

**CHAPTER III**

**BUDGETARY  
MANAGEMENT**

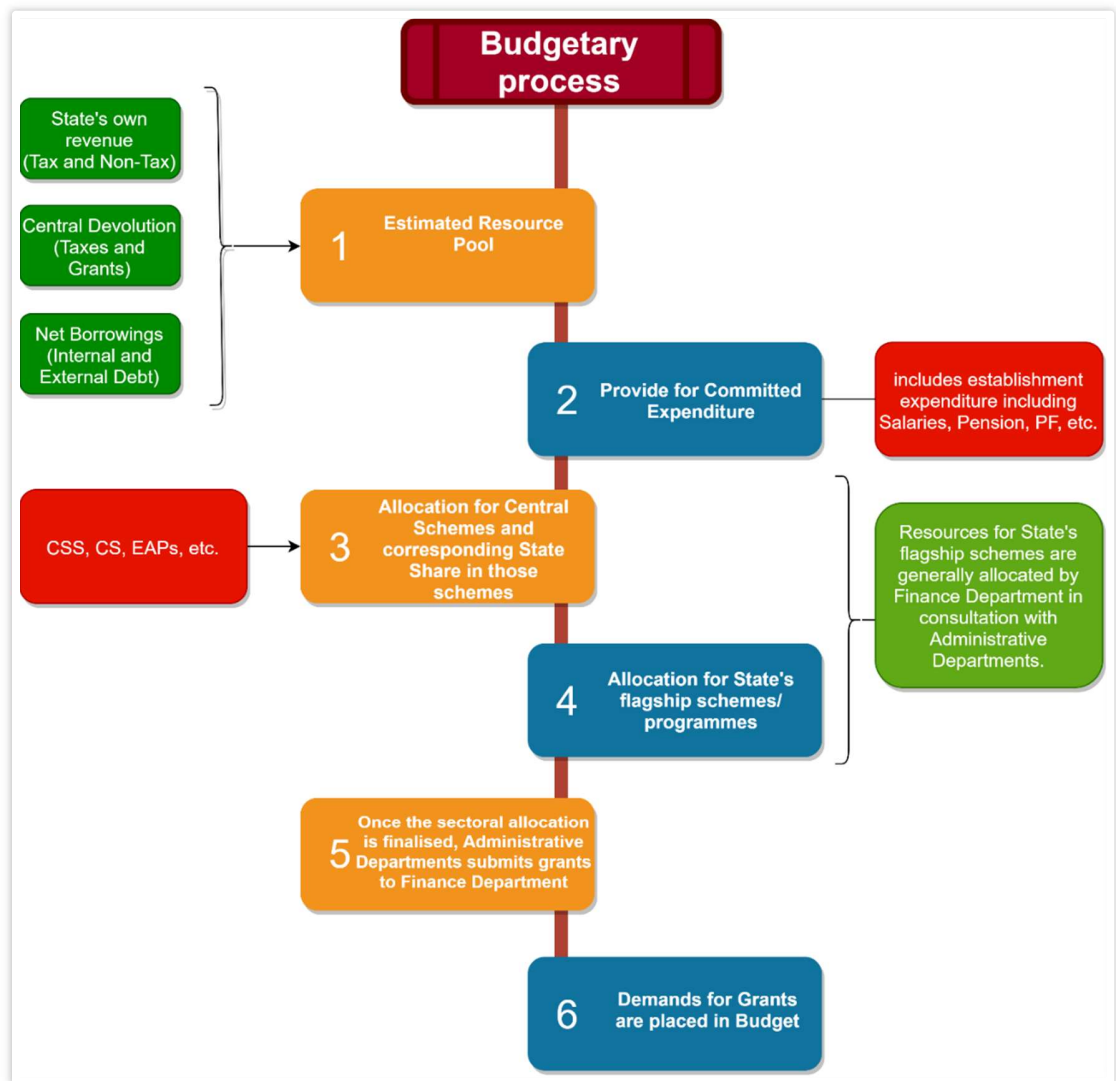


## CHAPTER III BUDGETARY MANAGEMENT

### 3.1 Budget process

The annual exercise of budgeting is a means for detailing the roadmap for efficient use of public resources. Every year, during the month of July, the Budget Wing of the Finance Department issues a circular to all Heads of Departments and other Estimating Officers, requesting them to take steps for the preparation and submission of the Departmental Estimates of Revenue and Expenditure for the ensuing financial year.

The budget preparation process is given in the figure below:



*CSS: Centrally Sponsored Schemes; CS: Central Schemes; EAP: Externally Aided Projects*

The Finance Bill, Annual Financial Statement (Budget), and Demands for Grants are mandated by Article 199, 202 and 203 of the Constitution of India respectively.

Article 202 of the Constitution of India requires laying of a statement of the estimated receipts and expenditure of the State for that year, as the "annual financial statement" before the House or Houses of the Legislature of the State. The annual financial statement should show expenditure charged on consolidated fund and other expenditure separately. It shall also distinguish expenditure on revenue account from other expenditure.

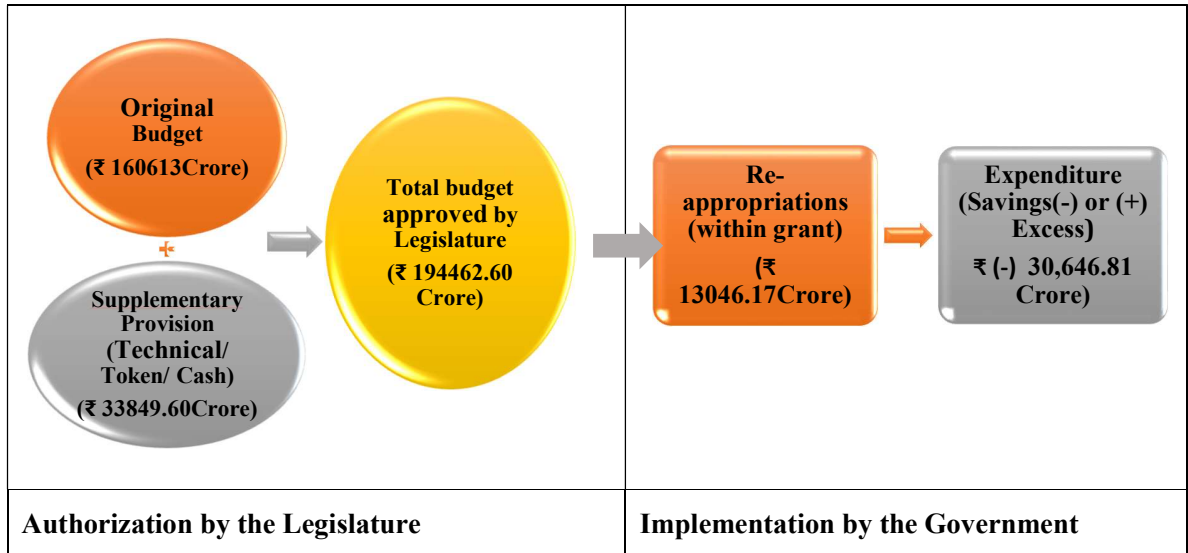
The annual financial statement also called general budget is placed prior to the commencement of the financial year in the State Legislature, in accordance with Article 202 of the Constitution. The estimates of receipts and disbursements in the Annual Financial Statement and of expenditure in the Demand for Grants are shown according to the accounting classification under Article 150 of the Constitution.

No money shall be withdrawn from the Consolidated Fund of the State except under appropriation made by law passed in accordance with provisions of Article 204 of the Constitution. Supplementary or Additional Grant or Appropriation is provided during the course of a financial year, in accordance with Article 205 of the Constitution. It is the provision for meeting expenditure in excess of the budgeted amount.

Legislative authorisation is the *sine qua non* for incurrence of all expenditure by the State Government. Rule 41 of the Kerala Financial Code states that the rules regarding the preparation and consolidation of the budget estimates and their passage through Legislature are contained in Kerala Budget Manual. The procedure for obtaining supplementary appropriations are also contained in the Kerala Budget Manual. It also prescribes the distribution of appropriations among controlling and disbursing officers, the responsibility of these officers for watching the progress of expenditure and ensuring that it does not exceed the appropriations, and fixes the authorities competent to sanction re-appropriation. As per the provisions contained in para 69 of the Kerala Budget Manual the control of expenditure is exercised by the Administrative Departments through the hierarchy consisting of the Chief Controlling Officer, the Subordinate Controlling Officer and the Disbursing Officer.

Apart from supplementary grant, re-appropriation can also be used to re-allocate funds within a Grant in accordance with the procedure mentioned in para 86 (3) of Kerala Budget Manual. Re-appropriation is the transfer, by competent authority, of savings from one unit of appropriation to meet additional expenditure under another unit within the same section (Revenue-Voted, Revenue-Charged, Capital-Voted, Capital-Charged) of the voted Grant or Charged Appropriation. The various components of budget authorised by the Legislature and actual implementation by the Government are depicted in the **Chart 3.1** below:

**Chart 3.1: Budget authorised by the Legislature and actual implementation by the Government**



Source: Based on the procedure prescribed in Budget Manual and Appropriation Accounts

### 3.1.1 Summary of total provisions, actual disbursements and savings/excess during the financial year

A summarised position of total budget provision, disbursement and savings/excess with its further bifurcation into voted/charged is shown in **Table 3.1**.

**Table 3.1: Budget provision, disbursement and savings/excess during the Financial year 2019-20** (₹ in crore)

Total Budget provision		Disbursements		Savings (-) /Excess (+)	
Voted	Charged	Voted	Charged	Voted	Charged
131064.55	63398.06	100174.27	63641.53	(-) 30,890.28	(+) 243.47

### 3.1.2 Charged and Voted Disbursement

The details of disbursements classified under charged and voted category during the five year period from 2015-16 to 2019-20 are furnished in **Table 3.2**.

**Table 3.2: Charged and voted disbursements during the five year period from 2015-16 to 2019-20**

(₹in crore)

Year	Disbursement		Saving(-)/Excess (+)	
	Voted	Charged	Voted	Charged
2015-16	76771.04	17606.13	(-) 15628.36	(-) 8885.26
2016-17	91365.15	20232.56	(-) 13518.40	(-) 6941.89
2017-18	104528.12	28928.84	(-) 11 946.04	(+) 521.08
2018-19	108023.70	35697.89	(-) 20927.47	(+) 4274.17
2019-20	100174.27	63641.53	(-) 30890.28	(+) 243.47

The overall savings of ₹30646.81crore in 2019-20 was the result of savings of ₹30890.28 crore in 43 grants and 22 appropriations under revenue section and 29 grants and seven appropriations under the Capital section, offset by excess of ₹328.73 crore in one grant and one appropriation under the revenue section and one appropriation under Capital section. The overall savings increased by 5.38 per cent from 10.38 per cent in the last year to 15.76 per cent in 2019-20.

### 3.2 Appropriation Accounts

Appropriation Accounts are accounts of the expenditure of the Government for each financial year, compared with the amounts of grants voted and appropriations charged for different purposes as specified in the schedules appended to the Appropriation Act passed under Article 204 and 205 of the Constitution of India. Appropriation Accounts are on Gross basis. These Accounts depict the original budget provision, supplementary grants, surrenders and re-appropriations distinctly and indicate actual capital and revenue expenditure on various specified services *vis-à-vis* those authorised by the Appropriation Act in respect of both Charged and voted items of budget. Appropriation Accounts thus facilitate understanding of utilisation of funds, the management of finances and monitoring of budgetary provisions and are, therefore, complementary to the Finance Accounts.

Audit of appropriations by the CAG seeks to ascertain whether the expenditure actually incurred under various grants is in accordance with the authorisation given under the Appropriation Act and that the expenditure required to be charged under the provisions of the Constitution (Article 202) is so charged. It also ascertains whether the expenditure incurred is in conformity with the laws, relevant rules, regulations and instructions.

### 3.3 Comments on integrity of budgetary and accounting process

The results of audit scrutiny of Appropriation Accounts are detailed in the subsequent paragraphs.

#### 3.3.1 Expenditure incurred without authority of law

As per Article 204 of the Constitution, no money shall be withdrawn from the Consolidated Fund of the State except under appropriation made by law. Expenditure on any scheme should not be incurred on a scheme/service without provision of funds except after obtaining additional funds by re-appropriation, supplementary grant or appropriation or an advance from the Contingency Fund of the State.

Audit observed that the expenditure was incurred without any provision in the original estimates/supplementary demands in 211 schemes included in 31 grants. Out of these, four grants had incurred expenditure above ₹100 crore without authority of law. The summary of expenditure in these four grants are given in **Table 3.3**.

**Table 3.3: Summary of Expenditure incurred by four Grants having highest expenditure without budget provision. (₹ in crore)**

Grant/ Appropriation	Major Heads (MH) of Account having expenditure without authority of law within the Grant	Expenditure without authority of law (₹ in crore)	Number of Schemes/Sub Heads within the MH
XV Public Works	3054-Roads and Bridges	219.36	1
	4059-COL on Public works	3.60	6
	5054-COL on Roads and bridges	291.02	14
XVII Education, Sports, Art and Culture	2202- General Education	12.94	3
	2203-Technical Education	2.98	1
	2205-Art and Culture	2.53	2
	3435-Ecology and Environment	0.45	1
	4202-COL on Education, Sports, Art and Culture.	83.97	27

Grant/ Appropriation	Major Heads (MH) of Account having expenditure without authority of law within the Grant	Expenditure without authority of law (₹ in crore)	Number of Schemes/Sub Heads
XXVIII Miscellaneous Economic Services	3454-Census survey and Statistics	0.18	3
	3475-Other General Economic Services	1.24	1
	5475-COL on other General Economic Services	2200.00	2
XXXVII Industries	2851-Village and Small Industries	6.08	3
	4858-COL on Engineering Industries	12.75	1
	4859-COL on Telecommunication and Electronic Industries	15.00	1
	4885-Other COL on Industries and Minerals	122.18	2
	6851-Loans for Village and Small Industries	3.00	1
	6858-Loans for Engineering Industries	1.95	1
	<b>Total</b>	<b>2979.23</b>	<b>70</b>

### 3.3.2 Transfers not mandated by the Appropriation Act/Detailed Demands for Grants (into Public Account/ Bank Accounts)

The Appropriation Act authorises incurrence of expenditure under specified Grants for the respective Financial Year only. The accumulated balance at the close of the year should have been written back to the respective Major Heads of account under the Consolidated Fund from which these were originally transferred, as the drawals from the Minor Head of account in the subsequent years would not require Legislative approval and thus would escape Legislative scrutiny through the Appropriation Account Mechanism.

However, Audit observed that an amount of ₹382.37 crore is parked in the Deposit head (8443-800-Other deposits) to avoid lapse of budgetary Grants as shown in **Table 3.4**.

**Table 3.4: Funds parked in 8443-800-Other deposits (₹ in crore)**

OB as on 1.4.2019	Head of account	Credit	Debit	Closing balance as on 31.3.2020
80.34	8443-800-Other deposits	453.77	151.74	382.37

The amount of ₹382.37 crore is parked in Deposits to avoid lapse of budgetary Grants.



Further scrutiny of transactions under the Major head 8443 Civil Deposits -800 Other deposits revealed that the amount parked in Minor Head 800 under Major Head 8443 pertains mainly to deposits by Kerala Medical Services Corporation Ltd (KMSCL). An amount of ₹374.39 crore was outstanding as closing balance as on 31.3.2020 under the head of account 8443-00-800-94-Purchase of Equipment through KMSCL. Details are given in **Table 3.5** below.

**Table 3.5: Deposit of Kerala Medical Services Corporation Ltd.**

(₹ in crore)

OB as on 1.4.2019	Amount credited to the head 8443-00-800-94 during 2019-20	Expenditure during the year 2019-20	Closing balance as on 31.3.2020
72.79	452.39	150.79	374.39

The reasons for the huge amount credited to the deposit head in excess of actual requirement and non-utilisation of the funds out of the amount credited to the deposit head and the balance outstanding during 2019-20 to the tune of ₹374.39 crore were sought from Government. However, no reply has been received.

### 3.3.3 Misclassification of capital expenditure as revenue expenditure and charged expenditure as voted expenditure and vice versa.

Misclassification of expenditures and receipts has a great impact on the integrity of the financial statements. Article 202 of the Constitution prescribes that, in respect of every financial year, a statement of the estimated receipts and expenditure of the State for that year, called the "annual financial statement" (or the "budget"), is to be laid before House or Houses of the State Legislature. The estimates of expenditure are classified under 'charged' (such expenditure as is not to be submitted to the vote of the Legislative Assembly under the provisions of the Constitution) and 'voted' items of expenditure separately. Annual Financial Statement distinguishes expenditure on revenue account from other expenditure as explained in Chapter II.

State financial rules categorize the primary units of appropriation. There are specific object heads meant for obtaining provision for acquisition of Capital Assets and other Capital Expenditure. These object heads pertaining to booking of expenditure of capital nature should correspond with capital major heads only. Classification of expenditure of revenue nature as capital expenditure or *vice-versa*, results in understatement/overstatement of revenue expenditure and revenue surplus/deficit, respectively.

The misclassification of the above nature observed in audit during the year 2019-20 is detailed as follows:

- **Misclassification of Revenue expenditure as Capital expenditure**

It is observed that an amount of ₹14.70 crore was debited to the Head of account 4860-60-190-94 (V) (P). The amount was utilised for disbursement of gratuity to the workers of Kerala State Cashew Development Corporation (KSCDC). Booking of assistance given to KSCDC as Capital expenditure instead of revenue expenditure is inconsistent with the principles laid down in Indian Government Accounting Standards (IGAS) 2 which prescribes principles of accounting and classification of Grants-in-aid in the Financial Statements of the Government both as a Grantor and as a Grantee. This misclassification has resulted in overstatement of investment by ₹14.70 crore.

- **Misclassification of charged expenditure as voted expenditure**

As per Article 202 of the Constitution, any sums required to satisfy any judgement, decree or award of any court or arbitral tribunal shall be the expenditure charged to the Consolidated fund of the State. However, it is observed in audit that an amount of ₹0.28 crore debited to the head of account 5054-01-337-92 (V) (P) being the amount required to comply with the direction of the Hon'ble High Court of Kerala which should have been classified as charged, was misclassified as voted expenditure. The misclassification has led to the violation of the provisions of Article 202 of the Constitution. Similar misclassification was also noticed in Grant XXXVII Industries under the head of account 4851-800-99-Plan Voted (₹0.06 crore)

### **3.3.3.1 Other Misclassifications**

- **Misclassification of Capital expenditure under loan head of account**

Under Legislative Assembly Constituency Asset Development Scheme (LAC ADS) ₹ five crore has been allocated to each MLA during the financial year for undertaking capital works to improve infrastructural facilities. Provisions have been made under various capital heads of account for this scheme since 2012-13. However, during 2019-20, budget provision of ₹8.49 crore provided under the capital head 5055-00-190-95 LAC ADS has been re-appropriated to the loan head 7055-00-190-94-Project under Legislative Assembly Constituency Asset Development Scheme and ₹1.61 crore was incurred for infrastructure development. Expenditure of capital nature should have been booked under the Capital head against which provision has been made.

- **Misclassification of Investment as Capital Expenditure**

Government of Kerala incurred ₹15.00 crore from the head of account 4859-02-004-97 Indian Institute of Information Technology-Kerala, Pala (IIIT-K, Pala) for the construction of building and infrastructure development of permanent campus at Pala. As the expenditure is in the nature of investment the amount should have been booked under investment head under 4859-02-190-94 Indian

Institute of Information Technology – Kerala, Pala and not under the minor head 004 – Research and Development.

### 3.3.4 Unnecessary or excessive Supplementary Demand for Grants

As per Article 205 of the Constitution, a Supplementary or Additional Grant or Appropriation over the provision made by the Appropriation Act for the year can be made during the current financial year but not after the expiry of the current financial year as is necessary to meet-

- i. Expenditure on Schemes of New Expenditure to be taken up within the current financial year.
- ii. Inadequacy of provision.
- iii. Fresh expenditure but not technically “Schemes of New Expenditure.”
- iv. Omissions of provision.

When such additional expenditure is found to be inevitable and there is no possibility of effecting savings within the Grant to cover the excess by Re-Appropriation, the Secretary in the Department concerned proposes to the Finance Department for Supplementary or Additional Grant or Appropriation.

There were savings against total budget provision at the end of the financial year for 37 grants/appropriations for which Supplementary budget was obtained. Out of these, 22 grants/appropriations had obtained supplementary Demand for Grants unnecessarily as either the final expenditure did not come even up to the level of original Grants or no expenditure was incurred even after obtaining Supplementary Demand for Grants (**Table 3.6**). For the remaining 15 Grants, the sum of Original and Supplementary provision obtained was in excess of actual expenditure. Out of these 15 Grants, nine grants which obtained Supplementary provision of more than ₹ 50 lakh are shown in **Table 3.7**.

**Table 3.6: Details of cases where supplementary provision proved unnecessary**  
(₹ in crore)

Sl. No.	Name of the Grant	Original	Supplementary	Actual expenditure	Saving out of Provisions
<b>Revenue (Voted)</b>					
1	II-Heads of States, Ministers and Headquarters Staff	740.84	1.91	524.59	218.16
2	III-Administration of Justice	787.69	10.99	760.75	37.93

Sl. No.	Name of the Grant	Original	Supplementary	Actual expenditure	Saving out of Provisions
3	VIII-Excise	298.40	3.00	288.47	12.93
4	XIII-Jails	146.56	1.41	140.00	7.97
5	XVI-Pensions and miscellaneous	30280.55	1998.93	30016.14	2263.34
6	XVII-Education, Sports, Art and Culture	20949.76	220.86	18721.05	2449.57
7	XXI-Housing	122.26	36.63	74.16	84.73
8	XXII-Urban Development	1970.92	51.00	1071.78	950.14
9	XXIV-Labour, Labour Welfare and Welfare of Non-Residents	1361.59	0.35	728.29	633.65
10	XXVII-Co-operation	441.44	0.10	281.46	160.08
11	XXVIII-Miscellaneous Economic Services	202.71	200.00	167.20	235.51
12	XXX-Food	1798.67	0.56	1229.64	569.59
13	XXXIV-Forest	587.06	5.57	529.64	62.99
14	XXXV-Panchayat	611.26	100.00	579.46	131.80
15	XLVI-Social Security and Welfare	4093.57	301.43	3860.79	534.21
	<b>Total</b>	<b>64393.28</b>	<b>2932.74</b>	<b>58973.42</b>	<b>8352.60</b>
<b>Revenue (Charged)</b>					
16	III-Administration of Justice	143.91	1.51	132.38	13.04
17	XVII-Education, Sports, Art and Culture	0.20	0.01	0.16	0.05

Sl. No.	Name of the Grant	Original	Supplementary	Actual expenditure	Saving out of Provisions
	<b>Total</b>	<b>144.11</b>	<b>1.52</b>	<b>132.54</b>	<b>13.09</b>
<b>Capital (Voted)</b>					
18	XXVII-Co-operation	129.81	28.37	98.88	59.30
19	XXXV-Panchayat	597.10	50.00	169.92	477.18
20	XXXVI-Rural Development	1376.62	0.73	746.40	630.95
	<b>Total</b>	<b>2103.53</b>	<b>79.10</b>	<b>1015.20</b>	<b>1167.43</b>
<b>Capital (Charged)</b>					
21	XXXVIII-Irrigation	3.43	0.66	2.65	1.44
22	XVII-Education, Sports, Art and Culture	0.00	0.53	0.00	0.53
	<b>Total</b>	<b>3.43</b>	<b>1.19</b>	<b>2.65</b>	<b>1.97</b>
	<b>Grand Total</b>	<b>66644.35</b>	<b>3014.55</b>	<b>60123.81</b>	<b>9535.09</b>

General directions given in para 14 of the Kerala Budget Manual stipulate that the estimates are neither inflated nor under pitched, but as accurate as possible and that it is restricted to the amount required for actual expenditure during the year. However, it can be seen from **Table 3.6** that for all these 22 Grants/appropriations, supplementary provision was totally unnecessary since there were savings in the original provision itself.

**Table 3.7: Details of cases where supplementary provision (₹50 lakh or more in each case) proved excessive. (₹ in crore)**

Sl. No.	Name of the Grant	Original	Supplementary	Actual Expenditure	Saving out of Provisions
<b>Revenue (Voted)</b>					
1	I -State Legislature	112.24	20.42	125.72	6.94
2	IV -Elections	167.35	53.55	191.69	29.20
3	IX -Taxes on Vehicles	146.06	32.00	165.54	12.52
4	XI -District Administration and Miscellaneous	705.96	78.05	731.45	52.56
5	XVIII -Medical and Public Health	6393.92	505.07	6763.97	135.03
6	XIX -Family Welfare	519.35	78.00	552.47	44.88
	<b>Total</b>	<b>8044.88</b>	<b>767.09</b>	<b>8530.84</b>	<b>281.13</b>
<b>Capital (Charged)</b>					
7	XXII -Urban Development	0.00	11.63	9.20	2.43
8	XLI -Transport	0.00	42.14	0.66	41.48
	<b>Total</b>	<b>0.00</b>	<b>53.77</b>	<b>9.86</b>	<b>43.91</b>
<b>Capital (Voted)</b>					
9	XLI -Transport	1229.87	821.51	1702.63	348.75
	<b>Total</b>	<b>1229.87</b>	<b>821.51</b>	<b>1702.63</b>	<b>348.75</b>
<b>Grand Total</b>		<b>9274.75</b>	<b>1642.37</b>	<b>10243.33</b>	<b>673.79</b>

It can be seen from **Table 3.6** that there were sufficient savings in the original budget allocation for these grants. Hence, the option of re-appropriation of funds within the Grant/Appropriation (between heads of account where savings are noticed and heads of accounts which require funds) could have been resorted to by the Chief Controlling Officers instead of proposing Supplementary Demands for Grants. This has led to huge savings for these Grants.

### 3.3.5 Excess, Unnecessary or insufficient re-appropriation

‘Re-appropriation’ - means the transfer, by a competent authority, of savings from one unit of appropriation to meet additional expenditure under another unit within the same grant or charged appropriation. The Government is thus allowed to re-appropriate provisions from one unit of appropriation to another within the same Grant, thus altering the destination of an original provision for one purpose to another, subject to the limits and restrictions laid down.

Appropriation Accounts for the year 2019-20, disclosed insufficient re-appropriations in one scheme each of one Grant and one appropriation.

It was also observed that amount of re-appropriations ordered in 12 schemes included under seven grants was in excess of the actual requirement as the expenditure under these schemes either did not come up to the level of original/supplementary provision or the augmentation of funds through re-appropriation is in excess of actual requirement. The details of re-appropriation exceeding ₹ five crore are furnished in **Appendix 3.1**.

Paragraph 86 (3) of Kerala Budget Manual stipulates that the authority sanctioning re-appropriations should satisfy itself that the reasons given in the sanctions are full, frank and forthright and are not in vague terms such as ‘based on actual requirement’, ‘based on trend of expenditure’, ‘expenditure is less than that was anticipated’ etc., as they have to be incorporated in the Appropriation accounts which are examined by the Public Accounts Committee of Legislature. However, a test check of re-appropriation orders relating to 10 Grants issued by Finance Department revealed that in respect of 1026 out of 1377 items, (74.51 *per cent*) the reasons given for withdrawal of provision or augmentation of provision in the re-appropriation orders were of general nature like ‘expenditure is less than anticipated’, ‘reduced provision is sufficient to meet the expenditure’ etc. which indicated the non-compliance of the provisions of Kerala Budget Manual and inadequate expenditure control mechanism.

### **3.3.6 Unspent amount and surrendered appropriations and/ or large savings/ surrenders**

The golden rule for all Estimating Officers should be to provide in the budget for everything that can be foreseen and to provide only as much as is necessary. The Administrative and Finance Departments should, in checking the estimates, apply unrelentingly the proven and well-tried check of average of previous actuals with known or reasonably foreseeable facts which may modify that average.

When the need for surrender manifests itself, the Controlling Officers should carefully estimate the amounts that they can surrender. The aim should be to surrender as much as they can so as to keep the expenditure just within the modified Grant.

Budgetary allocations based on unrealistic proposals, poor expenditure monitoring mechanism, weak scheme implementation capacities/ weak internal controls promote release of funds towards the end of the financial year, and increase the propensity of the Departments to retain huge balances outside the Government account in Bank Accounts. Excessive savings also deprives other Departments of the funds which they could have utilized.

Audit observed that in 35 grants (each having savings exceeding ₹100 crore) budget allocation amounting to ₹29,618.68 crore remained unutilised in Revenue and Capital Sections. Out of this, an amount of ₹27,730.32 crore (93.62 *per cent*) was surrendered as detailed in **Appendix 3.2**.

Further, Audit also observed that eight Grants and one Appropriation had a budget utilisation less than 50 per cent, the details of which are given in **Table 3.8**.

**Table 3.8: Grants/Appropriations with Budget Utilisation of less than 50 per cent (in 2019-20)**

(₹ in crore)

Sl No.	Grant	2015-16	2016-17	2017-18	2018-19	2019-20	Number of Years*	Budget 2019-20	Total Budget years
1	XX-Water Supply and Sanitation					43%	1	1394.55	5
2	XXI-Housing				34%	39%	2	208.83	5
3	XXII-Urban Development	33%		38%	40%	49%	4	2208.59	5
4	XXVIII-Miscellaneous Economic Services	46%		46%		39%	3	6185.16	5
5	XXXVI-Rural Development		26%	25 %	31 %	28%	4	5466.53	5
6	XXXVII-Industries					45%	1	1618.07	5
7	XXXIX-Power	37%	40%		12%	6%	4	523.31	5
8	XLV-Miscellaneous Loans and Advances			27%			1	15.63	5
9	Public Debt Repayment	40 %					1	43664.65	5

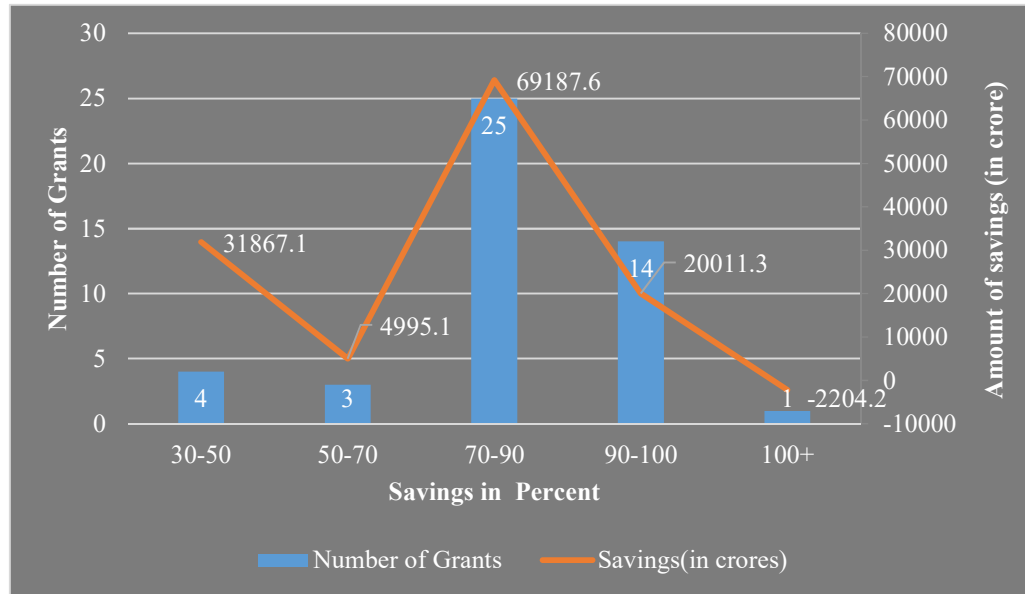
\* Number of years with utilisation below 50 per cent

A low percentage of budget utilisation ranging from 33 to 49 per cent in Grant XXII Urban Development and 34 to 39 per cent in Grant No. XXI Housing are causes of concern. Similarly, repeated low utilisation in Grant XXXVI Rural Development and XXXIX Power despite huge budget allocation also needs examination by Government. It was also observed that in seven grants the budget utilisation was less than 50 per cent in 2019-20.

Further analysis revealed that surrender of funds (in excess of ₹10 crore in each case) amounting to ₹30,103.44 crore was made in 39 Grants and one appropriation at the end of March as shown in **Appendix 3.3**.

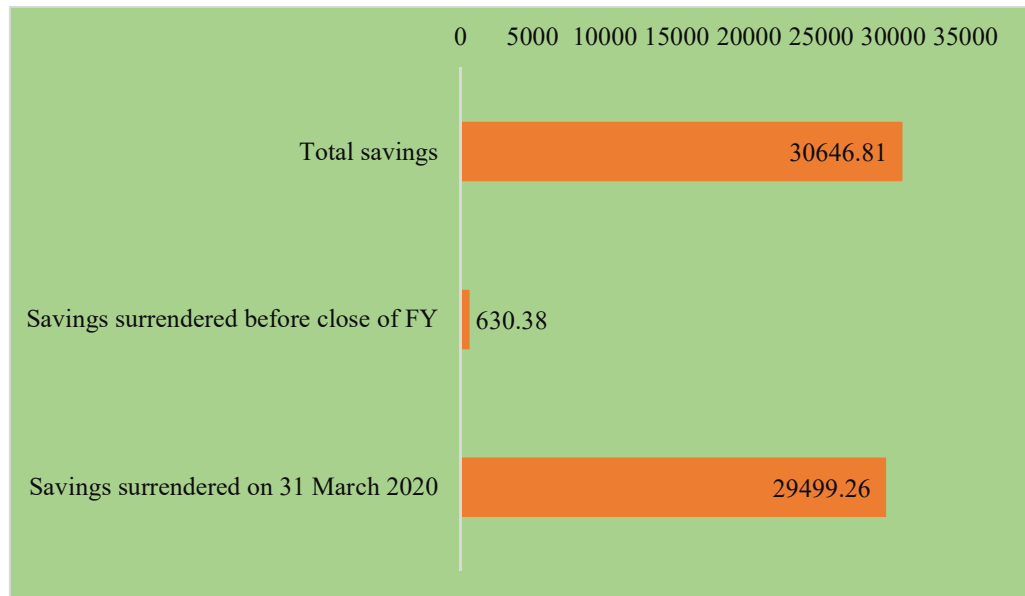


**Chart 3.2: The distribution of the number of Grants/Appropriations grouped by the percentage of Savings along with total savings**



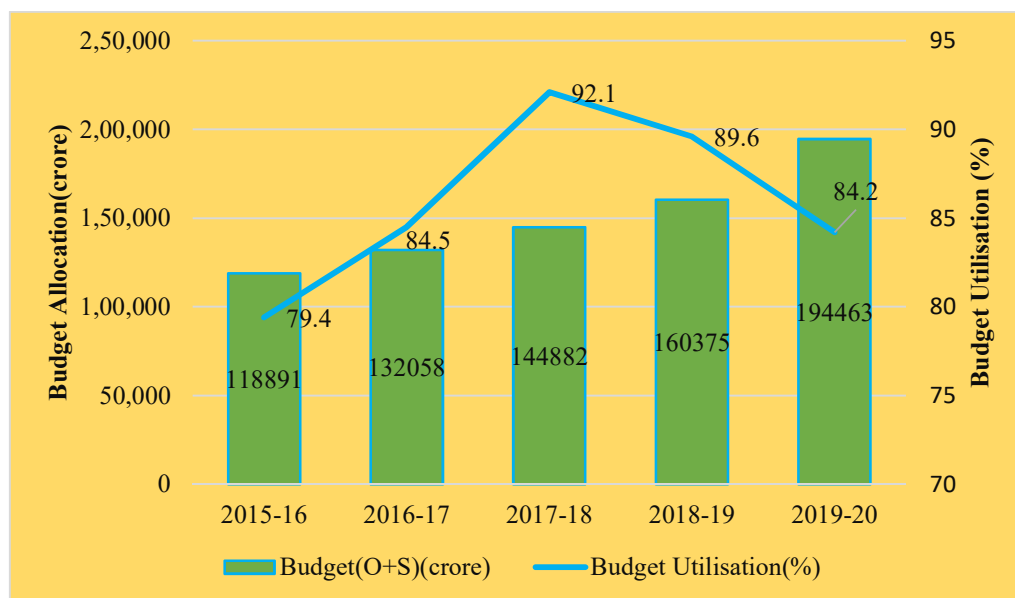
**Chart 3.3: Savings and surrenders before close of financial year 2019-20**

(₹ in crore)



Audit scrutiny revealed that out of the total savings of ₹30,646.81 crore, an amount of ₹630.38 crore only was surrendered before the close of the financial year which works out to 2.06 per cent. It was also observed that ₹29,499.26 crore was surrendered on 31 March 2020.

**Chart 3.4: Budget Utilisation during 2015-16 to 2019-20**



Audit observed that budget utilisation ranged from 79.4 per cent in 2015-16 to 84.2 per cent in 2019-20. The highest percentage of utilisation was recorded in 2017-18 (92.1 per cent). The percentage of budget utilisation declined from 92.1 per cent in 2017-18 to 89.6 per cent in 2018-19 and finally to 84.2 per cent in 2019-20.

### 3.3.7 Excess expenditure and its regularisation

Article 205(1) (b) of the Constitution provides that if any money has been spent on any service during a financial year in excess of the amount granted for that service and for that year, the Governor shall cause to be presented to the Legislative Assembly of the State, a demand for such excess. This implies that, it is mandatory for a State Government to get excesses over grants/appropriations regularised by the State Legislature for the financial year.

Although no time limit for regularisation of excess expenditure has been prescribed under the Article, the regularisation of excess expenditure is done after the completion of discussion of the Appropriation Accounts by the Public Accounts Committee. Failure to do so is in contravention of constitutional provisions and defeats the objective of ensuring accountability by the Legislature of the executive over utilisation of public money.

#### 3.3.7.1 Excess expenditure relating to financial year 2019-20

Excess expenditure over the provision for the year is not only in contravention of the provisions requiring Legislative sanction but also indicative of bad planning, which could be avoided by keeping track of expenditure progression with budget made for the purpose. Cases of excess expenditure over the provision of the financial year are examined.

A summary of excess disbursements over Grants/Appropriations during 2019-20 are furnished in **Table 3.9** and details of excess disbursements over the authorisation from the Consolidated Fund of the State are given in **Table 3.10**.

**Table: 3.9 Summary of excess disbursements over grants/appropriations during the year 2019-20**  
(₹ in crore)

Category	Section	Name of Department/ Grant		
		XXVI Relief on Account of Natural Calamities	Debt Charges	Public Debt Repayment
Voted	Revenue	109.10		
Charged	Revenue		219.64	
	Capital			336.63
No. Of Grants/Appropriations		1	1	1
Total Excess		109.10	219.64	336.63
Grand Total		665.37		

Excess expenditure incurred in one grant (voted) (₹109.10 crore) and two appropriations (charged) (₹336.63 crore) amounting to a total of ₹665.37 crore requires regularisation.

**Table 3.10: Details of Grants which incurred excess expenditure during the financial year**  
(₹ in crore)

Sl. No.	Grant No.	Major Head	Major Head Description	Total provision	Expenditure	Excess	Reasons for excess stated by the Department
1	2	3	4	5	6	7= 6-5	8
1	XXVI	2245	Relief on Account of Natural Calamities	1,935.22	2,044.32	109.10	Reply awaited
2	Debt Charges	2049	Interest Payments	18,995.63	19,215.27	219.64	Reply awaited

Sl. No.	Grant No.	Major Head	Major Head Description	Total provision	Expenditure	Excess	Reasons for excess stated by the Department
3	Public Debt Repayment	6003	Internal Debt of the State Government	42,941.94	43,287.37	345.43	Reply awaited
4		6004	Loans and Advances from the Central Government	722.71	713.91	(-) 8.8*	Reply awaited

\*Savings of ₹8.8 crore offset in the excess of ₹345.43 resulting in the net excess of ₹336.63 crore in the Grant Public Debt Repayment.

### 3.3.7.2 Persistent excesses in certain Grants

Persistent excess noticed during 2019-20 are shown in **Table 3.11**.

**Table 3.11: Persistent Excess** (₹ in crore)

Description of Grant/Appropriation	2015-16	2016-17	2017-18	2018-19	2019-20
<b>Debt Charges</b>					
Budget provision	10956.14	Nil	14022.37	15868.46	18995.63
Expenditure	11110.86	Nil	15119.98	16926.15	19215.27
Excess	154.71	Nil	1097.61	1057.69	219.64

Audit observed that Persistent excess expenditure occurred in one Appropriation viz. Debt charges. The excess expenditure under Debt charges increased from ₹154.71 crore (1.41percent) in 2015-16 to ₹ 1097.61 crore in 2017-18 (7.83 per cent) and decreased to ₹1057.69 crore (6.67 per cent) in 2018-19 and further to ₹219.64 crore (1.16 per cent) in 2019-20.

Sufficient provision may be made in the Budget estimates of the Government to avoid the incurrence of repeated excess expenditure over the appropriation.

The instances of persistent excess expenditure were brought to the notice of Government and the reply awaited.

### 3.3.7.3 Regularisation of excess expenditure of previous financial years

Excess expenditure remaining without regularisation for extended periods dilutes legislative control over the executive. Accordingly, all the excess expenditure relating to previous years (2011-18) not yet regularised, are examined.

Year wise details of excess expenditure to be regularised upto the year ending 31.3.2018 are shown in **Table 3.12**.

**Table 3.12: Abstract of pendency of regularisation**

(₹ in crore)

Year	Number of Grants/Appropriations	Excess expenditure to be regularised
2011-12	2	24.50
2012-13	5	40.44
2013-14	10	560.69
2014-15	1	192.00
2015-16	4	230.76
2016-17	8	141.17
2017-18	9	3545.44
<b>Total</b>	<b>39</b>	<b>4735.00</b>

Excess expenditure of previous financial years in respect of 28 Grants and 11 Appropriations amounting to ₹4,735 crore from the year 2011-12 to 2017-18 as detailed in **Appendix 3.4** is yet to be regularised. This indicates inadequate expenditure control.

### 3.3.8 Grant-in-aid for creation of capital assets

Grants-in-aid are payments in the nature of assistance, donations or contributions made by one government to another government, body, institution or individual. Grants-in-aid are given for specified purpose of supporting an institution including construction of assets.

As per IGAS 2, Grant-in-aid (GIA) disbursed by a grantor to a grantee shall be classified and accounted for as revenue expenditure irrespective of the purpose for which the funds disbursed as Grants-in-aid are to be spent by the grantee, except in cases where it has been specifically authorized by the President on the advice of the Comptroller and Auditor General of India.

However, Audit has noticed instances of classifying Grant- in- aid as Capital expenditure, which has led to understatement of Revenue Deficit (**Table 3.13**).

**Table 3.13: Extent of classification of GIA as Capital Expenditure**

(₹ in crore)

	2015-16	2016-17	2017-18	2018-19	2019-20
GIA booked as Capital Expenditure	151.00	179.45	169.13	85.04	14.70
Total Capital Expenditure	7500.04	10125.95	8748.87	7430.54	8454.80
Share of GIA in Capital Expenditure (in per cent)	2.01	1.77	1.93	1.14	0.17
Impact on Revenue Deficit – understated	151	179.45	169.13	85.04	14.70

There has been a persistent misclassification of Grant-in-aid as Capital Expenditure year after year for the five year period from 2015-16 to 2019-20.

### 3.4 Comments on transparency of budgetary and accounting process

#### 3.4.1 Lumpsum budgetary provisions

Lumpsum provision is a budgetary provision without identifying the exact object of expenditure and it is against transparency. As per Para 14 of Kerala Budget Manual, except when unavoidable, as in the case of repairs and maintenance of buildings, lumpsum demands should not be made. However, Audit observed that lumpsum provisions are made in the Budget for the financial year 2019-20. The details of the Grants having heads of account with lumpsum provision and their utilisation are given in **Table 3.14**.

**Table 3.14: Lumpsum provisions and its utilisation***(₹ in crore)*

Sl. No.	Grant No. and Head of Account	Original Provision	Expenditure	Audit observation
1	XXXVII Industries 4885-60-800-96- Provision for Revival/Diversification of State PSUs-lumpsum provision	30.12	Nil	The entire budget provision was redistributed to various other major heads within the Grant. An examination of previous years' Appropriation Accounts has revealed that it is a persistent practice. The lumpsum provision indicates lack of transparency.
2	XII Police 4055-207-92- Modernisation of Police Department (V) (P)	60.00	20.25	The entire provision was redistributed among the detailed heads within the same sub head. Out of the total anticipated saving of ₹39.75 crore, an amount of ₹38.82 crore was surrendered on the last day of the financial year due to non-implementation of plan activities. A comparison of previous years' Appropriation Accounts has revealed that it is a persistent practice. Percentage of utilisation as against the original provision in the scheme works out to 33.75. The excessive provision of funds indicates inadequate budgetary control.
3	XLII Tourism 3452-80-104-98- Marketing-34 Other charges	83.04	58.68	The entire lumpsum provision was redistributed to other heads of account with in the same sub head of account. The budget utilisation of the scheme under the detailed head as against the original provision works out to 70.66 <i>per cent</i> only. The lumpsum provision indicates lack of transparency.
4	XLII Tourism 5452-01-101-99-02-47- 34 Upgradation of Creation of Infrastructure and amenities	132.00	55.70	The entire lumpsum provision under 101-99 was redistributed to other heads of account with in the same sub head of account. The budget utilisation of the scheme under the detailed head as against the original provision works out to 42.19 <i>per cent</i> only.

The percentage of lumpsum provision to the overall provision under the respective grants in the above cases ranged from 2.99 *per cent* to 28.58 *per cent* as shown in **Table 3.15**.

**Table 3.15: Percentage of lumpsum provision to the overall provision**

(₹ in crore)

Sl No.	Grant No.	Overall Provision of the Grant	Lumpsum provision	Percentage to the overall provision
1	XXXVII Industries	1004.89	30.12	2.99
2	XII Police	85.25	20.25	23.75
3	XLII Tourism (Revenue)	205.28	58.68	28.58
4	XLII Tourism(Capital)	235.30	55.70	23.67

The lumpsum provision made in the above cases indicates lack of transparency.

### 3.5 Comments on effectiveness of budgetary and accounting process

#### 3.5.1 Budget projection and gap between expectation and actual

Efficient management of tax administration/other receipts and public expenditure holds the balance for achievement of various fiscal indicators. Budgetary allocations based on unrealistic proposals, poor expenditure monitoring mechanism, weak scheme implementation capacities/ weak internal controls lead to sub-optimal allocation among various developmental needs. Excessive savings in some departments deprive other departments of the funds which they could have utilized.

Summarised position of Actual Expenditure *vis-à-vis* Budget (Original/Supplementary) provisions during the financial year is given below in **Table 3.16**.

**Table 3.16 : Summarised position of Actual expenditure and Budget**

(₹ in crore)

Nature of expenditure		Original Grant/ App.	Supplementary Grant /App.	Total	Actual expenditure	Net of Savings (-)	Surrender during March	per cent of expenditure to Provision
Voted	I. Revenue	107212.18	5164.05	112376.23	90549.13	21827.10	20396.01	80.58
	II. Capital	16201.77	851.83	17053.60	8415.57	8638.03	8411.30	49.35
	III. Loans & Advances	1585.94	48.77	1634.71	1209.56	425.15	208.00	73.99
<b>Total</b>		<b>124999.89</b>	<b>6064.65</b>	<b>131064.54</b>	<b>100174.26</b>	<b>30890.28</b>	<b>29015.31</b>	<b>76.43</b>



Nature of expenditure		Original Grant/ App.	Supplementary Grant /App.	Total	Actual expenditure	Net of Savings (-)	Surrender during March	per cent of expenditure to Provision
Charged	V. Revenue	17790.90	1798.20	19589.10	19550.05	39.05	1060.19	99.80
	VII. Capital	83.44	58.05	141.49	89.54	51.95	51.98	63.28
	VIII. Public Debt- Repayment	17738.77	25925.88	43664.65	44001.28	-336.63	0.00	100.77
	IX. Loans & Advances	0.00	2.82	2.82	0.66	2.16	2.16	23.40
<b>Total</b>		<b>35,613.11</b>	<b>27,784.95</b>	<b>63,398.06</b>	<b>63,641.53</b>	<b>-243.47</b>	<b>1,114.33</b>	<b>100.38</b>
Appropriation to Contingency Fund (if any)		Nil	Nil	Nil	Nil	Nil	Nil	Nil
<b>Grand Total</b>		<b>160613.00</b>	<b>33,849.60</b>	<b>1,94,462.60</b>	<b>1,63,815.79</b>	<b>30,646.81</b>	<b>30,129.64</b>	<b>84.24</b>

Source: Appropriation Accounts.

Original Budget, Revised Estimate and Actual Expenditure during 2016-20 are given in Table 3.17.

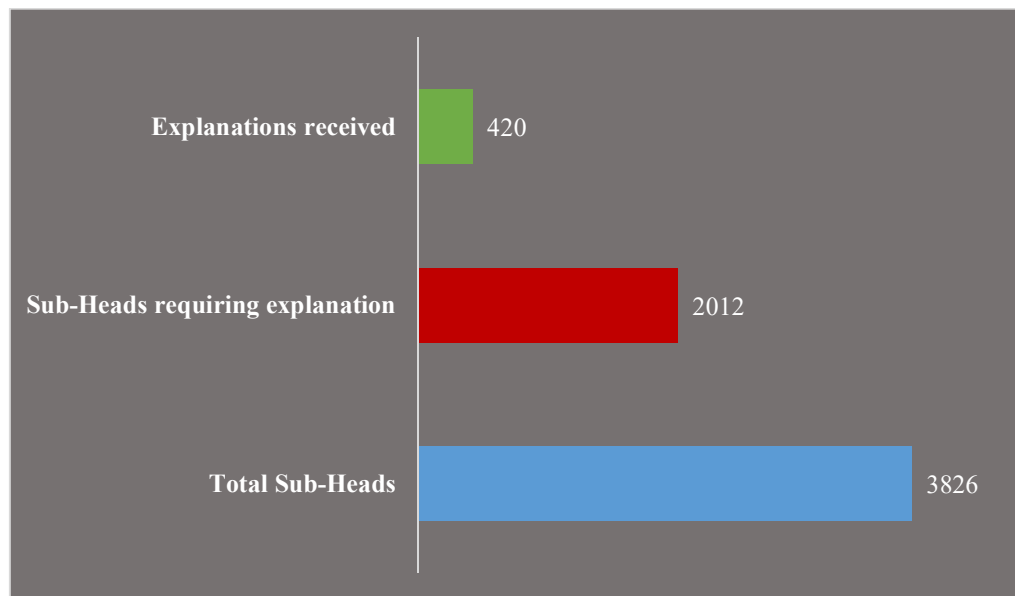
**Table 3.17: Original Budget, Revised Estimate and Actual expenditure during the period 2016-17 to 2019-20** (₹ in crore)

	2015-16	2016-17	2017-18	2018-19	2019-20
<b>Original Budget</b>	110890.37	122593.50	133897.86	142809.88	160613.01
<b>Supplementary Budget</b>	8000.42	9464.50	10984.08	17565.02	33849.60
<b>Revised Estimate</b>	88959.68	104296.99	111351.52	124678.88	125642.93
<b>Actual Expenditure</b>	94377.17	111597.71	133456.97	143721.60	163815.80
<b>Saving /excess</b>	24513.62	20460.29	11424.97	16653.30	30646.81
<b>Percentage of Saving</b>	20.62	15.49	7.89	10.38	15.76

Audit observed that the percentage of supplementary provision to the original provision has increased from 7.20 *per cent* in 2015-16 to 21.07 *per cent* in 2019-20 which indicates poor planning and budgeting.

There were a total of 3826 sub heads of which 2012 sub heads require explanation for variations between the budget provision and actual expenditure in the Appropriation Accounts during the year 2019-20. Out of this, only 420 explanations were received, as shown in **Chart 3.5**.

**Chart 3.5: Summary of Explanation for Variation in Appropriation Accounts**



### 3.5.2 Supplementary Budget and Opportunity Cost

At times, while obtaining supplementary provision, the Departments report to Legislature large additional requirement for different purposes under various schemes/activities; but finally they are unable to spend not only the entire supplementary provision or parts thereof but also the original budget provision. As a result, the unutilised funds could not be made use of. At the same time, some of the schemes remained incomplete due to want of funds. Thus, the intended benefit of the unfinished schemes could not be extended to the Public at large in such cases. Further, this leads to escalation of project cost.

Audit observed that though a total budget provision of ₹18,631.57 crore including supplementary provision was obtained under Capital Section in 24 grants (27 items), ₹9,042.71 crore (48.53 *per cent* ) remained unutilized as detailed in **Appendix 3.5**.

If the excessive budgetary provision is not made, it could have been utilized for other needy departments.

The details of incomplete projects costing above ₹50 crore which could have utilised this amount are shown in **Table 3.18**.

**Table 3.18: Details of incomplete projects costing above ₹50 crore (₹ in crore)**

Sl No.	Name of Scheme/Project (having estimated cost of ₹50 crore or more)	Estimated cost of scheme/project	Yearwise Expenditure incurred during 2015-20		Scheduled date of completion	Expenditure as of 31 March 2020	Physical progress of the work (in per cent)	Funds required for completion of remaining work	
			Year	Expenditure					
1	Kuttanad package-FMP-Modernisation of Thaneermukkam Bund to manage salinity	255.33	2015-16	49.44	2018	141.81	55	113.52	
			2016-17	52.12					
			2017-18	16.81					
			2018-19	8.54					
			2019-20	0.90					
2	Thuravoor-Pamba Road renovation and construction of Thycattussery Nerekadavu bye-pass construction of bridge	98.99	2015-16	#	2017	49.29	55	49.70	
			2016-17						
			2017-18	42.95					
			2018-19	6.34					
			2019-20	Nil					
3	Construction of Pattithanam - Manarkkad bye pass from 1/790 to 6/530 (2nd reach)	72	2015-16	*	2019	11.50	20	60.50	
			2016-17						
			2017-18						
			2018-19	3.01					
			2019-20	8.49					
4	NABARD RIDF XVIII- Construction of two bridges along with approaches from Cement Kavala at MC Road to Graminchira-Parechal-Thiruvathukkal road from 0/000 to 3/526 km in Kottayam Dist.	53.96	2015-16	Details awaited from WAC section of PAG (A&E)	2017	46.95	95	7.01	
			2016-17						
			2017-18						
			2018-19						
			2019-20						

#commenced in 2013-No expenditure upto 2016-17

\*commenced in 2018

### 3.5.3 Major policy pronouncements in budget and their actual funding for ensuring implementation

Several schemes for which provision was made in budget were not executed, and thus deprived the beneficiaries of intended benefits. Savings in such schemes deprives other Departments of the funds which they could have utilised.

Audit observed that budget provision of ₹ one crore and above was made in 82 schemes included in 23 Grants but no expenditure was incurred in any of these schemes. These schemes were also not withdrawn in revised outlay. (**Appendix 3.6**).

### 3.5.4 Financial power being flouted -in relation to re-appropriation

‘Re-appropriation’ - means the transfer, by a competent authority, of savings from one unit of appropriation to another within the same Grant, thus altering the destination of an original provision for one purpose to another, subject to the limits and restrictions laid down. The provisions relating to re-appropriation will be laid down in individual State Budget Manuals. However, there are certain broad instructions that are universally applicable:

1. Limitation for Executive:
  - (i) No re-appropriation is permissible from Capital to Revenue & *vice versa*.
  - (ii) No re-appropriation is permissible from Voted to Charged & *vice versa*.
  - (iii) No re-appropriation is permissible from one Grant to another.

However, based on the availability of savings in individual Grants, authorization of Legislature through Supplementary Grant can be obtained by the Government during the course of the year for utilizing Savings in other sections of the Grants. These are generally referred to as technical Supplementaries.

2. Generally, Finance Department has powers to sanction re-appropriation from one Major, Minor or Sub Head to another; and Ministers of respective Departments can sanction Re-appropriation between Heads subordinate to Minor Head, if this does not involve the undertaking of a recurring liability.
3. Permissible re-appropriations within the Grant or Appropriations of a year can be sanctioned at any time within the year but not after the expiry of the year.
4. No re-appropriation shall be made for any purpose whatsoever from Supplementary Grants voted by the Assembly for a definite purpose, so as to ensure that a Supplementary Grant shall be used for the purpose for which it is voted.
5. In a case in which provision made in the Budget under a Sub Head is expected to be exceeded, re-appropriation should ordinarily be postponed

until a reliable forecast is possible, as the information available in the earlier part of the year is not always a safe guide for re-appropriations.

6. No expenditure should, however, be incurred on an object for which no provision exists in the budget.
7. No re-appropriation should be made for a New Service not contemplated in the budget for the year nor for an object not specifically included in that estimates and for which no provision has been made.
8. No re-appropriation should be made which involve the undertaking of liability which is likely to be extended beyond the financial year.

Audit observed that re-appropriations were made from three Grants after obtaining supplementary provision as detailed in **Table 3.19**.

**Table 3.19 : Re-appropriation made after obtaining supplementary provision**

(₹ in crore)

Sl.No.	Grant No.	Head of account	Supplementary provision	Re-appropriation
1	XXVI Relief on Account of Natural Calamities	2245-02-111-99 (V) (NP)	3.00	(-) 3.44
2	XLI Transport	7055-00-190-99 (V) (P)	43.79	(-) 47.93
3	Public Debt Repayment	6003-00-111-99 (C) (NP)	12.71	(-) 78.07

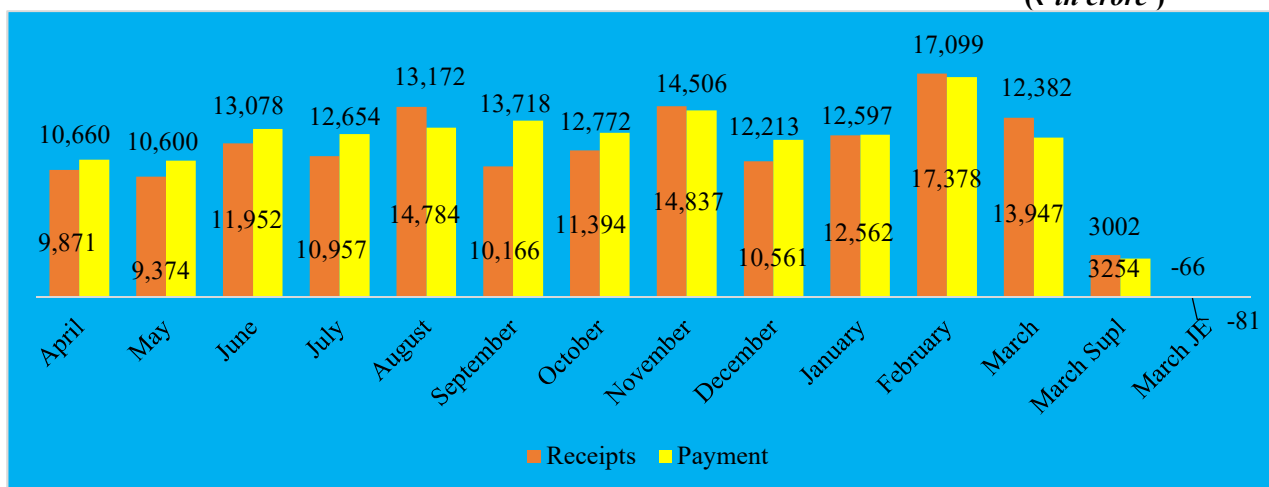
Withdrawal of supplementary provision, through re-appropriation orders, has defeated the objective of supplementary grant.

### 3.5.5 Rush of Expenditure

As per para 91 (2) of the Kerala Budget Manual the flow of expenditure should be so regulated throughout the year that there is no rush of expenditure, particularly during the closing months of the financial year.

**Chart 3.6: Monthly receipts and expenditure during the FY for the State**

(₹ in crore)



From **Chart 3.7**, it can be seen that for 2019-20, the monthly spread of receipts and expenditure of the State was generally even, which is commendable.

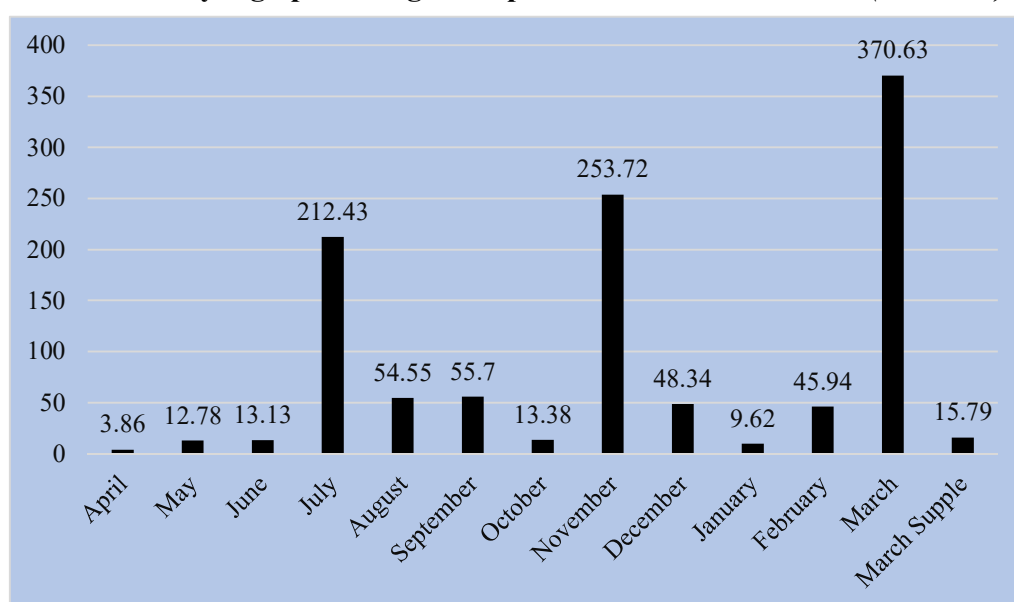
Audit observed that for four Grants shown in **Table 3.20**, more than 25 per cent of the expenditure was incurred in March alone.

**Table 3.20: Grants with more than 25 per cent of expenditure in March alone**  
(Descending order of percentage) (₹ in crore)

Sl. No	Grant No.	Description	Ist Qtr	2 <sup>nd</sup> Qtr	3 <sup>rd</sup> Qtr	4 <sup>th</sup> Qtr	Total	Expenditure in March	Expenditure in March as percentage of total expenditure
1	XXII	Urban Development	29.76	322.68	315.45	441.98	1109.87	370.63	33.39
2	XXIV	Labour, Labour Welfare and Welfare of Non-Residents	124.54	231.12	116.25	392.12	864.03	261.22	30.23
3	XXVI	Relief on account of natural Calamities	191.31	392.55	741.92	922.23	2248.01	681.55	30.32
4	XXX	FOOD	492.55	220.46	166.67	538.51	1418.19	368.53	25.99

Further, the scheme wise analysis of expenditure of ₹one crore or more, where the entire expenditure was incurred in March has revealed that during the year 2019-20, the incurrence of expenditure in March ranged from ₹ one crore in Grant No. XVIII Medical and Public Health to a maximum of ₹110 crore in Grant No. XXXVII Industries. (**Appendix 3.7**).

**Chart 3.7: Month wise expenditure of Urban Development Department with very high percentage of expenditure in March** (₹ in crore)



From the above graph, it can be seen that the monthly expenditure in Urban Development Department in 2019-20 was high in the months of July, November and March. Out of this, the highest expenditure of ₹370.63 crore was incurred in March, which works out to 33.39 *per cent* of the total expenditure of ₹1,109.87 crore incurred by the department for the year 2019-20.

### 3.5.6 Review of Selected Grants

#### Review on Budgetary process and Appropriation Control- Grant No XXXVII- Industries

Grant No XXXVII is controlled by eight<sup>32</sup> Controlling Officers in four<sup>33</sup> Administrative Departments. The Controlling Officers are responsible for ensuring appropriation control in each unit of appropriation of the Grant. There were 174 schemes under this Grant for 2019-20. Budget allocation and expenditure under revenue and capital sections of Grant XXXVII during the last three years are given in **Table 3.21**.

**Table 3.21: Budget allocation and expenditure for the last three years**

(₹ in crore)

Year	Category	Budget allocation	Expenditure	Savings	Percentage of Savings
2017-18	Revenue	705.66	648.92	56.74	8.04
	Capital	1214.33	947.05	267.28	22.01
2018-19	Revenue	714.61	609.41	105.20	14.72
	Capital	1035.45	610.17	425.28	41.07
2019-20	Revenue	613.10	353.53	259.57	42.34
	Capital	1004.97	461.47	543.50	54.08

Source: Appropriation Accounts of respective years

From **Table 3.21**, we can see that the Savings under this Grant have been increasing over the years; and in 2019-20, 50 *per cent* of the budget allocation remained unutilized.

<sup>32</sup>Director of Industries & Commerce, Director of Handloom and Textiles, Director of Coir Development, Director of Mining & Geology, Director of Economics & Statistics, Secretary (Industries Department) & Secretary (Electronics & Information Technology Department), Commissioner (State Goods and Service Tax).

<sup>33</sup> Industries & Commerce Department, Electronics & IT Department, Taxes Department & Planning and Economic Affairs Department.

A review was conducted covering the period 2017-18 to 2019-20 to ascertain the budgetary process and utilisation of funds earmarked for various schemes in Grant XXXVII implemented by five Controlling Officers viz., Director of Industries and Commerce, Director of Handloom and Textiles, Director of Coir Development, Secretary, Industries Department and Secretary, Electronics and Information Technology (E & IT) Department. These five Controlling Officers were implementing 164 schemes in total during 2019-20 (158 schemes in 2017-18 & 171 schemes in 2018-19). Defective budgetary and appropriation control was noticed in the schemes implemented by all the Controlling Officers selected for audit as detailed below:

### 1.Savings

The savings incurred by the selected five Controlling Officers for the financial years under review is given in **Chart 3.8**.

**Chart 3.8: Controlling Officer wise details of savings**

Year	Controlling officer	Savings in crore of rupees	Savings as percentage of budget allocation
2017-18	Director of Industries & Commerce	306.18	34.78
	Director of Handloom and Textiles	39.3	42.27
	Director of Coir Development	45.04	45.87
	Secretary, Industries Department	0	0
	Secretary, E & IT Department	66.69	24.02
2018-19	Director of Industries & Commerce	367.76	50.77
	Director of Handloom and Textiles	33.92	62.38
	Director of Coir Development	71.43	35.89
	Secretary, Industries Department	26.58	59.86
	Secretary, E & IT Department	217.6	67.66
2019-20	Director of Industries & Commerce	604.71	69.23
	Director of Handloom and Textiles	23.09	54.19
	Director of Coir Development	165.37	67.91
	Secretary, Industries Department	3.9	78
	Secretary, E & IT Department	272.14	79.87

Savings as percentage of budget allocation with respect to all the five Controlling Officers exceeded 50 *per cent* in 2019-20. The figures for the previous two years also show poor budgeting. Despite a meagre budget allocation of ₹3.9 crore for Secretary, Industries Department in 2019-20, the Controlling Officer could spend only 22 *per cent* of that amount. Savings incurred by the other four Controlling Officers are analysed below.

**Director of Industries and Commerce:** Director of Industries and Commerce had huge savings ranging from ₹306.18 crore to ₹604.71 crore. Nine schemes implemented by Director of Industries and Commerce (with budget allocation of ₹10 crore or more) had savings exceeding 79 *per cent* of budget allocation.



Non-utilisation of entire budget allocation is seen in the case of four schemes<sup>34</sup> to be implemented by the Director. During the three year under review the entire budget provision for revival of state PSUs amounting to ₹186.41 crore remained unutilised, and despite non-utilisation, budget was provided year after year (**Appendix 3.8**). Four schemes implemented by Director of Industries and Commerce have been showing savings of ₹10 crore or more persistently every year during the three-year period under review (**Appendix 3.9**).

**Secretary, E & IT Department:** Four schemes with budget allocation of ₹10 crore or more implemented by Secretary, E & IT Department had savings ranging from 77.37 per cent to 100 per cent of budget allocation. Despite meagre expenditure on Cyberpark in 2018-19, an amount of ₹21.69 crore was allocated in 2019-20, and the entire allocation remained unutilised during that year (**Appendix 3.8**). Two schemes implemented by Secretary, E & IT Department have been showing savings of ₹16 crore or more persistently every year during the three-year period under review. For one of these two schemes (Kerala State Information Technology Infrastructure Limited), the budget allocation was increased year after year, even though its yearly savings were significant (**Appendix 3.9**).

**Director of Coir Development & Director of Handloom and Textiles:** When schemes with budget allocation of ₹10 crore or more was examined, audit saw that three schemes implemented by the Director of Coir Development showed immense savings compared to budget allocation ranging from 78.96 per cent to 100 per cent (**Appendix 3.8**). Out of these, one scheme (Regulated Mechanisation of Coir Industry) had persistent savings of ₹18 crore or more every year during the three year under review(**Appendix 3.9**). One scheme with budget allocation of ₹10 crore or more implemented by the Director of Handloom and Textiles also showed immense savings of 82.51 per cent of the budget allocation during 2018-19 (**Appendix 3.8**).

**Entire budget allocation surrendered:** There were 52 schemes having budget allocation exceeding ₹10 crore implemented by the selected Controlling Officers during the three-year period. On a scrutiny of these 52 schemes, audit observed that for five schemes implemented by three<sup>35</sup> Controlling Officers the entire budget remained unutilised and was surrendered at the end of the respective financial year. The details are given in **Appendix 3.10**.

Huge savings, persistent savings on the same scheme year after year and surrender of entire budget allocation in some cases indicate failure of the respective Controlling Officers and the Finance Department to realistically estimate the budgetary requirement based on current expenditure trends and projections for next year. The existing system of budget allocation may be re-evaluated so that the wide disparity in projection and actuals can be addressed.

<sup>34</sup>Only schemes with budget allocation of ₹10 crore or more are considered here. There were 52 schemes having budget allocation of ₹10 crore or more implemented by selected Controlling Officers during the three-year period.

<sup>35</sup>Director of Industries & Commerce (2 Schemes), Secretary/ Electronics & IT Department (2 Schemes) & Director of Coir Development (1 Scheme).

## **2. Surrender in excess of actual savings**

As per Paragraph 91 of the Kerala Budget Manual, the Administrative Departments should surrender all anticipated savings before the close of the financial year to the Finance Department as and when they are foreseen, unless they are required to meet excesses under other units of appropriation. During the financial year, if it is found that the budget grant cannot be utilised in full, then the funds in excess of requirements are to be surrendered by the disbursing officers. Subsequently, the Chief Controlling Officer has to remit back the savings of the Grant to the Finance Department. Due care must be taken to accurately assess the requirements for the remaining part of the year before making surrender proposals, to have optimal allocation of available funds between schemes.

Audit examined the detailed Appropriation Accounts of last three years with respect to the five selected Controlling Officers. Audit found that excess surrender led to excess expenditure over and above budget allocation in the case of eight Schemes under Director of Industries and Commerce and two schemes under Secretary, Industries Department (**Appendix 3.11**). A major share of excess expenditure occurred under the head of account 6885-60-190-99 'Loans to Kerala Industrial Infrastructure Development Corporation (P)' administered by Director of Industries and Commerce in 2017-18 wherein an amount of ₹54.38 crore was surrendered during the year end leading to excess expenditure of ₹28.08 crore under the scheme.

These instances of injudicious surrender indicated inadequate appropriation checks exercised by departmental officers in the heads of account under their control.

## **3. Injudicious Re-appropriation**

Re-appropriation is transfer of funds within a Grant from one unit of appropriation, where savings are anticipated, to another unit where augmentation is needed. Audit analysis revealed that augmentation of budget allocation through re-appropriation was wholly unnecessary in 18 schemes under four<sup>36</sup> Controlling Officers, as detailed in **Appendix 3.12**, since the final expenditure was less than the budget allocation (original and supplementary grant) provided under it. Sub heads where savings are greater than ₹ three crore are given in **Table 3.22**.

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<sup>36</sup>Director of Industries & Commerce ( 12 Schemes), Director of Coir Development (3 Schemes) , Director of Handloom & Textiles (2 Schemes) & Secretary/Electronics and IT Department (1 Scheme)

**Table 3.22: Unnecessary re-appropriation as expenditure was less than budget allocation.**

(₹ in crore)

Sl. No.	Scheme	Year	Budget allocation	Reappropriation	Final Exp	Savings
<b>Director of Industries and Commerce</b>						
1.	2851-00-004-99 Development of Commerce(P)	2019-20	5.43	2.00	1.13	4.30
2.	6851-00-109-74 Kerala State Co-operative Textile Federation (TEXFED)(P)	2019-20	24.60	1.00	19.49	5.11
3.	6854-01-190-98 Loans to Travancore Cements Limited, Kottayam(P)	2017-18	10.00	5.00	5.00	5.00
4.	6858-01-190-96 Loans to Kerala Electrical and Allied Engineering Company Limited(P)	2017-18	18.00	5.00	14.62	3.38
5.	6860-60-190-94 Loans to Kerala Ceramics Limited(P)	2017-18	15.00	1.65	11.65	3.35
<b>Director of Coir Development</b>						
6.	2851-00-106-34 Price Fluctuation Fund(P)	2019-20	45.00	10.00	35.46	9.54
<b>Secretary /Electronics and Information Technology Department</b>						
7.	4859-02-004-95 Land Acquisition and Infrastructure Development under IT(P)	2017-18	136.00	11.65	119.65	16.35

Source: Detailed Appropriation Accounts of respective years

Director of Industries & Commerce stated that an amount of ₹ Two crore was re-appropriated during 2019-20 under the head of account '2851-00-004-99 Development of Commerce(P)' for organising investors meet 'ASCEND 2020' in January 2020 as sufficient funds were not available in the head of account. It was also stated that the actual expenditure under the head was ₹4.76 crore. The reply is not acceptable as the final expenditure for the scheme booked by AG(A&E) comes to ₹1.13 crore only. The department failed to take steps to reconcile the departmental expenditure figure with expenditure figure booked by AG (A&E).

Audit scrutiny also revealed that with respect to seven schemes implemented by three Controlling Officers during 2017-18 excess withdrawal of funds led to excess expenditure over budget provision amounting to a total of ₹1.21 crore as detailed in **Appendix 3.13**.

The failure of the departmental officers in assessing the actual requirement of funds resulted in excess savings in some schemes and excess expenditure in some other schemes.

#### **4. Delay in submitting surrender proposals.**

As per para 93(1) of Kerala Budget Manual, the last date for receipt of surrender proposal in the Administrative department from the Chief Controlling Officer has been fixed as 10 March of the financial year. However, a scrutiny revealed that surrender proposals were sent to Administrative department belatedly in respect

of Grant XXXVII by various Controlling Officers during 2017-18 to 2019-20 as shown in **Table 3.23**.

**Table 3.23: Delayed submission of surrender proposals to Administrative Department**

Year	Date of sending surrender proposal to Administrative Department
<b>Director of Industries and Commerce</b>	
2017-18	31 March 2018
2018-19	11 April 2019
2019-20	10 August 2020
<b>Director of Handloom and Textiles</b>	
2017-18	4 April 2018
2018-19	10 April 2019
2019-20	15 May 2020
<b>Director of Coir Development</b>	
2017-18	31 march 2018
2018-19	5 April 2019
2019-20	9 April 2020

Source: Details collected from Directorates

Similarly, Secretary to Government, Electronics and Information Technology Department who is also the Controlling Officer in respect of certain sub heads of account under grant XXXVII had also not submitted surrender proposals in respect of funds under his control to Finance Department on time (due date as per Kerala Budget Manual is 20 March) as shown in **Table 3.24**.

**Table 3.24: Submission of surrender proposals to Finance Department.**

Year	Date of sending surrender proposal to Finance Department
2017-18	16 April 2018
2018-19	29 April 2019
2019-20	1 July 2020

Source: Information collected from Electronics Department

Further, Secretary to Government, Industries Department had not replied to audit requisition for the details of surrender proposal in respect of funds under his control.

Submission of surrender proposals on the last day of the financial year or during the succeeding financial year is against the provisions contained in the Budget manual which defeats the purpose of surrender of funds.

Director, Industries and Commerce replied (October 2020) that delay in sending surrender proposals in 2017-18 and 2018-19 occurred as considerable time is required for the process of consolidation of details collected from 14 District Industries Centres and all Taluk Industries offices. The delay in 2019-20 was

attributed to the Covid 19 pandemic related lockdown and restrictions from March. It was also stated that action would be taken to avoid delay in submitting surrender proposals in future.

The reply is not convincing as the pandemic related lockdown was ordered only from 24 March 2020 onwards and as per the provisions of Kerala Budget Manual, the surrender proposals to the Administrative departments and Finance department had to be submitted on 10 and 20 March 2020, respectively. All Controlling Officers may begin the review and re-evaluation of budget for the ongoing year well in advance so that surrender proposals can be submitted well in time.

### **5. Non-reconciliation of departmental figures**

According to Paragraph 74 of Kerala Budget Manual, the expenditure recorded in the books of the Controlling Officer of the departments should be reconciled every month with that recorded in the books of the AG (A&E), Kerala to exercise control over expenditure, to keep it within the budget grants and to ensure accuracy of their accounts. There were 44 schemes implemented by the selected Controlling Officers having expenditure greater than ₹10 crore. Of these 44 schemes, there were wide variations between the expenditure booked in the books of the Controlling officers and the figures booked by AG (A&E) with respect to six schemes by two<sup>37</sup> Controlling Officers **Appendix 3.14**. These variations had not been reconciled and rectified as stipulated in the Kerala Budget Manual. This was not only in violation of the provisions of Paragraph 74 of the Kerala Budget Manual, but also casts doubt about the correctness of the expenditure figures supplied by the departments. Controlling Officers may make sure that the expenditure figures are reconciled every month with AG (A&E). A robust system may be put in place for the same so that these lapses are not repeated.

### **3.6 Good Practices**

It is observed that for 2019-20, the monthly spread of receipts and expenditure of the State was generally even, which is commendable.

### **3.7 Recommendations**

- 1. Government should be more realistic in its budgetary assumptions and ensure efficient control mechanisms to curtail savings/ excess expenditure.***
- 2. Government should enforce its commitment to achieve its promised/intended objectives for overall development of the State through improved execution, monitoring and financial management of schemes/projects.***
- 3. Government needs to reconcile the differences in the amounts relating to its investment in the State PSUs with regard to equity, loans and guarantees shown in its accounts and the accounts of the concerned PSUs.***

<sup>37</sup>Director of Industries & Commerce (4 Schemes), Director of Coir Development (2 Scheme)

- 4. The State Government may consider writing back balance under Deposit Accounts to the respective Major/Minor Heads at the close of the year to ensure legislative scrutiny.*
- 5. Excess expenditure over grants approved by the Legislature are in violation of the will of the Legislature. It therefore, needs to be viewed seriously and regularized at the earliest.*
- 6. Adopt good practices of Central Government, where Technical and Token Supplementary are encouraged, with Cash Supplementary being the last resort, after all options of utilizing the savings has been exhausted.*
- 7. State Government needs to formulate a realistic budget based on reliable assumptions of the needs of the Departments and their capacity to utilise the allocated resources.*
- 8. An appropriate control mechanism needs to be instituted by the Government to enforce proper implementation and monitoring of budget to ensure that savings are curtailed, large savings within the Grant/ Appropriation are controlled and anticipated savings are identified and surrendered within the specified timeframe.*
- 9. Controlling Officers need to be made aware of their responsibility to explain the variation in expenditure from the allocation to facilitate proper analysis of budget and preparation of meaningful Appropriation Accounts.*