review of all reports generated by the BAMS to ensure that they align with requirements and accurately reflect financial data.

3.4.5 Non-inclusion of sub-heads in Public Works Deposit head

Para 15.1.1 of Kerala Public Works Account Code stipulates that deposits received/ recoveries made from the work bills of the contractors are classified under the sub-heads i) Cash deposits of contractors as security, ii) Deposits for works to be done, iii) Sums due to contractors on closed accounts, iv) Sums due to other Governments on closed accounts and v) Miscellaneous deposits below the minor head of account 8443-108 Public Works Deposit.

As per Finance Accounts 2022-23, the amount outstanding under the head 8443-108 Public Works Deposit as on 31 March 2023 was ₹2,872.10 crore. Treasuries lack information about the various factors that contribute to the accumulation of these balances due to non-integration of the sub-heads outlined in the Kerala PW Account Code into the IFMS-K system. Consequently, all funds received for the aforementioned items are consolidated under minor head '108-Public Works Deposits', without identifying the nature of the items.

Government stated (November 2024) that new sub-heads will be opened under the head 8443-00-108-PW deposit after analysing the technical feasibility of operating the new sub-head under the existing minor head.

Recommendation No. 9

Government should fix a time frame for opening the new sub-head under the Public Works Deposit head for improved transparency and precise tracking of funds.

