

CHAPTER II ALLOCATIVE PRIORITIES AND APPROPRIATION

2.1 Introduction

The Appropriation Accounts prepared annually indicate Capital and Revenue expenditure on various specified services *vis-à-vis* those authorised by the Appropriation Act in respect of both charged and voted items of the budget.

Audit of appropriation by the Comptroller and Auditor General of India seeks to ascertain whether the expenditure actually incurred under various Grants is within the authorisation given under the Appropriation Act and that the expenditure required to be charged under the provisions of the Constitution is so charged. It also ascertains whether the expenditure so incurred is in conformity with the law, relevant rules, regulations and instructions.

2.2 Summary of Appropriation Accounts

The summarised position of actual expenditure during 2007-08 against grants/appropriations was as follows:

(Rupees in crore)

Nature of expenditure	Original grant/ appropriation	Supplementary grant/ appropriation	Total	Actual expenditure	Saving(-)/ Excess(+)
Voted					
I Revenue	21,936.27	1,547.28	23,483.55	20,694.57	(-) 2,788.98
II Capital	1,331.77	781.81	2,113.58	1,479.39	(-) 634.19
III Loans and Advances	934.07	183.91	1,117.98	893.16	(-) 224.82
Total Voted	24,202.11	2,513.00	26,715.11	23,067.12*	(-) 3,647.99
Charged					
IV Revenue	5,058.69	31.20	5,089.89	4,645.40	(-) 444.49
V Capital	0.57	4.34	4.91	4.61	(-) 0.30
VI Public Debt	9,664.87	614.93	10,279.80	8,417.63	(-) 1,862.17
Total Charged	14,724.13	650.47	15,374.60	13,067.64*	(-) 2,306.96
Grand Total	38,926.24	3,163.47	42,089.71	36,134.76**	(-) 5,954.95

* These are gross expenditure figures without taking into account the recoveries adjusted in accounts as reduction of expenditure (Revenue: Rs 448.33 crore and Capital: Rs 9.42 crore, Total: Rs 457.75 crore).

** (a) The total expenditure was inflated at least to the extent of (i) Rs 1.13 crore being amounts drawn on abstract contingent bills during the year for which detailed contingent bills were not received and (ii) Rs 10.75 crore drawn by departmental officers and credited to public works remittance head/kept in the form of demand draft.

(b) The total expenditure was understated to the extent of (i) Rs 80 crore on account of advances drawn from the Contingency Fund remaining unrecouped at the end of the year (see Appendix I of Appropriation Accounts) and (ii) Rs 1.06 crore due to non-receipt of vouchers from treasuries.

The overall saving of Rs 5,954.95 crore was the result of saving of Rs 6,109.73 crore in 68 grants and 23 appropriations offset by excess of Rs 154.78 crore in one grant and three appropriations. Reasons for excess/saving in respect of 85 *per cent* of sub heads required to be mentioned in the Appropriation Accounts had not been furnished by the Controlling Officers as of August 2008. During 2005-06 and 2006-07, the controlling

officers had not furnished reasons for 83 per cent and 82 per cent of the sub heads respectively.

2.3 Fulfilment of Allocative Priorities

2.3.1 Appropriation by Allocative Priorities

Out of the saving of Rs 6,109.73 crore, the major saving of Rs 5,194.13 crore (85 per cent) occurred in 12 cases as indicated below:

(Rupees in crore)

Sl. No	Number and name of Grant/ Appropriation	Total grant/ appropriation	Actual expenditure	Amount of saving
Revenue-Voted				
1.	XV Public Works	1,149.70	1,020.28	129.42
2.	XVII Education, Sports, Art and Culture	5,718.25	4,581.24	1,137.01
3.	XVIII Medical and Public Health	1,278.43	1,091.96	186.47
4.	XX Water Supply and Sanitation	324.59	206.34	118.25
5.	XXII Urban Development	659.87	244.88	414.99
6.	XXV Social Welfare including Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes	1,234.46	1,130.04	104.42
7.	XXIX Agriculture	807.37	560.13	247.24
Revenue-Charged				
8.	Debt Charges	4,989.21	4,552.89	436.32
Capital-Voted				
9.	XV Public Works	1,106.14	824.65	281.49
10.	XX Water Supply and Sanitation	805.00	666.63	138.37
11.	XLI Transport	215.75	77.77	137.98
Capital Charged				
12.	Public Debt Repayment	10,279.80	8,417.63	1,862.17
	Total	28,568.57	23,374.44	5,194.13

The major heads of account under which huge saving occurred in the above 12 cases are given in **Appendix XIII**.

The Department did not furnish reasons for major saving under the Grant XXV-Reasons for major cases of saving under other Grants are given below:-

Saving under 'Public Works' (Revenue and Capital Sections) was mainly due to delay in deployment of staff to the newly constituted Local Self Government's Engineering Division, drawal of pay and allowances of its staff from another head, delay in commencement of works under Kerala State Transport Project, non-payment of pending bills of contractors and non-execution of works under Central Road Fund.

Saving under 'Education, Sports, Art and Culture' was mainly due to less number of claims on medical reimbursement and travel expenses of school teachers, non-filling up of vacancies, reduction in purchase of materials for printing text books, enforcement of economy measures, non-implementation of certain schemes for improvement of library and laboratory facilities in schools under Twelfth Finance Commission Award, non-implementation of Technical Education Quality Improvement Programme in Engineering Colleges/Technical Institutes and transfer of functions relating to development of schools under National Bank for Agriculture and Rural Development assisted scheme (RIDF) to the District Panchayats.

Saving under ‘Medical and Public Health’ was mainly due to less requirement of funds under ‘Materials and Supplies’ consequent on procurement of medicines by the National Rural Health Mission, non-supply of medicines by the firms due to non-enhancement of the rate by the Central Purchase Committee and non-filling up of vacancies.

Saving under ‘Water Supply and Sanitation’ (Revenue and Capital Sections) was due to release of Central share for implementation of the Technology Mission Schemes and Accelerated Rural Water Supply Schemes directly to Kerala Water Authority by Government of India, less release of Central assistance to Accelerated Urban Water Supply Schemes and less release of loan due to slow progress of the works under JBIC assisted Water Supply Schemes.

Saving under ‘Urban Development’ was mainly due to less release of block grant to Municipal Corporation, for ‘Kerala Sustainable Urban Development Project’ and ‘Jawaharlal Nehru National Urban Renewal Mission’ and non-commencement of certain projects.

Saving under ‘Agriculture’ was mainly due to less number of claims for reimbursement of interest subsidy from co-operative sector, non-payment of electricity charges pending reconciliation of claims with Kerala State Electricity Board and non-payment of bills of contractors from April 2007, non-filling up of vacancies and delayed sanction of scheme of market intervention support for price stabilisation and non-implementation of the scheme under ‘Market Development’.

Saving under ‘Debt Charges’ was mainly due to reduction in interest liability consequent on less receipt of fresh loans than anticipated during 2006-07 and non-drawal of arrears of Dearness Allowance of the employees to be impounded in General Provident Fund.

Saving under ‘Transport’ was mainly due to delay in completion of work for improving main and feeder canals for inland water transport arranged under Twelfth Finance Commission Award.

Saving under ‘Public Debt Repayment’ was mainly due to availing less Normal Ways and Means Advances and Overdraft consequent on the decision of the Reserve Bank of India to allow States to avail Special Ways and Means Advances equivalent to the amount invested in Consolidated Sinking Fund, non-availing of ways and means advance from GOI and reduction in repayment liability due to less receipt of fresh loans during 2006-07.

2.3.2 Significant saving

In 35 cases saving exceeded Rupees five crore or more in each case and also by more than 10 *per cent* of the total provision, total amounting to Rs 5,306.09 crore (**Appendix XIV**).

2.3.3 Persistent saving

In ten cases, there were persistent saving in excess of Rs 50 lakh in each case and also 20 *per cent* or more of the provision during the last three years (**Appendix XV**).

2.3.4 Excess requiring regularisation

Excess over provision relating to previous years requiring regularisation

As per Article 205 of the Constitution of India, it is mandatory for a State Government to get the excess over a grant/appropriation regularised by the State Legislature. Out of the excess expenditure of Rs 287.41 crore for the years 1990-91, 1992-93, 1993-94, 1995-96 to 1998-99 and 2000-01 to 2006-07 requiring regularisation, notes for regularisation of excess of only Rupees eight lakh in Grant No.XX (Revenue-Voted), duly vetted by audit, has been furnished to the Public Accounts Committee (PAC). Final/Revised Copies of notes have not been received for Rs 251.12 crore and Initial Notes have not been furnished to PAC by the departments for regularisation of the balance amount of Rs 36.21 crore (September 2008). The details are given in **Appendix XVI**.

The excess expenditure of Rs 1,54,78,23,425 which occurred in the following grants during 2007-08 also requires regularisation.

(in Rupees)

Sl. No.	Number and name of Grant/Appropriation	Total grant/appropriation	Expenditure	Amount of excess
	Revenue Voted			
1.	XVI – Pensions and Miscellaneous	51,95,17,38,000	53,49,95,48,307	1,54,78,10,307
	Revenue Charged			
2.	XXIX - Agriculture	1,46,000	1,48,849	2,849
	Capital Charged			
3.	XVIII – Medical and Public Health	86,000	87,932	1,932
4.	XXIX – Agriculture	18,59,000	18,67,337	8,337
	Total	51,95,38,29,000	53,50,16,52,425	1,54,78,23,425

2.3.5 Original budget and supplementary provisions

Supplementary provisions (Rs 3,163 crore) made during the year constituted 8.12 per cent of the original provision (Rs 38,926 crore) as against 17.02 per cent in the previous year.

2.3.6 Unnecessary/excessive/inadequate supplementary provisions

- Supplementary provision of Rs 1070.41 crore obtained in 25 cases proved unnecessary in view of aggregate saving of Rs 4,614.11 crore (**Appendix XVII**).
- In 24 cases, against additional requirement of Rs 734.56 crore, supplementary grant of Rs 1,487.02 crore was obtained resulting in saving in each case exceeding Rupees one crore, aggregating Rs 752.46 crore (**Appendix XVIII**).

2.3.7 Excessive/unnecessary reappropriation of funds

Reappropriation is transfer of funds between primary units of appropriation within a grant or appropriation before the close of the financial year. Details of cases where withdrawal or augmentation of provision of funds in excess of Rs one crore proved excessive or resulted in saving equal to or more than Rs one crore in each case are mentioned in **Appendix XIX**.

2.3.8 Anticipated saving not surrendered

The spending Departments are required to surrender the unspent portion of Grants/Appropriations as and when saving are anticipated, to the Finance Department. However, aggregate saving of Rs 2,308.07 crore in 21 cases where saving was Rs 5 crore and above in each case, was not surrendered. Failure of these Departments to surrender such huge saving revealed improper monitoring of expenditure against budget provision and poor budgetary management. Details are given in **Appendix XX**.

Out of the total surrendered amount of Rs 3,767.83 crore (79 cases), Rs 3,761.68 crore (77 cases) was surrendered on the last working day of the financial year viz., 31 March 2008. Such surrenders serve no useful purpose, as the amount surrendered cannot be utilised during the year for any other function.

2.3.9 Surrender in excess of actual saving

In 12 cases the amount surrendered was in excess of actual saving indicating defective monitoring of expenditure. As against the actual saving of Rs 199.97 crore in these cases the amount surrendered was Rs 214.03 crore, resulting in excess surrender of Rs 14.06 crore (**Appendix XXI**).

2.4 Budgetary procedure and control over expenditure

A review of budgetary procedure and control over expenditure for 2007-08 conducted in June 2008 relating to Grant XVII-Education, Sports, Art and Culture and Grant XXII-Urban Development revealed the following:

2.4.1 Defective budgeting and lack of control over expenditure

According to the provisions in the Kerala Financial Code and Kerala Budget Manual, the estimate of expenditure prepared by the Department should be for the expenditure as anticipated in the ensuing financial year with reference to the existing sanctions and actual requirements. The Chief Controlling Officers are required to keep a constant watch over current and anticipated expenditure. It was noticed that there was aggregate saving of Rs 1,137.44 crore in Grant XVII-Education, Sports, Art and Culture and Rs 416.99 crore in Grant XXII-Urban Development indicating that the budgeting was defective and monitoring by the controlling officers inadequate. Some of the instances where substantial saving occurred are indicated in **Appendix XIII**.

2.4.2 Uneven distribution of expenditure

As per Para 91 (2) of the Kerala Budget Manual, flow of expenditure should be so regulated throughout the year that there is no rush of expenditure during any month particularly during the last month of the financial year. It was noticed that in the Office of the Director of Public Instructions, almost the entire expenditure under the various heads of accounts were incurred in March 2008. In the case of Directorate of Urban affairs also, several cases where expenditure was incurred during March 2008 were noticed. The details are given in **Appendix XXII**.

2.4.3 Un-reconciled expenditure

Departmental figures of expenditure are required to be reconciled every month with those in the books of the Accountant General (Accounts and Entitlement) in order to enable the Departmental officers to exercise proper control over expenditure and to detect fraud and defalcations, if any, at an early stage. All Chief Controlling Officers should forward to the Finance Department of Government monthly reports showing the progress of this item of work. These provisions were not adhered to by the Directorate of Public Instructions and the Directorate of the Urban Affairs. In the case of Directorate of Public Instructions no reconciliation work was undertaken during 2007-08. Some instances of variation in expenditure figures booked by the Accountant General (A&E) with those of the Departmental figures for 'Grant No. XXII' are indicated below:

(Rupees in crore)

Sl. No.	Head of Account	Expenditure		Variation
		Accounts Figure	Departmental Figure	
1.	2217-05-001-99	1.04	0.76	0.28
2.	2217-05-001-98	0.63	0.57	0.06
3.	2217-05-001-97	1.03	0.86	0.17
4.	2217-05-001-88	0.13	0.08	0.05
5.	2217-05-800-87	0.19	0.01	0.18

2.4.4 Unnecessary Supplementary Grants

According to Paras 89 & 64 (2) of the Kerala Budget Manual the primary responsibility in respect of proposals for Supplementary appropriations is that of the Chief Controlling Officer, who should ensure that the Supplementary Grant obtained was absolutely necessary and was not in excess of actual requirement. But Rs 7.44 crore under Grant No. XVII and Rs 1.50 crore under Grant No. XXII obtained through Supplementary Grants remained as saving or were re-appropriated. The details are given in **Appendix XXIII**.

2.5 Transfer of funds through NIL payment vouchers

According to Article 40 (c) 7 of the Kerala Financial Code, a Government servant should not, on any account, reserve or appropriate by transfer to a deposit or any other head any portion of an appropriation remaining unspent during the year in order to prevent it from lapsing and use it for expenditure after the end of the year. Scrutiny of records in the five Directorates[▼] revealed that Rs 179.96 crore was drawn by different Drawing and Disbursing Officers (DDOs) during 2007-08 by presenting 'NIL' payment vouchers and transferred to Treasury Saving Bank, Treasury Public Accounts, Personal Deposit Accounts, Remittance Head of Public Works Department or transferred to other Institutions/Agencies as demand drafts in violation of codal provisions. The department-wise details are shown in **Appendix XXIV**. It was seen in audit that only Rs 14.98 crore was utilised and the balance of Rs 164.98 crore remained unutilised as of June 2008 indicating that the transfer of funds was not for immediate use. The action of DDOs in transferring the funds especially in the last quarter to avoid lapse of funds without ensuring

▼ Industries, Scheduled Castes Development, Scheduled Tribes Development, Tourism and Social Welfare.

utilisation of funds was irregular and defeated the very purpose of legislative control over public money.

2.6 Public Works Deposits

Public Works Deposit (Deposits) is one of the 13 items of Civil Deposits under Public Accounts. Following types of transactions are accounted for under Public Works (PW) Deposits in Part III of Government Accounts

- (a) Deposits from contractors as security including percentage deductions from the bills
- (b) Deposits for works to be done
- (c) Sums due to contractors on closed accounts
- (d) Sums due to other Governments on closed accounts
- (e) Miscellaneous deposits

A test check of accounts of 14 PW Divisions (out of 125 Divisions) conducted in June 2008 holding Rs 131.50 crore under PW Deposits as on 31 March 2008 revealed (**Appendix XXV**) the following: -.

- In eight Divisions, maintenance of Deposit Register was defective and hence the details of category-wise deposit of Rs 12.19 crore was not available.
- The sub head ‘Miscellaneous Deposits’ is intended to record transactions under items such as Family Benefit Scheme, Life Insurance, Sales Tax, etc. The total amount outstanding under this sub head in 14 Divisions as on 31 March 2008 worked out to Rs 19.72 crore indicating that credits received in these items were not released expeditiously.
- As per para 15.4.1 of Kerala Public Works Account Code, time expired deposits should lapse and amount thereof credited to Government account. In eight Divisions lapsed deposits amounting to Rs 7.65 crore were not credited to Government account.
- In the Irrigation Division, Kollam the balance amount of Rs 4.25 crore out of the amount received from the Chief Ministers Distress Relief Fund (CMDRF) was retained in PW Deposit despite instructions of Government in May 2007 to surrender the amount to CMDRF.

2.7 Unreconciled expenditure

Departmental figures of expenditure are required to be reconciled every month with those in the books of Accountant General (Accounts and Entitlement) in order to enable the Departmental officers to exercise proper control over expenditure and to detect fraud and defalcations, if any, at an early stage. The reconciliation was in arrears in many Departments. Out of 156 Controlling Officers, who were required to reconcile their accounts for the year 2007-08, only 47 had reconciled the expenditure for the whole year and 84 have partially reconciled and 25 Controlling Officers have not reconciled the accounts of even a single month of the year. As of June 2008, 1,984 monthly reconciliation certificates were due for the period 2003-04 to 2007-08, as detailed in **Appendix XXVI**.

2.8 Rush of expenditure

Under 23 Major Heads of accounts, the expenditure incurred during the last quarter of the financial year ranged between 50 *per cent* and 100 *per cent*. In these cases 35 to 100 *per cent* of the expenditure was incurred only in the last month of the financial year, which is indicative of deficient financial management. Details are given in **Appendix XXVII**.

2.9 Abstract Contingent Bills

According to Rule 187 (d) of Kerala Treasury Code all contingent claims that require the countersignature of the controlling authority after payment are to be initially drawn by the Drawing and Disbursing Officer (DDO) from the treasury by presenting an Abstract Contingent bill in prescribed form (Form TR 60). Abstract Contingent (AC) bills can be drawn only by an authorised officer for the items of expenditure listed in Appendix 5 to the Kerala Financial Code (KFC). The DDO should maintain a register of AC bills and monitor submission of detailed bills there against. The Detailed bills in respect of such claims are submitted to the controlling authority for countersignature not later than 10th of the month succeeding that to which it relates. The detailed bills pertaining to a month's claim should reach the Accountant General (A&E) not later than 20th of the succeeding month.

According to the records of Accountant General (A&E), 301 AC bills involving Rs 1.12 crore against 94 DDOs in 11 departments were not adjusted as of March 2008 due to non-receipt of DC bills. Out of this, 87 *per cent* (Rs 0.97 crore) of the outstanding AC bills were in Animal Husbandry (Rs 0.15 crore), Jails (Rs 0.51 crore) and Scheduled Tribes Development (Rs 0.31 crore) Departments. The year-wise analysis of the pending AC bills is indicated below:

Year	Number of items	Amount (Rs in crore)
Up to 2001-02	7	0.04
2004-05	5	0.01
2005-06	6	0.02
2006-07	47	0.33
2007-08	236	0.72
Total	301	1.12

Scrutiny of the records in the offices under seven ^s departments revealed that AC bills amounting to Rs 51 lakh drawn by DDOs under Jails Department could alone be categorised as AC/DC bills. In the remaining cases of six departments the amount (Rs 58 lakh) represented fully vouched contingencies or contingencies requiring countersignature before payment to be drawn in Form TR 59 or TR 61 and not in bill form TR 60 meant for AC bills. The following deficiencies were noticed in the preparation of AC bills of Rs 51 lakh drawn and pending adjustment by the DDOs in the Jails Department.

^s Jails, Scheduled Castes Development, Scheduled Tribes Development, Revenue (Collectorate), Animal Husbandry, Social Welfare (ICDS), Kerala Public Service Commission.

- In 7 offices[#] under the Jails Department, the DDOs sent the DC bills to prison headquarters for countersignature by retaining the sub-voucher with the DDO which indicated that the countersigning authority was not verifying the sub-voucher before countersigning the DC bill. Thus the DC bills were sent to Accountant General (A&E) without attaching sub-vouchers as required in the rules.
- In Sub Jail, Mattanchery, DC bills were prepared in Form TR 60 instead of the correct form KFC 11. Hence the certificate required to be recorded by the Controlling Officer was not available in the DC bills.
- In Special Sub Jail, Palakkad and Sub Jail, Mattanchery though the sub-vouchers were sent to the controlling authority for countersignature, the Controlling Authority returned the sub-vouchers to the DDO and all the DC bills were sent to Accountant General (A&E) without the sub-voucher.

The departments obviously had not taken any action to adjust the AC bills within the stipulated time by submission of DC bills in the proper form to AG (A&E) with the required sub-vouchers. Delay in adjustment is fraught with the risk of serious financial indiscipline/misappropriation.

Regarding drawal of fully vouched contingencies and contingencies which require countersignature before payment, the departments should ensure that these were prepared in the relevant form prescribed in the Rules in order to safeguard against wrong classification by the AG (A&E).

2.10 Functioning of Treasuries

There are 23 District Treasuries (DT) and 180 Sub Treasuries (ST) in the State as of March 2008. Accountant General (A&E) inspected 148 treasuries (DT: 23; ST: 125). Some of the irregularities and deficiencies noticed in the functioning of treasuries are mentioned below:

2.10.1 Excess payment of pension

There was excess payment of pension/family pension amounting to Rs 29.78 lakh in 1687 cases in 124 treasuries during 2007-08. The main reason for excess payment was errors in calculation of revised pension, non-deduction of family pension after expiry of authorised period, payment of ineligible festival allowance, medical allowance and incorrect calculation of dearness relief. Out of the excess payment of Rs 29.78 lakh, treasuries recovered Rs 9.59 lakh and the balance amount of Rs 20.19 lakh remained to be recovered as of March 2008.

2.10.2 Excess retention of cash

In January 2000 Government enhanced the maximum amount of cash balance that could be retained in all the treasuries from Rs 9.72 crore to Rs 12.99 crore. Separate limits were also fixed for each treasury. Rule 309 of the

[#] Central Prison, Thiruvananthapuram; Women's Prison, Neyyattinkara; District Jail, Kollam; District Jail, Thiruvananthapuram; Sub Jail, Ernakulam; Central Prison, Viiyur; Special Sub Jail, Viiyur.

Kerala Treasury Code stipulates that the actual cash balance of a DT or ST should be kept much below the maximum balance prescribed for it and at all times at a minimum so that the Government's credit balance with the Reserve Bank of India is at the maximum. On verification of the cash balance statement of the treasuries for September 2007 furnished by the Director of Treasuries, it was found that the treasuries retained cash in excess of the prescribed limit by Rs 6.33 crore to Rs 23.27 crore. This resulted in drawal of Ways and Means Advances/Overdraft by Government to that extent. The overdraft of Rs 79.42 lakh on 12 September 2007 could have been avoided as retention of cash on that day was Rs 9.87 crore in excess of prescribed limit. Due to retention of cash in excess of the prescribed limit by Government in treasuries resulted in an avoidable payment of interest of Rs 5.73 lakh in September 2007 on Ways and Means Advances/Overdraft.

2.10.3 *Unoperated Treasury Savings Bank account*

As per Rules 28 and 40 of Treasury Savings Bank Rules, Treasury Savings Bank accounts which remain unoperated for more than five completed financial years will cease to earn interest and balance under such accounts are to be transfer credited to Revenue Deposit. It was noticed that Rs 49.17 lakh relating to 835 such unoperated TSB account in 40 treasuries were not closed and transfer credited to Revenue Deposit.

2.10.4 *Non-closure of frozen Treasury Public Accounts*

Government ordered (June 2005) that unspent balances outstanding under Treasury Public Accounts of Departmental officers were to be transferred to '911 Deduct recoveries of overpayment' under the relevant major head from which the funds were originally drawn on or before 31 August 2005. It was noticed that Rs 92.84 lakh outstanding in 25 Treasury Public Accounts in seven Treasuries were not transferred to the relevant major heads so far.