सत्यमेव जयते

Report of the Comptroller and Auditor General of India

on

State Finances

for the year ended March 2017

Government of Karnataka

Report No. 1 of the year 2018

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PREFACE

1. This Report has been prepared for submission to the Governor of Karnataka under Article 151 of the Constitution of India for being placed in the Karnataka Legislature.

2. Chapters I and II of this report contain audit observations on matters arising out of examination of Finance Accounts and Appropriation Accounts respectively, of the State Government for the year ended 31 March 2017. Information are obtained from the Government of Karnataka, wherever necessary.

3. Chapter III on 'Financial Reporting' provides an overview and status of the State Government's compliance with various financial rules, procedures and directives during the financial year 2016-17.

4. The report has been prepared by taking into account the recommendations of the Public Accounts Committee (5^{th} Report-July 2015) to the Action Taken Report of the State Government in response to its earlier recommendations (13^{th} Report-December 2011) to the Report on State Finances for the year ending 31 March 2010.

5. The Reports containing the findings of performance audit and audit of transactions in various departments and observations arising out of audit of Statutory Corporations, Boards and Government Companies, Local Bodies, Panchayat Raj Institutions and the report containing observations on Revenue Receipts are presented separately.

Executive Summary

Background

In Karnataka, fiscal reforms and consolidation were brought to the forefront with the State Government formulating the first Medium Term Fiscal Plan (MTFP) for the period 2000-05, based on broad parameters of fiscal correction laid down by the Eleventh Finance Commission (EFC). MTFP became a rolling annual document and the fiscal targets and policies set out in MTFP were dovetailed to the annual budgetary exercise. Karnataka was the first State to enact (September 2002) the Karnataka Fiscal Responsibility Act (KFRA), providing statutory backing to MTFP. The Act aims at ensuring fiscal stability and sustainability, enhancing the scope for improving social and physical infrastructure and human development by achieving revenue surplus, reducing fiscal deficit, removing impediments for effective conduct of fiscal policy and prudent debt management through limits on borrowings, debt and deficits and greater transparency in fiscal operations by the use of medium-term fiscal framework.

The Report

Based on the audited accounts of the Government of Karnataka for the year ended 31 March 2017, the report provides an analytical review of the annual accounts of the State Government. The financial performance of the State has been assessed based on the KFRA, budget documents, Fourteenth Finance Commission Report (XIV FC) and other financial data obtained from various Government departments and organisations. The report is structured in three chapters.

Chapter I is based on the audit of Finance Accounts and makes an assessment of Government of Karnataka's fiscal position as on 31 March 2017. It provides an insight into trends in committed expenditure and borrowing pattern and certain accounting adjustments that have a bearing on the fiscal parameters.

Chapter II is based on the audit of Appropriation Accounts and gives description of appropriations and the manner in which, the allocated resources were managed by the service delivery departments. Issues of budgeting affecting transparency of transactions are also brought out in this Chapter.

Chapter III is an inventory of Karnataka Government's compliance with various reporting requirements and financial rules.

The report also includes appendices of additional data collected from several sources in support of these findings. A glossary of selected terms is given at the end of the Report.

Audit findings and recommendations

Fiscal position

The State recorded Revenue Surplus during 2012-13 to 2016-17 and maintained the fiscal deficit relative to Gross State Domestic Product (GSDP) below the limit laid down under KFRA, as amended from time to time. During 2016-17, the State had a Revenue Surplus of ₹1,293 crore, a decrease of ₹496 crore over the previous year. There was an increase in revenue expenditure by 13 *per cent* over the previous year, while the revenue receipts increased by 12 *per cent* during the year.

Fiscal deficit during 2016-17 was ₹28,664 crore, increase of ₹9,495 crore (50 *per cent* in terms of amount) from ₹19,169 crore in 2015-16. Primary deficit was ₹15,814 crore, an increase of ₹7,988 crore over the previous year. Incremental non-debt receipts of ₹14,112 crore was less than the incremental primary expenditure of ₹22,101 crore.

State's own resources

The ratio of the State's tax revenue to GSDP was between 7.3 and 7.8 *per cent* during 2012-13 to 2016-17. It also included book adjustment of ₹344.30 crore, which increased the revenue receipts artificially during the year on account of Guarantee Commission (₹52.91 crore) from Karnataka State Co-operative Marketing Federation Limited, Karnataka Slum Development Board, Rajiv Gandhi Rural Housing Corporation Limited, Karnataka Road Development Corporation Limited, Karnataka State Police Housing and Infrastructure Development Corporation and adjustment of motor vehicle tax dues of transport corporations adjusted as subsidy (₹291.39 crore).

Ratio of non-tax revenue to revenue receipts reduced significantly from 5.07 *per cent* in 2012-13 to 4.35 *per cent* during the year. Its ratio to GSDP (₹11,17,334 crore) was insignificant (0.52 *per cent* in 2016-17), implying the need for mobilising non-tax revenue in the coming years by revising user charges, as recommended by Expenditure Reforms Commission.

Optimisation of XIV Finance Commission Grants

During 2016-17, there was short release of ₹20.41 crore under Basic Grants to PRIs. Grants under Disaster relief continued at 75:25 ratios as per the recommendations of the XIII Finance Commission, pending passage of Goods and Service Tax bill in Parliament. The release of Performance Grants to Panchayat Raj Institutions (PRIs) and Urban Local Bodies (ULBs) commenced from 2016-17 onwards. There was short release of ₹2.70 crore under Performance Grants to PRIs. The XIV FC Commission made some other recommendations especially on professions tax, setting up of water regulatory authority and State Electricity Regulatory Commission Fund etc.

Revenue expenditure

Expenditure under social and economic sector registered growth of 18 and 19 *per cent* respectively over the previous year, while the growth in general services was two *per cent*. The share of plan expenditure in total revenue expenditure increased from ₹40,009 crore in 2015-16 to ₹47,962 crore in 2016-17. Eighty *per cent* of revenue expenditure consisted of committed expenditure on salaries, devolutions to local bodies, interest payments, pensions, subsidies, administrative expenses, grants-in-aid and financial assistance. The committed expenditure consumed 79 *per cent* of revenue receipts. Explicit subsidy increased from ₹13,149 crore in 2015-16 to ₹14,387 crore during the year, whereas implicit subsidy decreased from ₹3,913 crore in 2015-16 to ₹3,714 crore during the year. As per the recommendations of the XII Finance Commission, expenditure forming implicit subsidy should be brought out in Finance Accounts for transparency. However, this is not being done.

Quality of expenditure

The share of capital expenditure to total expenditure during the year 2016-17 was 19 *per cent* (₹28,150 crore) as against 15 *per cent* (₹20,316 crore) in the previous year. Funds aggregating to ₹2,027 crore were blocked in incomplete projects at the end of 2016-17. The return from investment of ₹63,115 crore as on 31 March 2017 in Companies/Corporations was negligible (₹82.50 crore). The investment included ₹24,474 crore (39 *per cent*) in Companies/Corporations under loss. During the year, the Government invested ₹123 crore in these Companies and the cumulative loss decreased by ₹45 crore.

Funds and other Liabilities

The interest accrued on the investment out of Consolidated Sinking Fund of ₹2,070 crore amounting to ₹317.45 crore did not form the part of the assets of the State Government as the transaction did not pass through the Government books. Green Tax Cess of ₹57.89 crore along with relevant expenditure was not transferred to Green Tax Fund. Transfer of ₹4,621.53 crore from Consolidated Fund to Infrastructure Initiative Fund (IIF), Bangalore Metro Rail Corporation Limited (BMRCL) fund and Chief Minister Rural Road Development (CMRRD) fund in Public Account, write back of Zilla Panchayat Fund II and Taluk Panchayat Fund II balances (₹1,086.28 crore) artificially inflated revenue expenditure. The Guarantee Redemption Fund was not revived.

Debt sustainability

Open Market Loans had a major share (49 *per cent*) in the total fiscal liabilities of the State. The percentage of debt to GSDP in 2016-17 was 19.81 *per cent*, which was within the limit of 25 *per cent* as mandated under KFRA 2002. The net debt available to the State during 2016-17 (₹23,736 crore) increased by 40 *per cent* when compared to the previous year. The interest relief of ₹192.42 crore on National Small Savings Fund (NSSF) loans as recommended by XIII FC was short released.

Financial Management and Budgetary Control

Against total provision of ₹1,86,052 crore during 2016-17, an expenditure of ₹1,73,045 crore was incurred, resulting in unspent provision of ₹13,007 crore (seven *per cent*). Release of money from Consolidated Fund to the implementing agencies should be based on requirement of funds rather than to avoid lapse of budget grants. It was revealed that expenditure stood overstated to an extent of ₹5,898 crore mainly due to release of funds to ZP/TP remaining unutilised to an extent of ₹1,381 crore, transfer of only the revenues of ₹4,622 crore to fund account, ₹260 crore related to scholarships to minority students released to Directorate of Minorities kept in PD account etc. Excess expenditure of ₹1,085.41 crore (₹176.75 crore under Demand No.1, ₹55.37 crore under Demand No.5, ₹632.06 crore under Demand No.14, ₹59.81 crore under Demand No.20 and ₹161.42 crore under Demand No.29) over provision for the year 2016-17 are required to be regularised under Article 205 of the Constitution. Supplementary provision of ₹2,047.40 crore in 26 cases was unnecessary, re-appropriation of funds in 62 cases was made injudiciously, resulting in either un-utilised provision of funds or excess over provision. In 15 grants, savings in excess of rupees five crore amounting to ₹1,789.36 crore was surrendered in the last two working days of the financial year.

In four cases under three grants, the executive orders of ₹1.03 crore for incurring the expenditure not covered in the budget initially were issued as 'additionalities', which were not regularised subsequently, in the supplementary estimates, resulting in excess expenditure of ₹0.44 crore.

In five cases, involving five grants, excess expenditure amounting to ₹124 crore, which should be treated as 'New Service/New Instrument of Service' was incurred without the approval of the Legislature.

An amount of ₹45.69 crore was misclassified under the capital/revenue section affecting the fiscal indicators. Misclassification under the object head 059 – Other Expenses, an omnibus head, to record minimum expenditure, amounted to ₹1,265.77 crore.

Supplementary budget was not assessed for being fiscally neutral as it failed to 'exhibit the statement indicating the corresponding curtailment of expenditure/ augmentation of revenue to fully offset the impact of the supplementary estimate in relation to the budget targets of the current year' as required under the provisions of KFRA.

Payment of excess family pension continued, as an amount of ₹1.39 crore in 151 cases was drawn in excess, and there was repetition of excess payment of family pension amounting to ₹1.23 crore in 79 cases.

Budgetary control should be strengthened in all departments to avoid cases of provision remaining unutilised as large un-utilised provisions were observed across several grants. The budgetary exercise should be more realistic as there were cases of persistent non-utilisation of funds, excessive provision of funds and large provisions remaining un-utilised.

The budget/expenditure suffered from inadequate disclosure on account of operation of incorrect budget lines for release and accounting of Urban Local Bodies (ULB) grants. Distinct heads should be opened for accommodation of budget/expenditure of the ULB sector to ensure that the grants released to ULBs should be distinct from that of the State Sector. The budget document brought out for devolutions to ULBs should be reviewed for classification of expenditure, avoiding merger with the State budget.

Financial Reporting

Non-payment Detailed Contingent (NDC) bills, against Abstract Contingent (AC) bills, were pending over a long period and large sums of money were retained in Personal Deposit (PD) accounts against the principle of Legislative financial control. Non reconciliation of expenditure was to the extent of 19 *per cent* of total expenditure. There were adverse balances under certain Debt, Deposit and Remittance (DDR) heads, which required remedial action for their clearance. Suspense accounts needs speedy clearance by taking up the matter with the concerned authorities as they have a bearing on the cash balance of the Government. The transaction of the Government account should be transparent to exhibit the correct head of account as there were instances of provision/ expenditure made under defunct object heads of account. Drawal of money from Consolidated Fund unless required for immediate use should be avoided, as it was noticed that in certain cases, the money was drawn and deposited in PD account/bank accounts of the implementing agencies.

Chapter – I

Finances of the State Government

Chapter I

Finances of the State Government

Profile of the State

The State of Karnataka is the seventh largest State in terms of geographical area (1,91,791 Sq. Km) and the eighth largest by population. The State's population increased from 5.28 crore in 2001 to 6.11 crore in 2011, recording a decadal growth of about 16 *per cent*. The percentage of population below the poverty line was 20.90 compared to the All India Average of 21.90 during 2011-12. The State's Gross State Domestic Product (GSDP) in 2016-17 at market prices was ₹11,17,334 crore. The State's literacy rate increased from 66.60 *per cent* in 2001 to 75.40 *per cent* in 2011. The per-capita income of the State stood at ₹1,59,893 against the country average of ₹1,03,818 (As of March 2017 - Economic Survey Government of Karnataka, 2016-17). General data relating to the State is given in **Appendix 1.1**.

Gross State Domestic Product (GSDP)

GSDP is the market value of all officially recognised final goods and services produced within the State in a given period of time. The growth of GSDP of the State is an important indicator of the State's economy, as it indicates the standard of living of the State's population. The trends in the annual growth of India's Gross Domestic Product (GDP) and that of the State, at current prices, are indicated in **Table 1.1**.

Table 1.1: Annual Growth Rate of GDP and GSDP at current prices

Year	2012-13	2013-14	2014-15	2015-16	2016-17
India's GDP@ (₹ in crore)	99,44,013	112,33,522	124,45,128	136,82,035	151,83,709
Growth rate of GDP (percentage)	13.82	12.97	10.79	9.94	10.98
State's GSDP# (₹ in crore)	6,91,700	8,17,886	9,21,788	10,27,068	11,17,334
Growth rate of GSDP (percentage)	14.56	18.24	12.70	11.42	8.79

@ All India GDP figures are from Ministry of Statistics and Programme Implementation (MoSPI) press release dated 01.08.2017.

 # GSDP figures for 2012-13 to 2015-16 are taken from Economic Survey of Karnataka 2016-17 with 2011-12 as base year and for 2016-17 as conveyed by Ministry of Finance, Government of India vide letter dated 29 March 2016 with 2011-12 as base year.

1.1 Introduction

This chapter provides a broad perspective of the finances of the Government of Karnataka during 2016-17. It analyses important changes in the major fiscal indicators compared to the previous year, keeping in view the overall trends during the last five years. The analysis is based on the Finance Accounts and information obtained from the State Government. The structure of the Government Accounts and the layout of the Finance Accounts are explained in **Appendix 1.2**.

1.1.1 Summary of fiscal transaction in 2016-17

Table 1.2 and **Appendix 1.3** present the summary of the State Government fiscal transaction during 2016-17 *vis-à-vis* the previous year (2015-16), while **Appendix 1.4** provides the details of receipts and disbursement as well as the overall fiscal position during preceding four years.

Table 1.2: Summary of fiscal transactions in 2016-17

(₹ in crore)

Receipts				Disbursements			
	2015-16	2016-17		2015-16	2016-17		
Section-A Revenue				**Total**	**Non-Plan**	**Plan**	**Total**
Revenue Receipts	**1,18,817.31**	**1,33,213.79**	**Revenue Expenditure**	**1,17,028.58**	**83,958.99**	**47,961.76**	**1,31,920.75**
Tax revenue	75,550.18	82,956.13	General Services	30,799.28	31,152.93	111.63	31,264.56
Non-tax revenue	5,355.04	5,794.53	Social Services	46,307.08	24,653.32	29,895.92	54,549.24
Share of Union taxes/duties	23,983.34	28,759.94	Economic Services	33,846.17	23,840.45	16,580.92	40,421.37
Grants-in-aid and contributions from GOI	13,928.75	15,703.19	Grants-in-aid and contributions	6,076.05	4,312.29	1,373.29	5,685.58
Section-B: Capital and others:							
Misc. Capital receipts	**352.30**	**26.96**	**Capital Outlay**	**20,713.03**	**466.08**	**27,684.35**	**28,150.43**
			General Services	991.41	33.42	1,026.97	1,060.39
			Social Services	5,313.91	213.80	6,683.04	6,896.84
			Economic Services	14,407.71	218.86	19,974.34	20,193.20
Recoveries of Loans and Advances	**59.68**	**99.84**	**Loans and Advances disbursed**	**656.41**	**5.31**	**1,929.07**	**1,934.38**
Public debt receipts**	**21,072.33**	**31,155.92**	**Repayment of public debt****	**4,110.20**	**7,420.24**	**-**	**7,420.24**
Contingency Fund	**-**	**-**	**Contingency Fund**	**-**	**-**	**-**	**-**
Public Account Receipts	**1,60,518.76**	**1,79,318.45**	**Public Account disbursements**	**1,55,094.83**	**-**	**-**	**1,67,153.81**
Opening Cash Balance	**23,900.90**	**27,118.23**	**Closing Cash Balance**	**27,118.23**	**-**	**-**	**34,353.58**
Total	**3,24,721.28**	**3,70,933.19**	**Total**	**3,24,721.28**			**3,70,933.19**

Source: Finance Accounts 2016-17.

*** Excluding net transaction under ways and means advances and overdraft*.

The following are the significant changes during 2016-17 over the previous year:

- Revenue receipts grew by ₹14,396.48 crore (12 *per cent*) due to increase in Share of Union Taxes/Duties (₹4,776.60 crore), Own Tax Revenue (₹7,405.95 crore), Non-Tax Revenue (₹439.49 crore) and Grants-in-aid and Contributions from Government of India (₹1,774.44 crore). The revenue receipts for the year 2016-17 fell short of the projection made in Medium Term Fiscal Plan (MTFP) 2013-17 by ₹17,061 crore;

- Revenue expenditure increased by ₹14,892.17 crore (13 *per cent*). Increase was under Social Services Sector (₹8,242.16 crore), Economic Services Sector (₹6,575.20 crore), General Services Sector (₹465.28 crore) and off-set by decrease under grants-in-aid and contributions (₹390.47 crore). The revenue expenditure for the year 2016-17 were short of the projection made in MTFP 2013-17 by ₹4,689 crore;

- Capital outlay increased by ₹7,437.40 crore (36 *per cent*), increase was mainly under Economic Services Sector (₹5,785.49 crore) and Social Services Sector (₹1,582.93 crore) and General Services Sector (₹68.98 crore);

- Recoveries of Loans and Advances increased by ₹40.16 crore (67 *per cent*) and Disbursement of Loans and Advances increased by ₹1,277.97 crore (195 *per cent*);

- Public Debt receipts (excluding ways and means advances) and repayments increased by ₹10,083.59 crore (48 *per cent*) and ₹3,310.04 crore (81 *per cent*), respectively;

- Public Account receipts and disbursement increased by ₹18,799.69 crore (12 *per cent*) and ₹12,058.98 crore (eight *per cent*), respectively; and

- Cash balance of the State Government increased by ₹7,235.35 crore (27 *per cent*).

1.1.2 Review of Fiscal situation

In Karnataka, fiscal reforms and consolidation were brought to the forefront with the State Government formulating the first Medium Term Fiscal Plan (MTFP) for the period 2000-05 on the basis of broad parameters of the fiscal correction path laid down by the Eleventh Finance Commission (EFC). Towards this end, the Karnataka Fiscal Responsibility Act (KFRA) was enacted (September 2002), which became operational from 1 April 2003 and provided statutory backup to MTFP.

The State Government was on a fiscal consolidation path since passing of KFRA and maintained the guarantees within the limits prescribed under the Karnataka ceiling on Government Guarantees Act, 1999. It recorded revenue surplus since 2004-05 and the fiscal deficit was within the limit of three *per cent* of GSDP as prescribed under the Act. However, during 2008-09 and 2009-10, as per the directives of Government of India (GOI), the State deviated from the fiscal consolidation path and borrowed more money for public spending to tide over economic slowdown, by amending the Act.

By an amendment to the Act in February 2014, the scope of the total liabilities as defined under Section-2(g) was amplified to include the borrowings by Public Sector Undertakings (PSU) and Special Purpose Vehicles (SPVs) and other equivalent instrument, where the principal and/or interest are to be serviced out of the State Budget. The State Government amended its KFRA from time to time keeping in view the parameters prescribed by the successive Finance Commissions.

XIV Finance Commission (XIV FC) recommended a set of rules for the States relating to fiscal deficit targets and annual borrowing limits of the State wherein the States are eligible for flexibility of fiscal deficit of 0.25 *per cent* of GSDP for any given year, for which, the borrowing limits are to be fixed if their debt GSDP ratio is less than or equal to 25 *per cent* in the preceding year and further eligible for an additional borrowing limit of 0.25 *per cent* of GSDP in a given year if the interest payments are less than or equal to 10 *per cent* of the revenue receipts in the preceding year. Thus, by availing this flexibility provisions either separately or simultaneously, a State can have a maximum fiscal deficit-GSDP limit of 3.5 *per cent* in any given year, provided there is no revenue deficit in the year, in which, borrowing limits are to be fixed and immediately preceding year.

If the State is not able to fully utilise its sanctioned borrowing limit of three *per cent* of GSDP in any particular year during the first four years of award period (2015-16 to 2018-19), it will have the option of availing this unutilised borrowing amount only in the following year but within the award period. Further, it recommended that the State Governments may amend their Fiscal Responsibility Budget Management (FRBM) Acts to provide for the statutory flexible limits on fiscal deficit.

However, KFRA was not amended to reflect the above recommendations. MTFP placed before the Legislature also did not contain the reasons behind the non-amendment.

The ratio of outstanding debt (inclusive of off-budget borrowings) and fiscal deficit to GSDP (₹11,17,334 crore) during 2016-17 were 19.81 *per cent* and 2.57 *per cent*, respectively, which were within the prescribed limit of 25 *per cent* and three *per cent* respectively.

The Fiscal Management Review Committee (FMRC), headed by Chief Secretary to Government was constituted in July, 2011. The Committee recommended (March 2017) remedial measures to be adopted to ensure adherence to the parameters stipulated in KFRA, which were as under:

- The economic effects of demonetisation were considered as primarily responsible for the reduction in tax collection in Stamps and Registration and Commercial Taxes. It was advised to review the stagnant volume of sales of Indian Made Liquor (IML), whereas the growth rates were better in neighbouring States;

- The revised arrangement for writing back of unspent balances in the local body funds in Public Account was noted and advised that a clear picture of balances in the bank accounts of the local bodies should be brought out for taking a suitable decision;

- Continuing the practice of resorting to budgetary borrowings only in the 3rd and 4th quarters as per the actual cash flow;

- Steps should be taken to increase the capital receipts by reviewing the status of repayment of loans extended to various sectors including Co-operative sector;

- Departments should strictly adhere to the detailed instructions issued by the Finance Department to manage deposits of Government money in banks;
- A system should be evolved to approve new capital projects so that the average budget multiplying factor remains around three years only. A proposal for creating a Public Investment Committee that scrutinises all new capital programmes accompanied by a financing plan above a certain size from their efficacy and sustainability point of view be prepared by Finance Department and Planning Department;
- Prioritisation needs to be done to use the available funds first for projects that are nearing completion so that immediate benefits accrue to the public;
- Continued efforts be made to improve own revenue receipts through increased efficiency in tax administration as well as monitoring and to make optimum use of central funds available under various schemes; and
- For non-tax revenues, a thorough exercise be made to review the rates and wherever possible, make these index linked.

Scrutiny of certain high end transaction during 2016-17 revealed that the fiscal deficit and the liabilities in the Public Account were affected more through certain accounting adjustments than through fiscal management. Such adjustments are discussed below in brief:

- The infrastructure cess collected on excise license fee, motor vehicle tax and non-judicial stamp duty were to be allocated to the Infrastructure Initiative Fund (IIF), Bangalore Metro Rail Corporation Limited (BMRCL) fund and Chief Minister's Rural Road Development (CMRRD) fund in the ratio of 57, 28 and 15 *per cent* respectively. The Infrastructure cess realised during 2016-17 amounting to ₹951.53 crore, initially booked under Consolidated Fund was adjusted to IIF (₹542.36 crore), BMRCL fund (₹266.43 crore) and CMRRD fund (₹142.74 crore) maintained in Public Account. Even though the expenditure for the infrastructure works was to be met out of the fund, the fund was not debited with the expenditure, thereby overstating the Revenue and Capital Expenditure;

  Further, on introduction of a uniform Value Added Tax (VAT) in 2005, levy of Infrastructure cess was dispensed with and the State Government decided to contribute from General Revenues of the State. During 2016-17, an amount of ₹3,670 crore was transferred from General Revenues of the State to Infrastructure Initiative Fund (₹2,092 crore), BMRCL Fund (₹1,027 crore) and CMRRD fund (₹551 crore) without any investment under the fund account in

Public Account. The transfers from general revenues has the effect of overstatement of Revenue Expenditure and fiscal deficit besides projecting reduced revenue surplus. Further details are available in **paragraph 1.9.4** of this report;

- Funds to State Urban Transport Fund (SUTF) would accrue from three sources *viz*., Budgetary Grant, Cess on Motor Vehicles Tax and Cess on Property Tax. During 2016-17, cess amount of ₹60.90 crore which includes ₹43.82 crore from motor vehicle tax, ₹13.49 crore, from General Reserves and ₹3.59 crore from Cess on Property tax was transferred from Consolidated Fund to SUTF. However, the expenditure was not met out of the fund resulting in overstatement of fiscal deficit during the year. Further details about the fund account is explained in **paragraph 1.9.4** of this report;

- The grants of Panchayat Raj Institutions (PRIs) are released from functional heads under the Consolidated Fund and accounted under Public Account. The balances under Zilla Panchayat (ZP) Fund II account and Taluk Panchayat (TP) Fund II at the end of March every year should be written back to the Consolidated Fund in the second succeeding financial year. Write back of ₹565.77 crore for the year 2014-15 under ZP Fund II and ₹520.51 crore under TP Fund II was made during 2016-17, which led to suppression of expenditure to the extent of ₹1,086.28 crore, treating the transactions as recovery of overpayment under respective service major heads. Write back of these amounts overstated the Revenue Surplus and understated the Fiscal Deficit to this extent. Also, the liabilities of the Government reduced by the equivalent amount in Public Account; and

- During 2016-17, a sum of ₹612.04 crore was credited to the Consolidated Fund under the Major Head 2515 – Water Supply and Sanitation by operating the authorised Minor Head – 911-Recovery of Overpayments of previous years. This amount includes the interest amount earned by the department on the amount kept in bank account. This amount was treated as expenditure during the year of release on the Consolidated Fund of the State. These releases had the effect of overstatement of revenue expenditure and fiscal deficit of those years. As the amount was remitted back in the current year to the Consolidated Fund, the expenditure stood compressed and the revenue surplus was overstated and fiscal deficit stood understated to the extent stated above. Further details are available in **paragraph 2.7.4**. of this report.

1.1.3 Major Fiscal Variables

Major fiscal variables provided in the budget and targeted in KFRA, are depicted in **Table 1.3**.

Table 1.3: Major Fiscal Variables

Fiscal Variables	2016-17			
	Targets as prescribed in KFRA	Targets proposed in the Budget	Projections made in MTFP 2013-17	Actuals (2016-17)
Revenue Deficit (-)/ Surplus (+) (₹ in crore)	-	522	13,665	1,293
Fiscal deficit/ GSDP (*per cent*)	3.00	2.12*	3.00	2.57
Ratio of total outstanding debt of the Government to GSDP (*per cent*)	25.00	17.22*	22.62	19.81

**GSDP figures adopted in the BE was ₹12,11,080 crore, which was revised to ₹11,17,334 crore as communicated by Ministry of Finance, GOI vide letter dt 29 March 2016.*

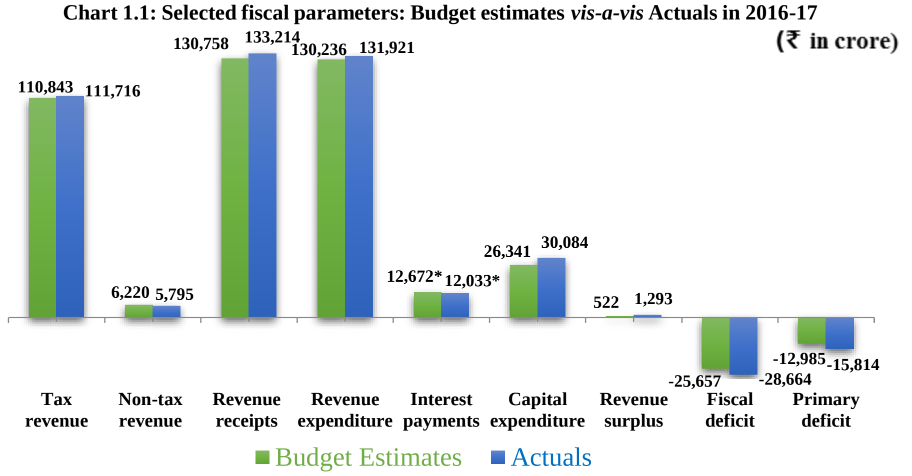
During 2016-17, there was a surplus on revenue account (₹1,293 crore), which exceeded budget projections by ₹771 crore and fell short of MTFP 2013-17 projections by ₹12,372 crore. The ratio of total outstanding debt to GSDP exceeded budget estimates by 2.59 percentage points and ratio of fiscal deficit to GSDP was 2.57 percentage points, which exceeded budget projections by 0.45 *per cent*. This was well within the prescribed target as per KFRA.

1.1.4 Budget Estimates and Actuals 2016-17

Budget papers presented by the State Government provide descriptions for projections or estimations of revenue and expenditure for a particular fiscal year. The importance of accuracy in the estimations of revenue and expenditure is widely accepted in the context of effective implementation of fiscal policies for overall economic management. Deviations from budget estimates are indicative of non-attainment/non-optimisation of desired fiscal objectives, due to a variety of factors, some of which are within the control of the Government while some are beyond its control.

Chart 1.1 presents the budget estimates and actuals of some important fiscal parameters for the year 2016-17.

Chart 1.1: Selected fiscal parameters: Budget estimates *vis-a-vis* Actuals in 2016-17



Source: Annual Financial Statement and Finance Accounts.

**excludes interest on off-budget borrowings.*

The budget estimates envisaged revenue receipts of ₹1,30,758 crore against which, the actual realisation was ₹1,33,214 crore, an increase of ₹2,456 crore (two *per cent*). The increase was mainly under Grants-in-aid and contributions from Government of India (GOI) (₹2,009 crore) and Central Tax transfers (₹1,781 crore), off-set by decrease in Own-tax revenue (₹908 crore) and Non-tax revenue (₹426 crore).

Revenue expenditure was estimated at ₹1,30,236 crore against which, the actual expenditure was ₹1,31,921 crore, an increase of ₹1,685 crore (one *per cent*). The increase in the actuals was noticed under social services (₹3,589 crore) and economic services (₹2,144 crore), off-set by decrease under general services (₹3,754 crore) and grant-in-aid and contributions (₹294 crore). Further details are available in **Chapter II** of this report.

Interest payments were estimated at ₹12,672 crore (excluding off-budget borrowings - Borrowings by PSUs and other Special Purpose Vehicles from financial institutions, where the responsibility of servicing the debt solely lies on the Government) shown against Major Head 2049-Interest payments. The actual payment was ₹12,033 crore, (exclusive of off-budget borrowings of ₹817 crore). According to KFRA, 2002 (as amended on 28.02.2014), the interest on off-budget borrowings recorded below various service heads are also to be treated as the interest liability of the State.

Major source of revenue receipts was the State's own tax revenue which constituted 62 *per cent*. Including the non-tax revenue, the State's own resources were around 67 *per cent* during 2016-17. The variations between budget estimates and actuals together with the reasons for the same under four major tax revenue heads and two non-tax revenue heads are brought out in **Table 1.4**.

Table 1.4: Variation between Budget and Actuals

(₹ in crore)

Source of revenue	Budget Estimates	Actuals	Increase (+) Decrease (-)	Reasons for variations as per MTFP 2017-21
Taxes on sales, trade etc.	46,504	46,105	(-) 399	The shortfall in the collections was attributed to economic effects of demonetisation during the year.
State Excise	16,510	16,484	(-) 26	State Excise is the second largest contributor to the States' own tax revenues. During 2016-17, the budgetary targets were almost met.
Stamps and Registration fees	9,100	7,806	(-) 1,294	Demonetisation had a major impact on the performance of Stamps and Registration revenue collections.
Taxes on vehicles	5,160	5,594	434	When compared to last year, there is a healthy increase in collections. The budgetary targets were exceeded.
Royalty on major and minor minerals	2,137	2,229	92	The budgetary targets are largely met.
Interest receipts	1,211	1,200	(-) 11	The interest are mainly from loans advanced and interest earned out of investment of surplus cash balance of the State in Government of India's T-bills.

Source: Budget documents-2016-17.

1.1.5 Gender Budgeting

Gender budget of the State discloses the expenditure proposed to be incurred within the overall budget on schemes, which are designed to benefit women fully or partly. The State created the Gender Budget cell (January 2007) and gender budgeting was introduced in 2007-08. The year wise allocations in the gender budget document are detailed in **Table 1.5**.

Table 1.5: Gender budgetary allocations during 2012-13 to 2016-17

(₹ in crore)

Year	Outlay			Expenditure			
	Category A*	Category B^	Total	Category A*	Category B^	Total	Demands covered
2012-13	1,509.36	44,647.63	46,156.79	2,643.91	41,026.57	43,670.48	27
2013-14	1,915.30	55,032.21	56,947.51	2,541.78	47,679.24	50,221.02	28
2014-15	3,684.91	66,615.81	70,300.72	3,513.71	50,912.24	54,425.95	28
2015-16	5,617.10	55,834.26	61,451.36	5,135.04	58,119.33	63,254.37	27
2016-17	5,091.07	61,603.40	66,694.47	5,055.10#	61,031.79#	66,086.89#	27

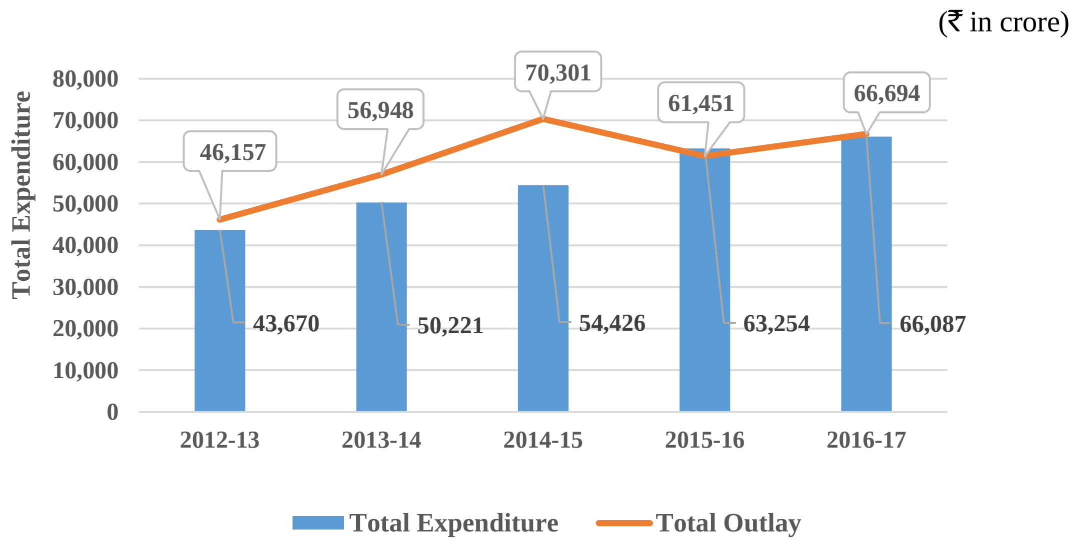
**Budgetary allocation to schemes designed covering 100 per cent women beneficiaries.*

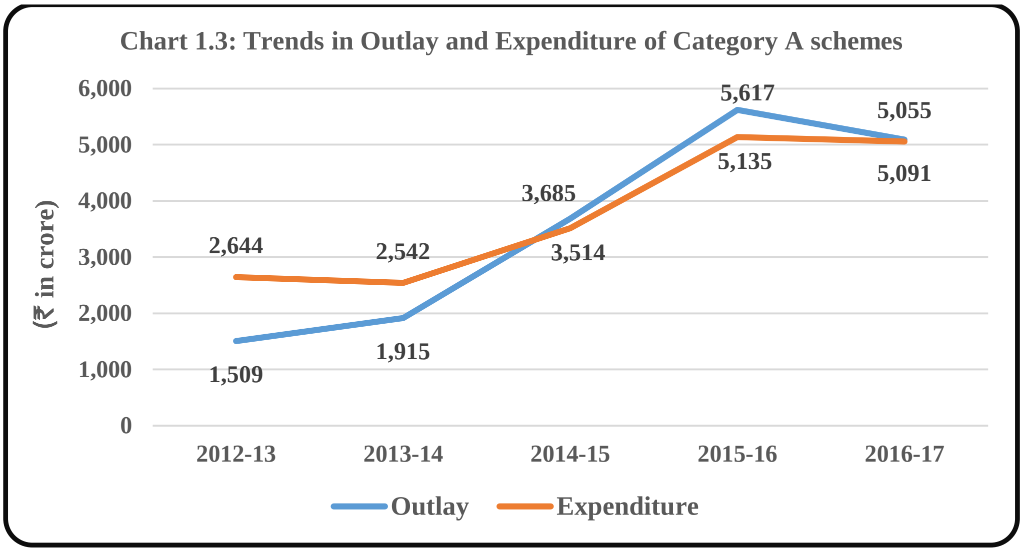
^Budgetary allocations to scheme designed for covering at least 30 per cent women beneficiaries.

#Figures for 2016-17 are Revised Estimates figures and not actuals.

The total number of schemes under Category A and B in 2016-17 were 721, of which 57 schemes were under Category A and 664 schemes were under Category B. The gender document also gives a brief explanatory note about the schemes indicating the objective of such schemes. The trends in total expenditure and total outlay and in the Gender Budgetary allocations during 2012-13 to 2016-17 is shown in **Chart 1.2** and the trends in the total outlay and total expenditure of Category A schemes is depicted in **Chart 1.3**.

Chart 1.2 : Trends in Total Expenditure vs Total Outlay





As seen from the above chart, it was observed that in respect of Category A schemes, during the years 2012-13 and 2013-14, the expenditure was more when compared to the outlay and during 2015-16, the expenditure is less over the outlay. However, during the years 2014-15 and 2016-17, the outlay is equal to the expenditure implying that the entire budget was utilised. A review of some of the Category A schemes is brought out in the following paragraphs.

a) Pension to Anganwadi Workers/Helpers – NPS Lite/Swavalamban/ Atal Pension Yojana -

Anganwadi workers and helpers of Karnataka are performing a vital role in the development schemes of mother and child health care and supply of nutrition. Considering their contribution to the society, a Contributory Pension Scheme was announced for them in the 2010-11 Budget. This scheme was introduced to provide contributory pension benefits to Anganwadi Workers and Helpers, who retire from service at the age of 56-60 years as on 31.03.2011. This scheme "New Pension System (NPS) for Anganwadi Workers and Helpers" is called NPS-Lite/Swavalamban and is being implemented by the Department of Women and Child Development.

Government of Karnataka, vide GO No WCD 119 ICD 2010 Bangalore dated 18.03.2011 stated that the Anganwadi workers and helpers, who are born on or after 01-04-1955 are required to contribute ₹150 and ₹84 respectively as monthly instalment and an equal amount is contributed by Government of Karnataka.

Government of India notified (October 2015) a pension scheme namely Atal Pension Yojana (APY) w.e.f. 1 June 2015. The scheme is open to all citizens of age group of 18-40 years. Under the guidelines of the scheme, the existing subscribers of NPS-Lite/Swavalamban in the age group of 18-40 years shall be migrated to APY unless they exercise an option to opt-out.

In the light of this, the Pension Fund Regulatory and Development Authority (PFRDA) in its public notice (January 2016) stopped new/fresh enrolments under NPS-Lite/Swavalamban w.e.f. 1 April 2015 and only the subscribers already registered under the scheme prior to 01.04.2015 can continue to deposit their subsequent contributions. It directed all the aggregators to ensure migration of all the interested subscribers under the scheme of NPS-Lite/Swavalamban to the APY scheme.

In view of the above, the NPS-Lite scheme was discontinued from 01.04.2015 and 1,08,037 Anganwadi workers and helpers were enrolled and 5,925 applications were pending for enrolment as on the date of the closure of the scheme. The department replied (June 2017) that the migration of the NPS-Lite subscribers was not accepted, as it was applicable only to the people of the age group 18-40 years and with the consent of subscribers, they were continued under NPS scheme due to operational issues. It further stated that, the department was in contact with PFRDA to maintain the uniformity in operational and conditional issues under Atal Pension Yojana for Anganwadi workers and helpers.

The department replied (November 2017) that instructions were issued to district level officers (July 2017) to direct the 5,925 subscribers who were not enrolled under NPS-Lite scheme, to enrol themselves under the APY scheme. Further, it stated that the department discussed the operational system of implementation of Atal Pension Yojana with PFRDA, which was planning to introduce a module, where through a facilitator the Government contribution could be remitted to NPS trust. The department was awaiting for the scheme from PFRDA and as soon as the module was formulated, the 5,925 number of Anganwadi Workers and Helpers and also the newly recruited subscribers from 01.04.2015 would be included in APY scheme.

However, the fact remained that the decision to stop fresh enrolment under NPS-Lite scheme from 1 April 2015, denied the 5,925 subscribers and the newly recruited Anganwadi workers and helpers the benefits of pension schemes.

b) Blocking of funds relating to Training Programme for Women Entrepreneurs by the Karnataka State Women's Development Corporation – ₹12.92 crore

Karnataka State Women's Development Corporation was made the nodal agency for imparting training to women for development of skill under Computer programming, Call centre training, Accounting, Web design, Fashion designing, Hospitality etc. Out of a sum of ₹20.36 crore, which was budgeted and released to the corporation for the period from 2011-12 to 2016-17, only ₹7.44 crore was expended, leaving a balance of ₹12.92 crore in the bank account of the corporation. The reasons adduced for non-utilisation of the balance amount were:

1) Non submission of required documentation from the agencies entrusted with the task of imparting training; and
2) Non finalisation of tender procedure etc.

It was noticed in audit that the administrative department went on releasing the grants without ascertaining the position of previous grants released for the purpose and without verifying the utilisation of grants. The above action of the department resulted in unnecessary locking up of Government money of ₹12.92 crore without utilisation over the years.

1.1.6 Major policy initiatives of Budget 2016-17

The results of scrutiny of records of certain schemes, which were proposed for implementation in 2016-17 and the action taken on such proposals in the Departments of Social Welfare and Infrastructure Development are brought out in **Table 1.6.**

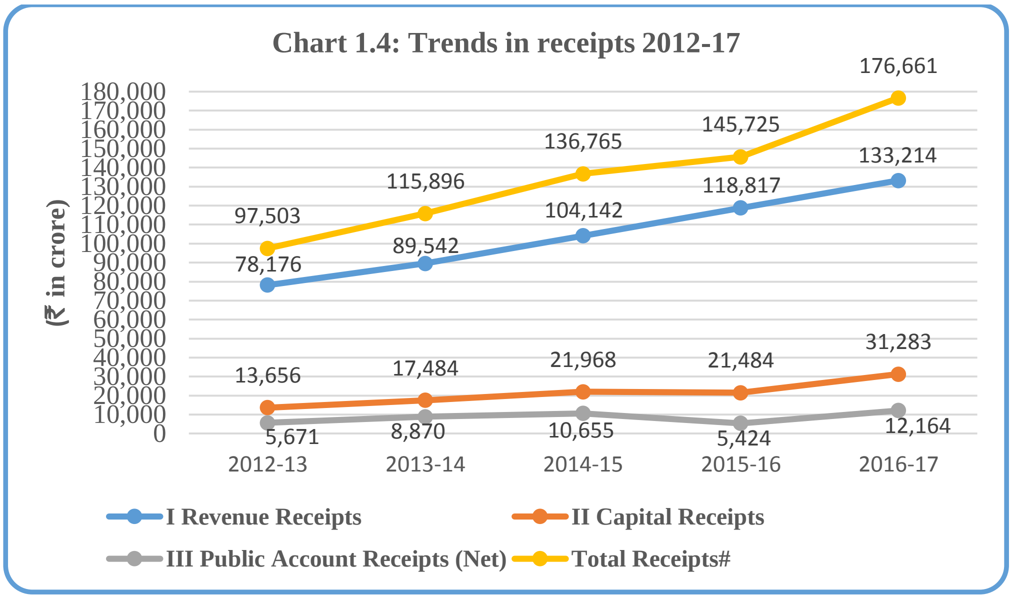
Table 1.6: Budget assurances and audit analysis thereon

Budget Assurance	Status as per Action Taken Report	Audit Observations
Shuchi Kits (Soaps, Tooth paste, oil etc.) to be provided to 75,000 post metric hostel inmates on the same lines as that for pre metric students	Government Order No. SWD 172 Pakavi 2016 dated 15.06.2016 was issued.	In Social Welfare Department, Shuchi Kits were released to districts for distribution to post metric hostel inmates. The Utilisation Certificates for ₹5.68 crore is yet to be received from district level officers.
Many welfare schemes are being implemented by various welfare Departments for the development of SC/STs under SCSP/TSP. A Social Audit Cell will be setup in Social Welfare Department to ensure that the benefits of the said schemes reach the target group.	Proposal is expected from Social Welfare Department. Reminder was sent on 04.01.2017.	Letter was addressed to Karnataka Evaluation Authority (KEA) (June 2017) by the department to identify agencies having network all over the State for conducting evaluation of the infrastructure works undertaken by various departments in SC/ST colonies. Reply from KEA is awaited.
Research and Training programmes will be taken up by establishing Dr. Babu Jagajivan Ram Research Institute at Destitutes' Rehabilitation Center, Magadi Road, Bangalore.	Finance Department gave in principle approval.	Construction of the research institute was approved at a cost of ₹88.25 crore. The proposal is yet to be approved by the Cabinet (October 2017).
Kalaburagi Airport is being developed by PWD and it will be completed during current year. Development of Shivamogga Airport will be taken up on PPP basis.	The completion of balance work of Kalaburagi Airport project was entrusted to State PWD. Administrative approval for the approximate cost of the project of ₹109,47,85,149/- was given on 27.04.2016. Government decided to develop Shivamogga Airport project under PPP model. Re-tender process is in progress.	The development work of Kalaburagi Airport which is stated to be completed during 2016-17 is still under progress as the PWD which was entrusted with the work was expected to complete the work in 18 months (July 2017). The department decided to take up the feasibility analysis, obstacle survey and topographical survey of the current location of Shivamogga Airport before going for rebidding process under PPP basis.

1.2 Resources of the State

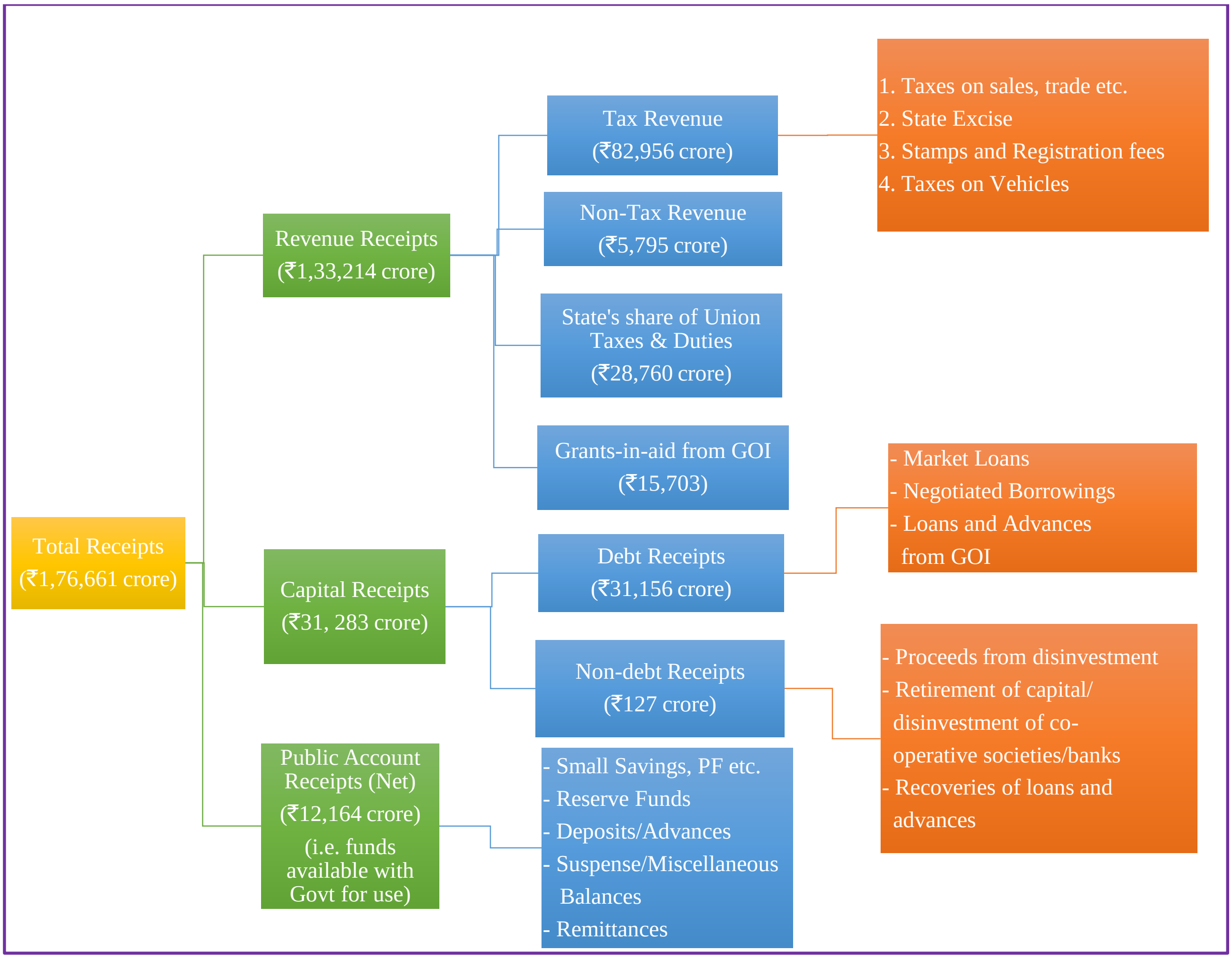
1.2.1 Resources of the State as per the Annual Finance Accounts

Revenue and Capital are the two streams of receipts that constitute the resources of the State Government. Revenue Receipts consist of tax revenue, non-tax revenues, States' share of Union taxes and duties and grants-in-aid and contributions from GOI. Capital receipts comprise miscellaneous capital receipts such as proceeds from disinvestment, recoveries of loans and advances, debt receipts from internal sources (market loans, negotiated loans from financial institutions/commercial banks) and loans and advances from GOI. Besides, the net Public Account receipts are also utilised by the Government to finance its deficit. **Chart 1.4** depicts the trends in various components of receipts during 2012-13 to 2016-17. **Chart 1.5** depicts the components and sub-components of resources of the State during 2016-17 while **Chart 1.6** depicts the composition of resources of the State during the year 2016-17.



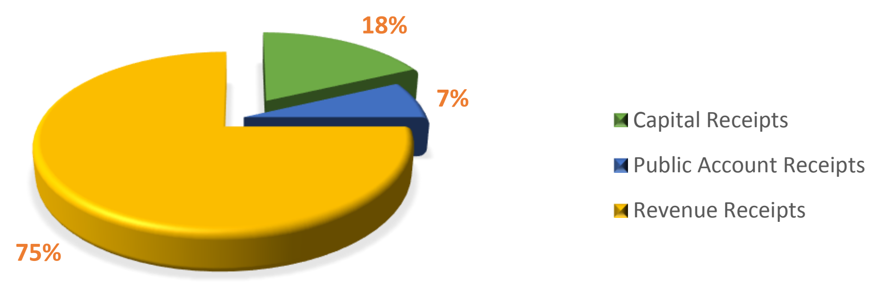
#excluding Contingency Fund receipts.

Chart 1.5: Components and sub-components of Resources



Source: Finance Accounts.

Chart 1.6: Composition of resources during 2016-17



Total receipts (excluding Contingency Fund receipts) increased by 81 *per cent* from ₹97,503 crore in 2012-13 to ₹1,76,661 crore in 2016-17. Compared to the previous year (₹1,45,725 crore), there was an increase by ₹30,936 crore (21 *per cent*) during 2016-17 (₹1,76,661 crore).

The share of revenue receipts in total receipts during 2016-17 was 75 *per cent*. Further details are provided in **paragraph 1.3**.

Capital receipts increased by 129 *per cent* from ₹13,656 crore in 2012-13 to ₹31,283 crore in 2016-17. During 2016-17, the capital receipts accounted for 18 *per cent* of total receipts. Debt receipts, the main constituent of capital receipts, increased by ₹10,084 crore. Internal debt and Loans and advances from GOI are the two components of debt receipts, whose share was 94 *per cent* (₹29,238 crore) and six *per cent* (₹1,918 crore) of the total debt receipts (₹31,156 crore) respectively. In 2016-17, there was a growth of 48 *per cent* in internal debt receipts. Loans and Advances increased by 51 *per cent* over the previous year.

Apart from debt receipts, capital receipts include non-debt receipts, such as recovery of loans and advances, miscellaneous capital receipts & retirement of capital/disinvestment of co-operative societies/banks etc. During 2016-17, non-debt capital receipts showed 69 *per cent* decrease in growth over the previous year.

Public Account receipts refer to those receipts, for which, the Government acts as a banker/trustee for the public money. On an average, it constituted six *per cent* of the total receipts during 2012-13 to 2016-17. Net Public Account receipts, which totalled to ₹5,671 crore in 2012-13, increased to ₹12,164 crore in 2016-17.

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

The Central Government is transferring funds directly to the State Implementing Agencies[1] for implementation of various schemes/programmes in social and economic sectors, which are recognised as critical. The practice was changed by Government of India from financial year 2014-15 and even central share has started flowing through the Consolidated Fund. Thus this source of revenue is also available for the State although the same is tied up towards Centrally Sponsored Schemes (CSSs).

However, during the year 2016-17, there was a deviation from the practice and central funds of ₹98.61 crore were transferred directly to the State Implementing Agencies. To present the holistic picture on the availability of aggregate resources, funds directly transferred to State Implementing Agencies, implementing seven major Government of India schemes are presented in **Table 1.7**. An Appendix giving details of funds transferred directly to State Implementing Agencies outside State Budget is included in Finance Accounts by capturing data from Controller General of Accounts (CGA) website (unaudited figures).

[1] State implementing agency includes any organisation/institution including non-governmental organisations and central autonomous bodies, which are authorised by the State Government to receive funds from GOI for implementing specific programmes in the State.

Table 1.7: Funds transferred directly to the State Implementing Agencies

(₹ in crore)

Sl. No.	Government of India Scheme	Implementing Agency/ Recipient in the State	Funds transferred directly by GOI during 2016-17
1	Schemes under Panchayati Raj	Seegehalli Grama Panchayath	0.10
2	Schemes under Urban Development	Town Municipal Council Badami	3.73
3	Schemes under Youth Affairs & Sports	Karnataka State NSS Cell	9.69
4	Schemes under Health & Family Welfare	YOGA Project-Kidwai Memorial Institute of Oncology	0.17
5	Panchayat Sashakthikarana Abhiyan (PSA)	Abdul Nazirsab Institute of Rural Development &Panchayat Raj, Mysore	15.08
6	National AIDS & Control Organization (NACO)	Karnataka State AIDS Prevention Society, Bengaluru	69.84
Total			**98.61**

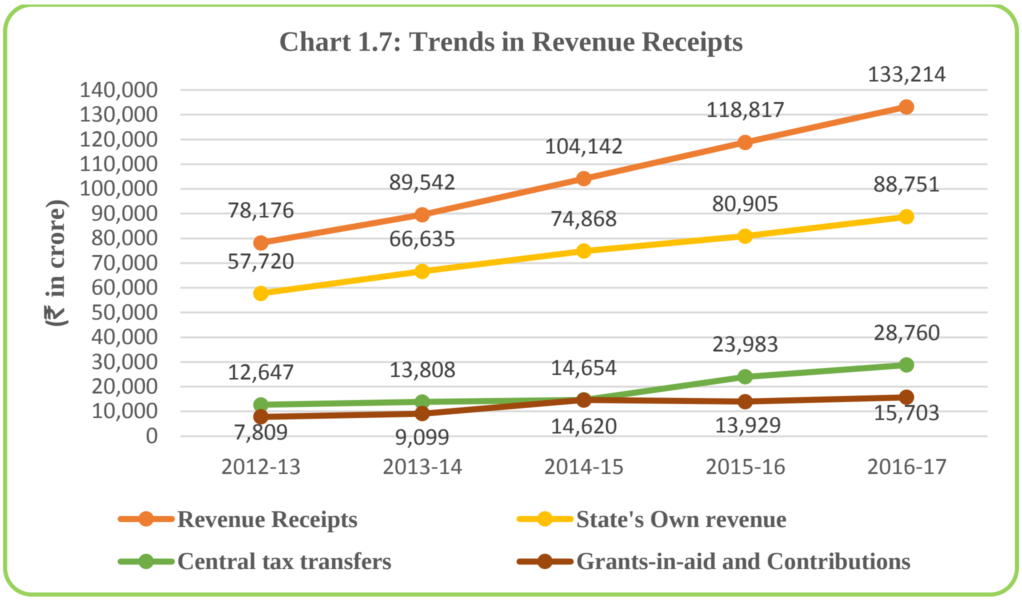
Source: Finance Accounts.

1.3 Revenue Receipts

The Government of Karnataka's fiscal position is largely influenced by the revenue side, as revenue receipts showed progressive increase from ₹78,176 crore in 2012-13 to ₹1,33,214 crore in 2016-17. On an average, 71 *per cent* of the revenue came from State's own resources during the period. The balance was transfers from GOI in the form of State's share of taxes and duties and grants-in-aid and contributions.

Simplification and rationalisation of tax structure, along with simplification of process of filing tax returns like e-payment of taxes and anywhere registration has ensured effective mobilisation of resources from various taxes, which reflected consistent performance on the tax front. Though tax revenues are consistently growing, Government of Karnataka did not improve revenues on the non-tax front, which was between four and five *per cent* during 2012-13 to 2016-17, which is discussed in detail in **paragraph 1.3.1.2**. The State's Fiscal Responsibility and Budget Management Committee (FRBMC) recognised this issue and advised departments to improve their non-tax revenue by regular revision of fees, user charges etc.

Statement No.14 of the Finance Accounts depicts the revenue receipts of the Government. The trends and composition of revenue receipts over the period 2012-13 to 2016-17 are presented in **Appendix 1.4** and are also depicted in **Chart 1.7**.



Source: Finance Accounts.

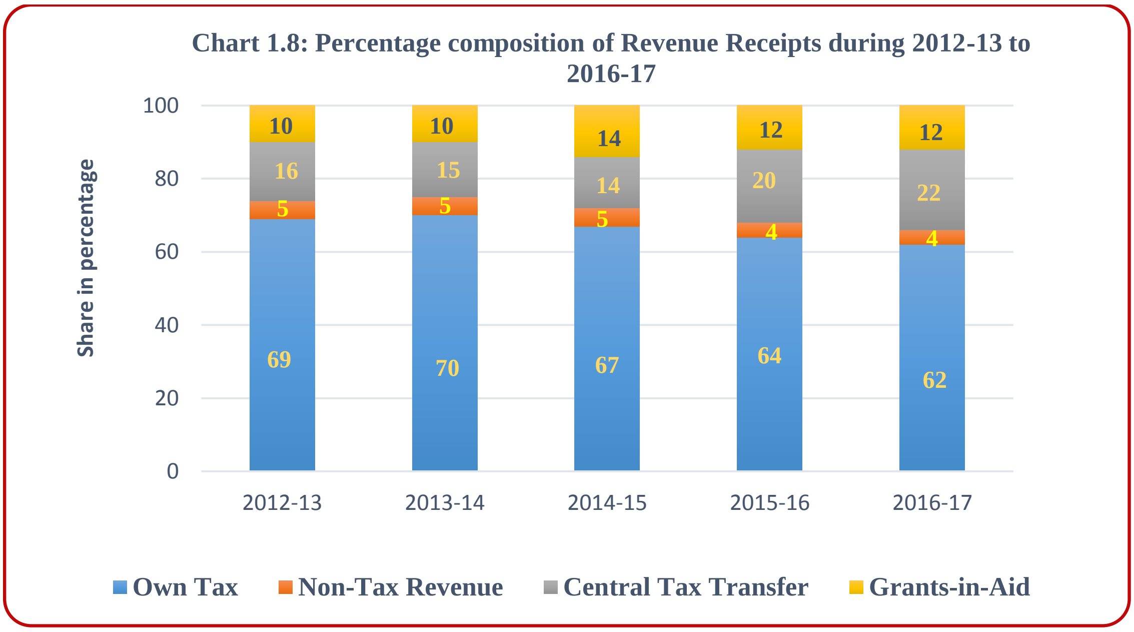


Chart 1.8 depicts that 66 *per cent* of revenue came from State's own resources during 2016-17 and the balance was from GOI in the form of State's share of taxes and Grants-in-aid. The share of own tax revenue increased from 69 *per cent* in 2012-13 to 70 *per cent* in 2013-14 and then decreased to 62 *per cent* in 2016-17 with inter-year variations. During 2016-17, there was increase under Central Tax transfers when compared to previous year. The trends in revenue receipts relative to GSDP are presented in **Table 1.8**.

Table 1.8: Trends in revenue receipts relative to GSDP

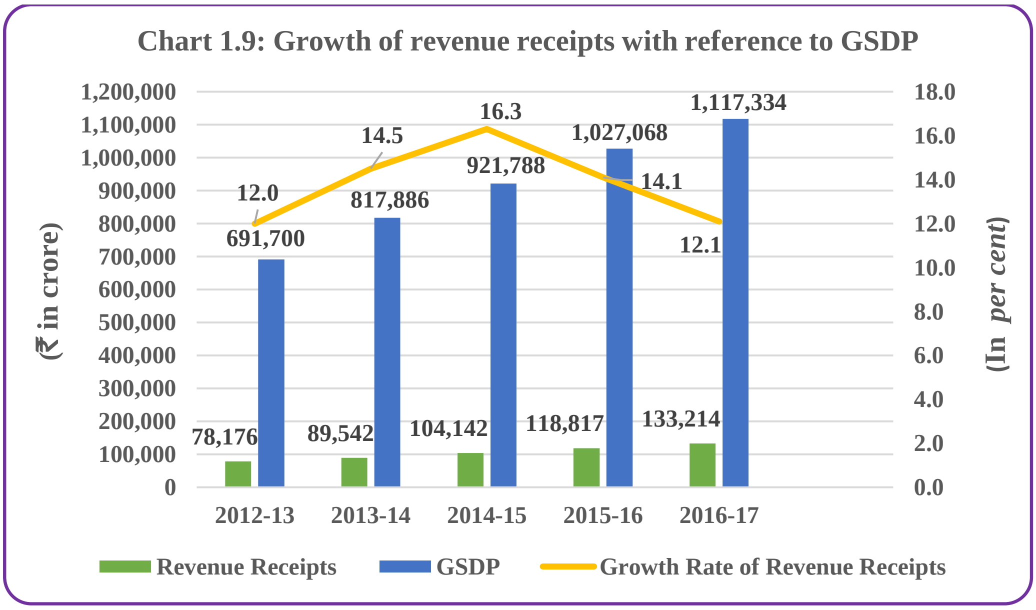
	2012-13	2013-14	2014-15	2015-16	2016-17
Revenue Receipts (RR) (₹ in crore)	78,176	89,542	1,04,142	1,18,817	1,33,214
Rate of growth of RR (*per cent)*	12.0	14.5	16.3	14.1	12.1
Rate of growth of State's own tax (*per cent*)	15.7	16.5	12.1	7.6	9.8
Own tax/GSDP (*per cent*)	7.8	7.6	7.6	7.3	7.4
Buoyancy ratios[2]					
RR/GSDP (*per cent*)	11.3	10.9	11.3	11.5	11.9
Revenue Buoyancy w.r.t GSDP	0.8	0.8	1.3	1.2	1.4
State's own tax Buoyancy w.r.t GSDP	1.1	0.9	1.0	0.7	1.1
Revenue buoyancy w.r.t States' own tax	0.8	0.9	1.3	1.8	1.2
GSDP (₹ in crore) @	6,91,700	8,17,886	9,21,788	10,27,068	11,17,334
Rate of growth of GSDP	14.56	18.24	12.70	11.42	8.79

Source: Finance Accounts.

@ GSDP figures for the years 2012-13 to 2015-16 are taken from Economic Survey of Karnataka, 2016-17 with 2011-12 base year. For 2016-17, the figures are as conveyed by Ministry of Finance, Government of India, vide letter dated 29 March 2016 with 2011-12 base year.

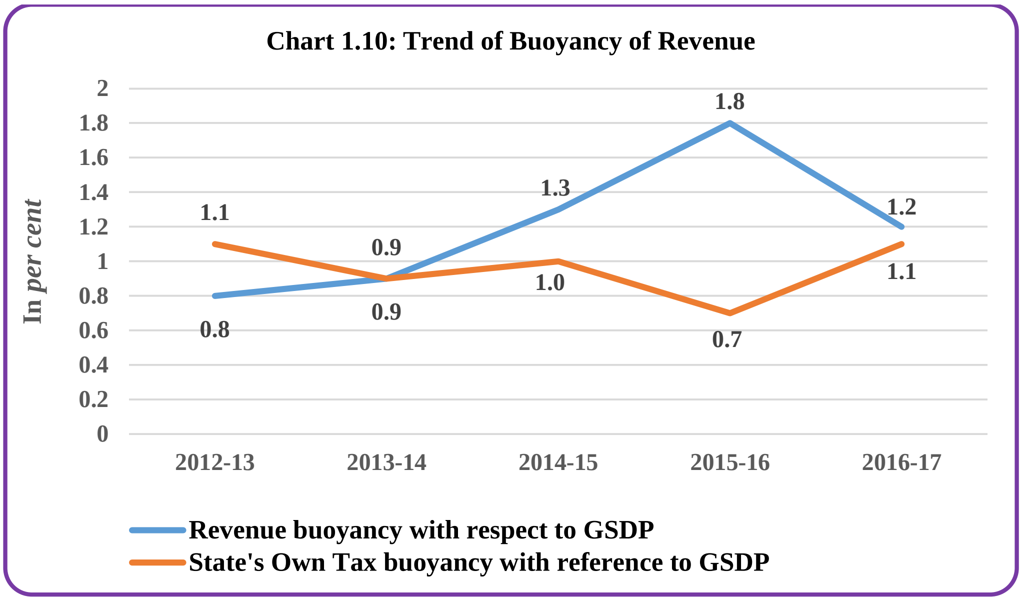
- State's own tax revenue buoyancy showed an oscillating trend due to fluctuation of growth of tax revenue and the buoyancy ratio, which was at its highest at 1.1 in 2012-13 and lower down to 0.7 in 2015-16 and thereafter increased to 1.1 during 2016-17; and
- Revenue buoyancy, which is directly proportionate to growth of revenue receipts and GSDP, showed an oscillating trend and ranged between 0.8 and 1.4. The growth of Revenue Receipts decreased from 14.1 in 2015-16 to 12.1 in 2016-17.

Chart 1.9 depicts the rate of growth of revenue receipts compared to GSDP and Total Revenue Receipts and **Chart 1.10** depicts the trends of buoyancy ratios.



Source: Finance Accounts and Economic Survey, GOK for 2016-17 and MOF, GOI letter dt 29 March 2016.

[2] Buoyancy ratio indicates the elasticity or degree of responsiveness of a fiscal variable with respect to a given change in the base variable. For instance, revenue buoyancy at 0.4 implies that revenue receipts tend to increase by 0.4 percentage points, if the GSDP increases by one *per cent*.



Revenue buoyancy with respect to GSDP showed a steady growth till 2015-16 and decreased in 2016-17. The State's Own Tax Buoyancy with reference to GSDP decreased from 2012-13 to 2015-16 and increased during 2016-17.

In the Economic Survey for 2016-17, it was admitted that the ratio of non-tax revenue to total receipts was continuously declining over the years. Further, the State has one of the lowest non-tax revenues to GSDP ratios in the country **(Appendix 1.4)**. It was around the one *per cent* mark over the past five years. This is due to the low recovery of costs. A mention was also made in the earlier reports of State Finances, where departments like Hospitals, Horticulture etc., collected user charges/rent and utilised the same without remitting into Consolidated Fund of the State. In many departments, the revision of user charges, fees and fines and other such non-tax receipts did not take place for many years. Even with revision of rates and better collection mechanisms, the increase in revenues from this avenue may not be large due to existing low base.

Though Expenditure Reforms Commission has made a number of recommendations during 2010 to enhance revenues from user charges, the same was not accomplished. The Government in their reply reported in the previous report on the issue stated that instructions were issued to give information relating to user charges that were being collected. Further developments in this regard is awaited (December 2017).

1.3.1 State's own resources

The tax revenue of the State in 2016-17 was less than the projection made in MTFP by ₹15,507 crore and budget estimates by ₹908 crore. Non-tax revenue was significantly more than MTFP projections (₹870 crore) and less than budget estimates by ₹425 crore, as detailed in **Table 1.9**.

Table 1.9: Projections of Tax and Non-Tax Revenue for 2016-17

(₹ in crore)

	Budget estimates	MTFP projections	Actual
Tax revenue	83,864	98,463	82,956
Non-tax revenue	6,220	4,925	5,795

1.3.1.1 Tax revenue

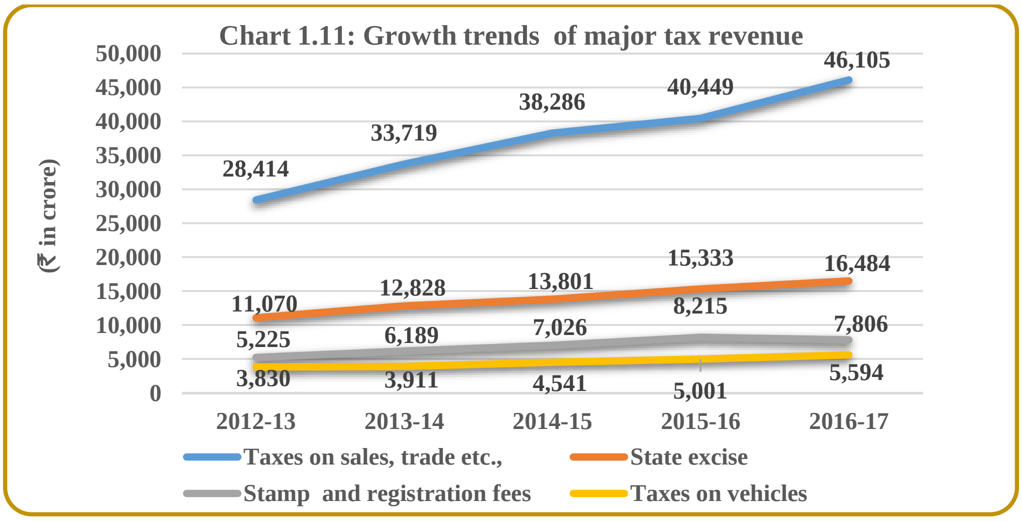
Taxes on sales, trade, etc., (56 *per cent*) were the main source of the State's tax revenue followed by State Excise (20 *per cent*), Stamps and Registration Fees (nine *per cent*) and Taxes on Vehicles (seven *per cent*) during 2016-17. The trends in the major constituents of tax revenue during the period 2012-13 to 2016-17 are shown in **Table 1.10** and **Chart 1.11** below.

Table 1.10: Components of State's own tax revenue

(₹ in crore and growth rate in *per cent*)

Revenue Head	2012-13	2013-14	2014-15	2015-16	2016-17
Taxes on sales, trade etc.,	28,414	33,719	38,286	40,449	46,105
Rate of growth	13.57	18.67	13.54	5.65	13.98
State excise	11,070	12,828	13,801	15,333	16,484
Rate of growth	13.24	15.88	7.58	11.10	7.51
Stamp and Registration fees	5,225	6,189	7,026	8,215	7,806
Rate of growth	13.02	18.45	13.52	16.92	(-) 4.98
Taxes on vehicles	3,830	3,911	4,541	5,001	5,594
Rate of growth	29.52	2.11	16.11	10.13	11.86
Land Revenue	205	199	186	181	209
Rate of growth	(-) 4.65	(-) 2.93	(-) 6.53	(-) 2.69	15.47
Taxes on goods and passengers	2,181	2,626	3,038	3,125	3,306
Rate of growth	29.05	20.40	15.69	2.86	5.79
Other taxes[3]	2,829	3,131	3,302	3,246	3,452
Rate of growth	28.88	10.68	5.46	(-) 1.70	6.35
Total	**53,754**	**62,603**	**70,180**	**75,550**	**82,956**

Source: Finance Accounts of the respective years.



[3] Other taxes include taxes on Agricultural Income (₹1.00 crore), Taxes and duties on Electricity (₹1,451 crore), Other taxes on Income and Expenditure (₹901 crore) and Other taxes and duties on Commodities and Services (₹1,099 crore).

During the period 2012-13 to 2016-17, the rate of growth of taxes on sales, trade, etc., was between 5.65 *per cent* and 18.67 *per cent*. During 2016-17, the growth rate was 14 *per cent*.

State Excise, was the second largest contributor to State's own tax revenues. The growth rate increased from 13.24 *per cent* in 2012-13 to 15.88 *per cent* in 2013-14 and reduced to 7.51 *per cent* during 2016-17.

Stamp and Registration fees also contributed to own tax revenues. There was a moderation in the growth rate during the years 2012-13 to 2016-17. During 2016-17, it stood at (-) 4.98 *per cent* and efforts need to be made to ensure that collections are improved. As per MTFP 2017-21, demonetisation had a major impact on the performance of Stamps and Registration revenue collections.

Motor vehicle taxes also contributed significantly to own tax revenues. The growth rate of revenue under the head was 2.11 *per cent* during 2013-14, which increased to 16.11 *per cent* during 2014-15 and reduced to 11.86 *per cent* during 2016-17.

Cost of Collection

The gross collection of taxes on motor vehicles, taxes on sales, trade etc., stamp and registration fees and state excise, expenditure incurred on their collection and its percentage to gross collection during the years 2014-15 to 2016-17 along with their All-India average cost of collection for the respective previous years are indicated in the **Table 1.11**.

Table 1.11: Cost of collection

Receipt	Year	Gross collection	Expenditure on collection @	Percentage of cost of collection to gross collection	All India average percentage for the preceding year
		(₹ in crore)			
Taxes on Motor Vehicles	2014-15	4,544.17	82.52	1.82	6.25
	2015-16	5,004.35	83.37	1.67	6.08
	2016-17	5,597.93	81.41	1.45	4.99
Taxes on sales, trade etc.,	2014-15	39,694.76	1,464.43*	3.69	0.88
	2015-16	41,891.72	250.47	0.60	0.91
	2016-17	48,034.12	259.35	0.54	0.66
Stamp and Registration fees	2014-15	7,063.35	68.28	0.96	3.37
	2015-16	8,241.07	126.03	1.53	3.59
	2016-17	7,884.29	92.73	1.18	2.87
State Excise	2014-15	13,805.75	130.11	0.94	1.81
	2015-16	15,337.11	132.61	0.86	2.09
	2016-17	16,488.94	146.25	0.89	3.21

@ The expenditure booked under the minor head, 001-Direction and Administration and 101 – Collection charges is considered as cost of collection.

**Expenditure on collection include ₹1,211.67 crore being the book adjustment entry of grants-in-aid in respect of M/s HAL brought under collection charges.*

The percentage of cost of collection to the gross collection was significantly less than the All India Average for the period 2014-17 except for taxes on sales, trade etc., in 2014-15.

1.3.1.2 Non-tax revenue

Non-tax receipts (fees, user charges, interest receipts, etc.) are generally raised through non-statutory mandates and usually a reciprocal benefit accrues to the citizens from whom such receipts are collected. The sources of non-tax receipts included receipts from fiscal services like interest receipts from outstanding advances, dividends and profits from equity investments, royalty fees for allowing use of assets held as custodian like minerals, forests and wild life, or other such services and user charges for various social and economic services provided through the apparatus of the Government. The trend in collection of non-tax revenue under certain important heads of accounts is given in **Table 1.12**.

Table 1.12: Trends in collections of non-tax revenues

(₹ in crore)

Revenue Head	2012-13	2013-14	2014-15	2015-16	2016-17	% increase (+)/ decrease (-) over previous year
Interest receipts	778.55	693.17	874.74	1,292.63	1,199.74	(-) 7.19
Dividend and profits	56.29	55.49	74.84	69.40	82.50	18.88
Nonferrous Mining and Metallurgical Industries	1,496.49	1,474.49	1,931.10	2,003.80	2,419.43	20.74
Medical and Public Health	100.70	207.54	224.00	260.74	152.90	(-) 41.36
Other Administrative Services	123.37	181.66	179.23	269.08	130.74	(-) 51.41
Forestry and Wild Life	171.54	161.14	178.21	168.15	291.94	73.62
Education, Sports and Culture	148.73	120.09	154.96	159.72	193.43	21.11
Police	110.84	150.71	152.07	171.87	176.47	2.68
Roads and Bridge	119.49	120.14	118.38	56.11	61.70	9.96
Other non-tax receipts	860.11	867.47	800.71	903.54	1,085.68	20.16
Total	**3,966.11**	**4,031.90**	**4,688.24**	**5,355.04**	**5,794.53**	**8.21**

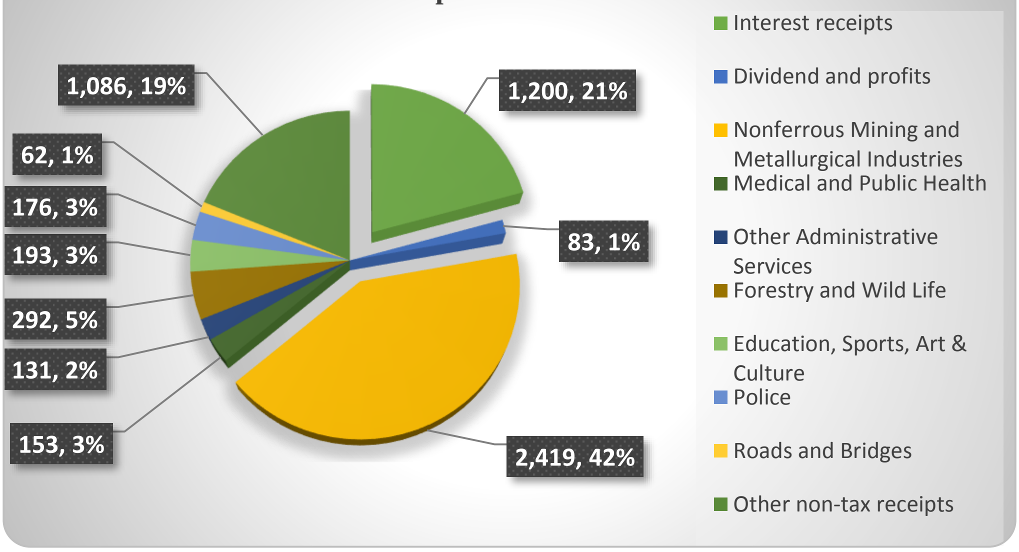
Source: Finance Accounts.

Incorrect Accounting under Non-tax revenue

As per paragraph 3.10 of List of Major and Minor Heads (LMMH), recoveries of overpayment, whether made in cash or by short drawal from a bill, during the same financial year in which, such overpayments were made, shall be recorded as reduction of expenditure under the Service Head. Recoveries of overpayments pertaining to previous years shall be recorded under the distinct minor head 'Deduct-Recoveries of Overpayments' below the concerned major/sub-major head without affecting the gross expenditure under the functional Major/Sub-Major Head in the Appropriation Accounts. During the year 2016-17, ₹3.87 crore was incorrectly accounted as receipt under major head 0515- Other Rural Development Programme-800-Other Receipts, whereas it is actually recovery of overpayments pertaining to previous years. Treating the transaction as a non-tax revenue was not in order as it inflated the non-tax revenue. The transaction was required to be recorded under the expenditure major head 2515-Other Rural Development Programme-911-Recoveries of Overpayment.

The components of non-tax revenue for the year 2016-17 are presented in **Chart 1.12**.

Chart 1.12: Components of non-tax revenue in 2016-17



Interest receipts, Dividends and Profits

Apart from the regular source of interest receipts on account of repayment of loans, the other major source is interest proceeds out of investment of surplus cash balance of the State. As per Reserve Bank of India's (RBI) regulations, the cash balance maintained by the State is invested in GOI's 14-day Treasury Bills (TBs). To improve cash management, excess cash balance (beyond the immediate requirement) is invested in GOI's 91 day TB's. Against the budgeted estimate of ₹1,097 crore during 2016-17, the revenue realised was ₹1,054.16 crore, of which, 14 day TBs yielded ₹349.51 crore and 91 day TBs yielded ₹704.65 crore.

The interest realised on loans and advances given by the Government to its Companies/Corporations etc., stood at ₹144.93 crore, working out to one *per cent* of the outstanding balances of loans at the end of the year. The receipts also included ₹0.67 crore, being the interest on capital of departmentally run commercial undertakings, such as Silk Filatures, the adjustments of which, were made through book transfer.

Substantial sums of money are held in banks by the Departmental Officers in contravention to the financial rules, which preclude the Departmental Officers from depositing the money in savings bank accounts. During 2016-17, a sum of ₹20.18 crore being the interest earned on deposits in banks was accounted under the Head of Account '0049-04-800-6-01 – Interest received from deposit accounts'. Unspent grants of ₹0.91 crore held in bank accounts was also remitted as interest receipts. Further, interest amount accumulated in the savings bank account pertaining to Finance Commission grants of ₹1.19 crore was also remitted under the above head of account as interest receipts, thus, indicating misclassification in the books of accounts relating to principal amount.

The return on investment in the form of dividends declared by the Companies/Corporations and credited to Government account during 2016-17 was ₹82.50 crore. Considering the magnitude of Government investment (₹63,115 crore), the return works out to a meagre 0.13 *per cent*.

Other Non-tax receipts

The other major non-tax revenue is royalty on major and minor minerals. Against the Budget estimates of ₹2,137 crore, the actual realisation was ₹2,229 crore. There was an increase of ₹317 crore compared to the previous year.

1.3.2 Grants-in-aid from GOI

Grants-in-aid and Contributions from GOI increased from ₹7,809 crore in 2012-13 to ₹15,703 crore in 2016-17 as shown in **Table 1.13**.

Table 1.13: Grants-in-aid from GOI

(₹ in crore)

Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
Non-Plan grants	2,455.43	3,139.79	3,634.58	5,547.34	7,045.21
Grants for State Plan schemes	2,908.74	3,341.15	9,096.87	8,105.31	8,101.62
Grants for Central plan schemes	124.59	191.70	158.52	138.90	116.06
Grants for Centrally sponsored schemes	2,320.66	2,426.18	1,729.48	137.20	440.30
Grant for special plan schemes	-	-	-	-	-
Total	**7,809.42**	**9,098.82**	**14,619.45**	**13,928.75**	**15,703.19**
% of increase/decrease over previous year	(-) 4.39	16.51	60.67	(-) 4.72	12.74
Total grants as % of revenue receipts	10.00	10.16	14.04	11.72	11.79

Source: Finance Accounts.

As compared to the previous year, there was an increase of ₹1,774 crore during 2016-17. This was on account of increase in receipts under Non-plan grants (₹1,498 crore) and Centrally Sponsored Schemes (CSS) (₹303 crore), offset by decrease in Grants for State Plan Schemes (₹4 crore) and Grants for Central Plan schemes (₹23 crore).

The Union Government decided that from 1 April 2014, transfer of funds under Centrally Sponsored Schemes was through the Consolidated Fund of the State and not directly to the implementing agencies. Thus, these central shares were also available under State Budget. However, this practice of direct transfer of funds was discontinued during 2014-15 and 2015-16. But during 2016-17, the Union Government continued to transfer funds directly to State Implementing Agencies/Non-Government Organisations for implementation of various schemes/programmes. The details of these direct transfer of central scheme funds are explained in detail in **paragraph 1.2.2**.

1.3.3 Central tax transfers

Government of India transfers share of State Government in Union Taxes and Duties such as Corporation Tax, Income Tax, Service Tax, Union Excise Duties etc. The trends in these Central tax transfers during 2012-17 are given in **Table 1.14**.

Table 1.14: Trends in Central Tax transfers

(₹ in crore)

Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
Corporation Tax	4,542.84	4,643.76	5,117.21	7,547.57	9,211.05
Taxes on Income other than Corporation Tax	2,719.73	3,057.77	3,654.18	5,252.47	6,401.72
Taxes on Wealth	7.66	12.75	13.81	1.65	21.08
Customs	2,101.59	2,252.90	2,369.95	3,830.22	3,962.25
Union Excise duties	1,428.25	1,591.16	1,338.24	3,181.60	4,524.54
Service Tax	1,847.07	2,249.93	2,160.75	4,153.56	4,639.22
Other Taxes on Income and Expenditure	-	-	0.12	0.15	-
Other taxes and duties on Commodities and Services	-	0.01	(-) 0.01	16.12	0.08
Total	**12,647.14**	**13,808.28**	**14,654.25**	**23,983.34**	**28,759.94**

Source: Finance Accounts of the respective years.

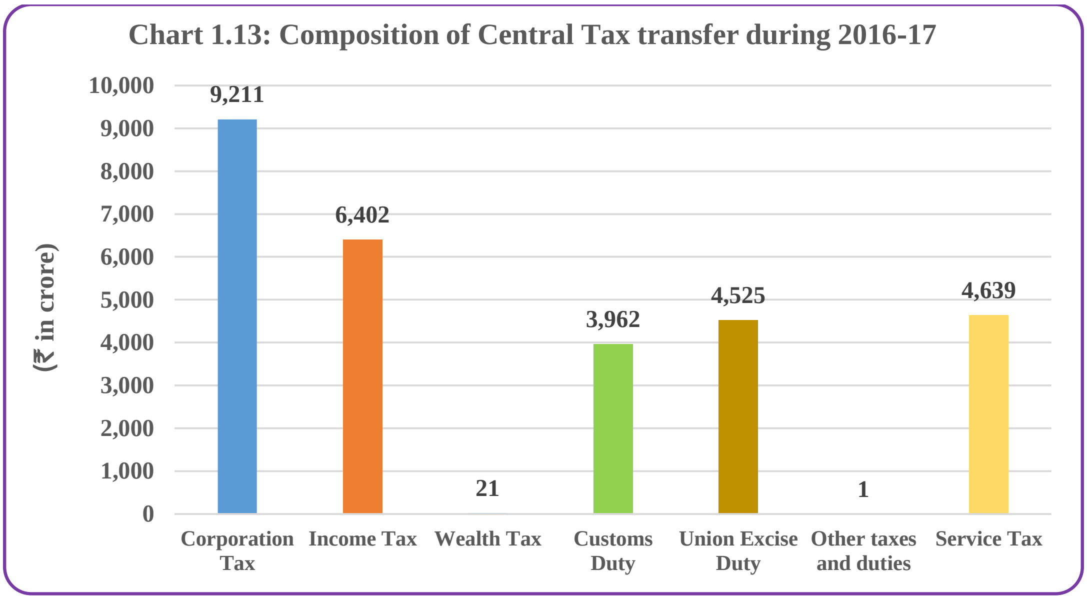
There is an increase of ₹4,777 crore over the previous year under Corporation Tax (₹1,663 crore), Service Tax (₹486 crore), Union Excise duties (₹1,343 crore), Taxes on Income other than Corporation Tax (₹1,149 crore), Customs Duty (₹132 crore) and Wealth Tax (₹20 crore) offset by decrease in share of Other taxes and duties on Commodities and Services (₹16 crore) and Other taxes on Income and Expenditure (₹0.15 crore). The Central Tax transfers constituted 22 *per cent* of Revenue Receipts of the State during 2016-17. The major component of Central Tax transfers during 2016-17 was Corporation Tax (32 *per cent*) followed by Taxes on Income other than Corporation Tax (22 *per cent*) and Service Tax (16 *per cent*) as reflected in **Chart 1.13**.

Further, XIV FC recommended that the State's share in the net proceeds of Central Taxes (excluding Service Tax) and net proceeds of Service Tax be fixed at 4.713 *per cent* and 4.822 *per cent*, respectively. The net collection of Union taxes during 2016-17 and the State's share in it is shown in **Table 1.15** and the composition during the year is given in **Chart 1.13**.

Table 1.15: Share of net proceeds of Union taxes during 2016-17

(₹ in crore)

Sl. No.	Nature of the Tax	Share of the State	All India Total (Net)	Percentage
1	Corporation Tax	9,211.05	1,95,439.24	4.713
2	Taxes on Income other than Corporation Tax	6,401.72	1,35,830.86	4.713
3	Taxes on Wealth	21.08	447.43	4.711
4	Customs	3,962.25	84,070.39	4.713
5	Union Excise Duties	4,524.54	96,001.18	4.713
6	Other Taxes and Duties on Commodities and Services	0.08	1.78	4.494
7	Service Tax	4,639.22	96,209.43	4.822
	Total	**28,759.94**	**6,08,000.31**	



Source: Finance Accounts of 2016-17.

1.3.4 Optimisation of XIV Finance Commission (XIV FC) Grants

1.3.4.1 Introduction

XIV FC was constituted by the President under Article 280 of the Constitution on 2 January 2013 to make recommendations on specified aspects of Centre - State fiscal relations for the period from 2015-16 to 2019-20 (award period). As per the terms of reference, the Commission shall make recommendations in the matter of distribution of net proceeds of taxes between the Union and the States, principles which should govern the grants-in-aid of the revenues of the States and measures needed to augment the Consolidated Fund of the State to supplement the resources of the Panchayat and Municipalities in the State.

1.3.4.2 Release of Grants

The Commission recommended ₹2,839.76 crore as transfer to the State in the areas indicated in **Table 1.16** during 2016-17.

Table 1.16: Transfers recommended and actual release of grants during 2015-16 and 2016-17

(₹ in crore)

Sl. No.	Transfers	2016-17			Release for 2015-16	Increase/ Decrease over previous year	Percentage of increase (+)/ decrease(-)
		Recommended amount	Actual release	Short fall			
1	Local Bodies						
	(a) Basic Grants to PRIs	1,388.62	1,368.21	20.41	972.36	395.85	41
	(b) Performance Grants to PRIs	182.15	179.45	2.70	-	179.45	-
	(c) Basic Grants to ULBs	778.29	778.29	-	562.08	216.21	38
	(d) Performance Grants to ULBs	229.70	229.70	-	-	229.70	-
2	Disaster Relief	261.00	217.50	43.50	207.00	10.50	5
	Total	**2,839.76**	**2,773.15**	**66.61**	**1,741.44**	**1,031.71**	**-**

As of March 2017, the State Government received ₹1,368.21 crore of Basic Grants for Panchayat Raj Institutions(PRIs) against the recommendation of ₹1,388.62 crore, which was ₹395.85 crore (41 *per cent*) more over the previous year leaving a shortfall of ₹20.41 crore. The Rural Development and Panchayat Raj (RD&PR) department in its reply (June 2017) stated that the grants were released on pro-rata basis for the duly constituted local bodies only. The same procedure is being followed uniformly across the States and in consonance with the recommendations of the XIV FC. Similarly, the recommended amount of ₹778.29 crore towards Basic Grants to Urban Local Bodies (ULBs) were released, which showed an increase of ₹216.21 crore over the previous year, an increase of 38 *per cent*.

XIV FC recommended that to be eligible for Performance Grants, the gram panchayats will have to submit audited annual accounts that relate to a year not earlier than two years preceding the year, in which the gram panchayat seeks to claim the Performance Grant. It will also have to show an increase in the own revenues of the local body over the preceding year, as reflected in the audited accounts. The release of Performance Grants to PRIs and ULBs commenced from 2016-17. The State Government {RDPR department and Urban Development Department (UDD)} issued guidelines to arrive at entitlement of PRIs and ULBs with regard to the operational criteria to obtain Performance Grants under XIV Finance Commission.

During 2016-17, against the recommended amount of ₹182.15 crore towards Performance Grants to PRIs, ₹179.45 crore was released leaving a shortfall of ₹2.70 crore. RDPR department attributed (June 2017) this to releasing of grants on pro-rata basis only for duly constituted local bodies. For ULBs, the entire recommended amount of ₹229.70 crore towards Performance Grants was released during 2016-17. For the year 2016-17, Performance Grants were released to 191 ULBs out of 213 ULBs, which submitted audited accounts

Similarly, against the recommended amount of ₹ 261 crore towards State Disaster Relief Fund (SDRF), only ₹217.50 crore was released, an increase of ₹10.50 crore (five *per cent*) over the previous year. XIV FC recommended that the contribution to the fund is in the ratio of 90:10 between GOI and State Government. GOI accepted this recommendation with the modification that the percentage share of the States will continue to be as before in the ratio of 75:25 and that the flows will also be of the same order as in the existing system and that, once GST is in place, the recommendations of XIV FC on disaster relief would be fully implemented. The contributions from GOI together with the State's contribution are transferred to SDRF account in Public Account of the State.

1.3.4.3 Other Recommendations

XIV FC made number of recommendations relating to devolution of grants to local bodies, disaster relief etc. In addition to this the commission made many other recommendations like increasing professions tax, transactions under National Small Savings Fund (NSSF), setting up of Water Regulatory Authority (WRA) etc. These recommendations are brought out in detail below.

Tax on professions, trades, callings and employments

Article 276 of the Constitution provides for the levy of a tax on professions, trades, callings and employments for the benefit of the State or local bodies at a rate not exceeding ₹2,500 per tax payer per annum. The States, State Finance Commissions (SFCs) and local bodies expressed the view that this tax can be a major source of income for the local bodies if the ceiling can be raised periodically and the tax can be collected efficiently.

The Commission having considered the pleas of the State Governments, recommended for raising the ceiling on this professions tax from ₹2,500 per annum to ₹12,000 per annum by bringing amendment to Article 276(2) of the Constitution by increasing the limits on the imposition of professions tax by States. The amendment may also vest the power to impose limits on Parliament with the caveat that the limits would adhere to the Finance Commission's recommendations and the Union Government should prescribe a uniform limit for all the States.

Finance Department replied (June 2017) that Government of India was requested by State Government in this regard to consider bringing amendment to the Constitution at the earliest.

Transactions under National Small Savings Fund (NSSF)

XIV FC recommended that State Governments be excluded from the operations of the NSSF, with effect from 1 April, 2015. This exclusion will not hamper the overall borrowing programme of the States in any manner, as they will continue to have access to open market borrowings. As for the fiscal burden incurred in the course of the operations of NSSF, prior to 1 April, 2015, since the scheme was administered almost in its entirety by the Union Government, no part of this fiscal burden, incurred till that date, should be passed on to the States. It further recommended that the involvement of the States in NSSF scheme with effect from 1 April, 2015, may be limited solely to discharging the debt obligations already incurred by them until that date. However, during 2015-16, ₹2,738 crore was accounted under the head 6003-111 towards NSSF loans.

Finance Department replied (July 2017) that Government of India (GOI) vide letter dated 16 February 2017 communicated that Union Cabinet decided to exclude all the States and UTs (with Legislature) from NSSF investments, w.e.f 1 April 2016 and that the investments of the State will be limited solely in discharging the debt obligations already incurred by them. The delay in implementation of XIV FC recommendations by GOI of excluding the State Governments from NSSF loans led to the receipts of ₹2,738 crore under NSSF in the FY 2015-16. Further, the State Government did not receive any loans under NSSF from GOI in the financial year 2016-17 and the Government did not anticipate any loans under NSSF from GOI for financial year 2017-18.

On account of delay in implementation of the recommendations, the State Government is subject to unnecessary burden towards interest payment due to delayed decision on the part of GOI. The State Government had to incur the burden of liability to the extent cited above, apart from the increased interest liability (nine *per cent* on NSSF loans) instead of tapping the market directly, whose interest rates was between 7.98 *per cent* and 8.67 *per cent*.

Template for collating of extended Public Debt

For any evaluation of public finances to be meaningful, it should consider the Government's risk exposure to its public sector in the form of guarantees, off-budget borrowings and accumulated losses of financially weak public sector enterprises. In this context XIV FC explored the concept of extended debt, analyzing different indicators, including the debt of public sector enterprises (PSEs), guarantees to PSEs and a risk weighted combination of guarantees. Keeping in mind the importance of risks arising from guarantees, off-budget borrowings and accumulated losses of financially weak public sector enterprises when assessing the debt position of States, FC recommended that both Union and State Governments adopt a template for collating, analyzing and annually reporting the total extended public debt in their respective budgets as a supplement to the budget document.

Finance Department in its reply (July 2017) stated that the State Government was reporting the total extended Public Debt in the Budget documents. The same is published in the over view of budget every year.

The reply of the department is not satisfactory as the State Government is reporting the liabilities of the Government which are captured in accounts, whereas Finance Commission recommended for drawing up a template for collating of extended public debt, which in effect mean the budgetary support given by the State Government to entities under Off-budget borrowings, various ULBs/Corporations. These data are required to be brought out for the purpose of transparency. A note in the budget document to indicate that the liabilities mentioned do not include the ones stated above whose borrowings up to the end of March, can be considered.

Sanction of New Capital Works in the Budget

To curb the scope for perverse allocation of available funds among competing projects and to ensure that the economy benefits from investments in capital works, XIV FC recommended both Union and States to amend their respective Fiscal Responsibility Acts to provide a statutory ceiling on the sanction of new capital works to an appropriate multiple of the annual budget provision. An amendment on the lines as suggested by the Commission, if given a statutory backup, would eventually result in healthy fiscal management and spread of resources to capital works in a regulated manner.

Irrigation – Setting up of Water Regulatory Authority (WRA)

The fixation and rationalisation of water charges should be guided by the basic consideration of generating sufficient revenue to recover recurring O&M costs essential for the maintenance of the system initially, and a fixed percentage of the capital cost subsequently. Nevertheless, a balance needs to be maintained, keeping in view the paying capacity of farmers. Appropriate fixation and rationalisation of water charges demands basic information, which requires measurement of water consumption through meters. The advantage of metering is that it encourages farmers to limit their water use, adopt the cropping pattern best suited to the area and avoid over-irrigation, as well as wasteful use of water. For this purpose, meters are required, which have to be honestly read and reported. Therefore, XIV FC, while reiterating the recommendations of XIII FC in setting up of Water Regulatory Authority urged the States to setup the authority for pricing of water for domestic, irrigation and other uses independently and in a judicious manner. It further recommended that WRAs already established be made fully functional at the earliest.

The Water Resources Department in its reply (December 2017) stated that Government of India asked Government of Karnataka to consider setting up of a Regulatory Authority in the State on the lines of Maharashtra Water Resources Regulatory Authority Act, 2005 (MHWRRA Act 2005). The MHWRRA Act, among its various other functions, provides for fixing water tariff for various category of users. The views of all the Nigams under Water Resources Department, GOK is being sought on this Act and further action would be taken after receipt of the said views.

Power – Setting up of State Electricity Regulatory Commission (SERC) Fund

A key issue in the functioning of SERCs is their financial independence and autonomy. SERC's primary sources of income include grant from State Governments and their own revenue generated through fees for annual licenses and the filing of applications. XIV FC recommended all States to constitute a State Electricity Regulatory Commission Fund in order to provide financial autonomy to SERCs, as regulated under Section 103 of the Electricity Act, 2003, to enable SERCs to perform their responsibilities. The Commission reiterated the importance of financial independence of SERCs and urged all States to constitute a SERC Fund, as statutorily provided for. However, the fund was not established.

Energy Department replied (August 2017) that AG (E&RSA) was requested for concurrence to the revised draft amendment to the Karnataka Electricity Regulatory Commission (Annual Statement of Accounts) Rules, 2014, for enabling creation of SERC fund. As this amendment is in contravention to the provisions of the Karnataka Electricity Reforms Act, 1999, and Section 103 of the Electricity Act, 2003, the office of AG (E&RSA) suggested for a relook into the matter (November 2017).

Road Transport – Setting up of independent regulator

At present, there is no independent regulatory authority for the road transportation sector. Current arrangements, both at the Union and State level, give rise to a potential conflict, as the rule-making body is also the implementing body. Consequently, there is no independent assessment of the performance of the State Road Transport Undertakings (SRTUs) across various parameters. Therefore, XIV FC recommended the setting up of independent regulators for the passenger road sector, whose key functions should include tariff setting, regulation of service quality, assessment of concessionaire claims, collection and dissemination of sector information, service-level benchmarks and monitoring compliance of concession agreements.

In its reply, the Karnataka State Road Transport Corporation (KSRTC) (November 2017) stated that no proposal was sent to Transport Department, Government of Karnataka with regard to Setting up of Independent Regulator for the Passenger Road Transport Sector.

1.3.5 Foregone revenue

As per the requirements under Section 5(2) (c) of KFRA, additional statements are brought out in MTFP 2017-21, detailing the tax expenditure/revenue foregone by exemption or deferment of VAT, CST and Entry Tax. The details of such exemptions/revenue foregone during the years 2015-16 to 2016-17 are indicated in **Table 1.17**.

Table 1.17: Details of exemptions/revenue foregone

(₹ in crore)

Particulars	2015-16	2016-17#
Tax expenditure/ revenue foregone under deferment of purchase tax on sugarcane	28.53	45.50
Exemption/ deferment/ re-imbursement of tax	576.02	635.61
Total	**604.55**	**681.11**

Source: MTFP – 2017-21.

#for the first three quarters of 2016-17.

Though the Public Accounts Committee (PAC) in its 13th Report, while recommending a system to oversee the collection of revenue suggested to the State Government to discontinue the practice of giving discounts, waivers and exemptions while collecting taxes, the State Government had failed to adhere to the same.

However, Government contended that the tax concessions in the form of waiver/discount/exemptions are conscious decisions taken by the State as a matter of policy for promoting certain sectors of the economy. Such concessions are provided with the objective of enabling a conducive environment to attract more industries to the State. It has other benefits of providing employment to locals and boosting the economy. It is expected that it will ultimately compensate the revenue foregone by way of improvements in overall tax collection and faster growth of GSDP.

1.4 Capital Receipts

Capital receipts of the State Government include non-debt and debt receipts, whose composition is discussed in **paragraph 1.2.1**. The Public Debt receipts during 2016-17 (₹31,156 crore) comprised internal debt of ₹29,238 crore (94 *per cent*) and Loans and Advances from GOI ₹1,918 crore (six *per cent*). Market borrowings had a major share under internal debt, comprising 82 *per cent* followed by NSSF loans (15 *per cent*) and negotiated loans (three *per cent*). Loans from GOI comprised Plan loans only. The trends in composition of capital receipts during the period 2012-13 to 2016-17 are indicated in **Table 1.18**.

Table 1.18: Trends in growth and composition of capital receipts

(₹ in crore and growth rate in *per cent*)

Sources of State Capital receipts	2012-13	2013-14	2014-15	2015-16	2016-17
Capital Receipts (CR)	13,656	17,484	21,968	21,484	31,283
Misc. Capital Receipts	33	88	10	352	27
Recovery of Loans and Advances	158	109	84	60	100
Public Debt receipts	13,465	17,287	21,874	21,072	31,156
Percentage of Public Debt receipts to total capital receipts	98.60	98.87	99.57	98.08	99.59
Rate of growth of debt capital receipts	43.89	28.38	26.53	(-) 3.67	47.85
Rate of growth of non-debt capital receipts	(-) 42.12	3.14	(-) 52.28	338.30	(-) 69.17
Rate of growth of GSDP	14.56	18.24	12.70	11.42	8.79
Rate of growth of capital receipts (%)	40.96	28.03	25.65	(-) 2.20	45.61

Overall, capital receipts increased from ₹13,656 crore in 2012-13 to ₹31,283 crore in 2016-17. Debt receipts had a predominant share in capital receipts which ranged between 98 and 100 *per cent* during 2012-13 to 2016-17. The recovery towards loans and advances was very meagre during the period. Recovery amounted to less than one *per cent* of the outstanding loans and advances as at the end of 2016-17. It also included book adjustment of ₹9.50 crore being the dues of Electricity Supply Companies (ESCOMs), treated as subsidy on revenue account.

1.5 Public Account Receipts

Receipts and disbursements in respect of certain transactions, such as Small Savings, Provident Fund, Reserve Funds, Deposits, Suspense, Remittances etc., which do not form part of the Consolidated Fund are kept in the Public Account set up under Article 266(2) of the Constitution and are not subject to vote by the State Legislature. Here, the Government acts as a banker/trustee for custody of public money, since these transactions are mere pass through transactions. The net transactions under Public Account covering the period 2012-13 to 2016-17 are indicated in **Table 1.19**.

Table 1.19: Net transaction under Public Account

(₹ in crore)

Resources under sectors of Public Account (Net)	2012-13	2013-14	2014-15	2015-16	2016-17
I. Small Savings, PF etc.,	1,732	3,107	2,156	2,086	2,657
J. Reserve Funds	1,362	1,264	1,547	2,081	6,013
K. Deposits and Advances	2,511	2,840	3,702	284	3,041
L. Suspense and Misc.	98	2,671	3,282	990	491
M. Remittances	(-) 32	(-) 12	(-) 32	(-) 17	(-) 38
Total	**5,671**	**8,870**	**10,655**	**5,424**	**12,164**

The net receipts from Public Account increased from ₹5,671 crore in 2012-13 to ₹12,164 crore (114 *per cent*) in 2016-17. This includes transfer of ₹3,670 crore from General Revenues of the State and ₹952 crore from the Consolidated Fund out of the cess collections to Infrastructure Funds in Public Account. Similarly, an amount of ₹43.82 crore out of cess collections of motor vehicle tax and ₹13.49 crore out of General Revenues of the State was transferred to SUTF in Public Account. Net availability of funds under Reserve Funds, Small

Savings and Provident Fund had a major share in financing the fiscal deficit. The receipts under Deposits and Advances include ₹1,265 crore deposits made in Panchayat Bodies Fund. Under Suspense and Miscellaneous, there was decrease in transactions relating to un-encashed cheques, which amounted to ₹404 crore during 2016-17. An analysis of the transaction is brought out in **paragraph 1.8.6**.

1.6 Applications of resources

Analysis of the allocation of expenditure at the State Government level assumes significance since major expenditure responsibilities are entrusted with them. Within the framework of fiscal responsibility legislations, there are budgetary constraints in raising public expenditure financed by deficit or borrowings. It is, therefore, important to ensure that the ongoing fiscal correction and consolidation process at the State level is not at the cost of expenditure, especially the expenditure directed towards development of social and economic sectors.

Prudent fiscal management should aim at creating savings by raising revenue receipts in excess of revenue expenditures. The revenue balance is called Government's saving, which is used to finance capital expenditure. Use of borrowed funds for either directly revenue yielding activities or indirectly productive uses creates returns by way of tax or non-tax revenues, which can be used for debt servicing and repayment of loans.

1.6.1 Growth and composition of expenditure

The basic parameters of total expenditure, growth rate and comparison with GSDP etc., are furnished in the **Table 1.20**.

Table 1.20: Total Expenditure- Basic parameters

(₹ in crore and growth rate in *per cent*)

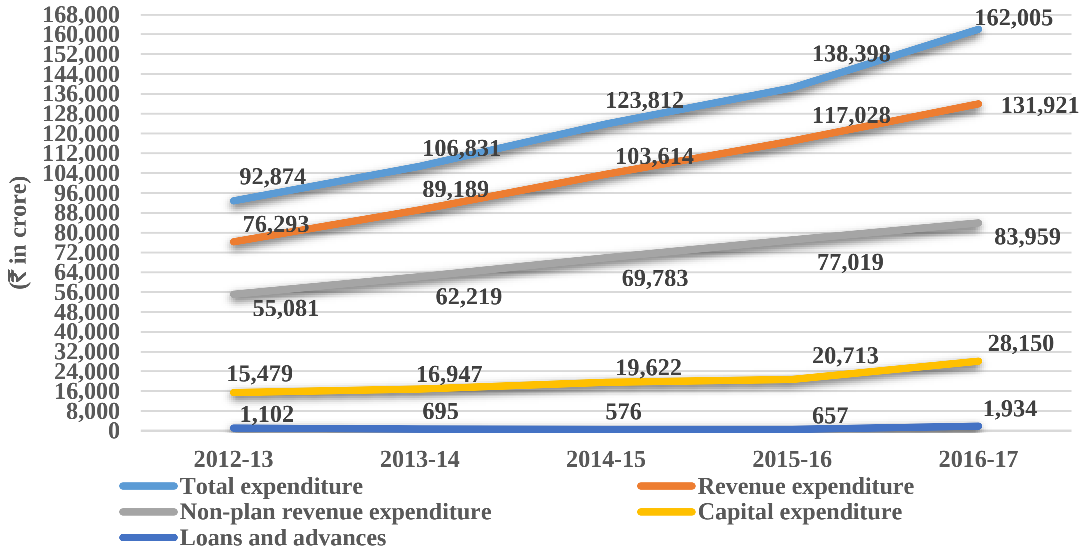
	2012-13	2013-14	2014-15	2015-16	2016-17
Total Expenditure (TE)*	92,874	1,06,831	1,23,812	1,38,398	1,62,005
Rate of growth	12.7	15.0	15.9	11.8	17.1
GSDP	6,91,700	8,17,886	9,21,788	10,27,068	11,17,334
Rate of growth	14.56	18.24	12.70	11.42	8.79
TE/GSDP	13.43	13.06	13.43	13.47	14.50
Revenue receipts/TE	84.20	83.80	84.11	85.85	82.23
Revenue expenditure	76,293	89,189	1,03,614	1,17,028	1,31,921
Rate of growth	17.2	16.9	16.2	12.9	12.7
Capital expenditure (including loans and advances)	16,581	17,642	20,198	21,370	30,084
Rate of growth	(-) 4.3	6.4	14.5	5.8	40.8
Buoyancy of total expenditure with					
GSDP	0.9	0.8	1.3	1.0	1.9
Revenue receipts	1.1	1.0	1.0	0.8	1.4
Buoyancy of revenue expenditure with					
GSDP	1.2	0.9	1.3	1.1	1.4
Revenue receipts	1.4	1.2	1.0	1.0	1.0

Source: Finance Accounts.

**Total expenditure includes revenue expenditure, capital expenditure including loans and advances.*

Chart 1.14 presents the trends in total expenditure over a period of five years (2012-13 to 2016-17) and its composition under revenue, capital and loans and advances.

Chart 1.14: Total expenditure -Trends and composition



Total expenditure increased by 74 *per cent* from ₹92,874 crore in 2012-13 to ₹1,62,005 crore in 2016-17 due to increase in revenue expenditure (₹55,628 crore), capital outlay (₹12,671 crore) and disbursement of loans and advances (₹832 crore).

During the period 2012-13 to 2016-17, on an average, 83 *per cent* of the total expenditure was on revenue account. During 2016-17, it was 81 *per cent*. The share of capital expenditure (including loans and advances) was 19 *per cent*.

The share of Revenue Expenditure, Capital Expenditure and Loans and Advances for the years 2012-13 to 2016-17 is given in **Table 1.21**.

Table 1.21: Total Expenditure- Trends of Share of its components

(figures in *per cent*)

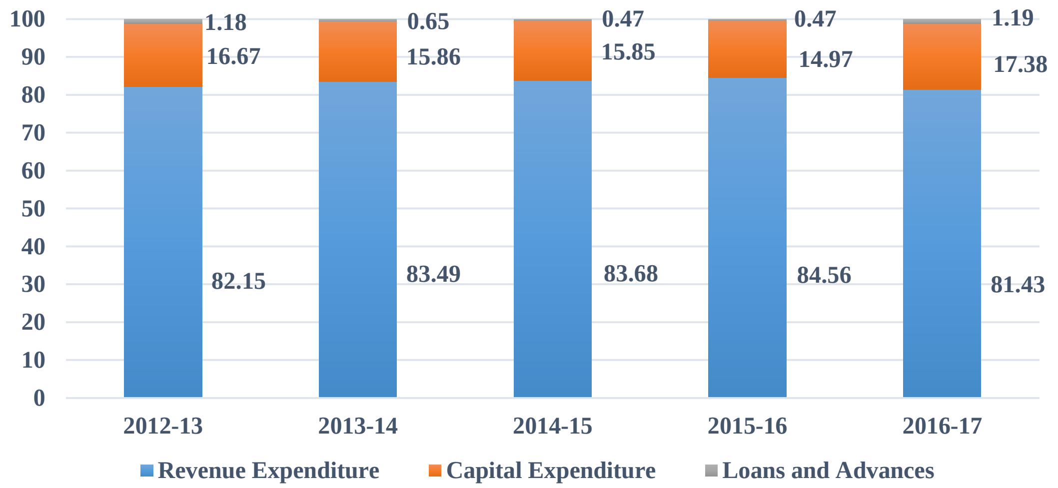
Expenditure	2012-13	2013-14	2014-15	2015-16	2016-17
Revenue Expenditure	82.15	83.49	83.68	84.56	81.43
Capital Expenditure	16.67	15.86	15.85	14.97	17.38
Loans and Advances	1.18	0.65	0.47	0.47	1.19

Source: Finance Accounts of respective years.

Chart 1.15 presents composition of total expenditure over a period of five years (2012-13 to 2016-17).

Chart 1.15: Total expenditure - Trends in share of its components

(share in *per cent)*



Revenue expenditure had a predominant share in total expenditure as around 80 *per cent* of the expenditure was committed expenditure thus leaving little scope for increase in capital expenditure. The trends of total expenditure by activities under General, Social, Economic, Loans and Advances and Grants-in-aid are given in **Table 1.22.**

Table 1.22: Total Expenditure – Trends by activities

(Share in *per cent*)

	2012-13	**2013-14**	**2014-15**	**2015-16**	**2016-17**
General Services	22.36	23.83	23.33	22.97	19.95
Social Services	35.89	33.39	35.17	37.30	37.93
Economic Services	36.23	37.43	36.17	34.87	37.42
Loan and Advances	1.18	0.65	0.47	0.47	1.19
Grants-in-aid and contributions	4.34	4.70	4.86	4.39	3.51

Source: Finance Accounts of the respective years.

The movement of relative share of these components exhibited relative stability during the period from 2012-13 to 2016-17 with marginal inter-year variations. The share of General Services decreased marginally while the share of Social and Economic Services increased in 2016-17. The share of loans and advances declined sharply from 2012-13 to 2015-16 and increased to 1.19 *per cent* in 2016-17.

The Expenditure Reforms Commission (ERC) in its first report (February 2010) recommended capital investments to be stepped up and protected from fiscal uncertainties through prudent allocations. It also recommended maintaining the capital expenditure (excluding debt servicing) at five *per cent* of GSDP. The ratio of capital expenditure to GSDP, which was at two *per cent* during 2012-13 to 2015-16, however, increased to three *per cent* during 2016-17.

1.6.2 Revenue Expenditure

Revenue expenditure comprises of day-to-day expenditure of the Government, wages and salaries, interest payments, pensions, expenditure on operation and maintenance of capital works, subsidies and transfers to local bodies, co-operatives, Non-Government Organizations (NGO) and others. Expenditure can also be classified into various functional categories such as administrative services, social services and economic services. Expenditure on social and economic services is incurred to create physical infrastructure and human resource development and, therefore, is considered productive, whereas expenditure on general administration and debt servicing are considered unproductive.

Revenue expenditure increased from ₹76,293 crore in 2012-13 to ₹1,31,921 crore in 2016-17, an increase of 73 *per cent*. The revenue expenditure buoyancy during 2016-17 was 1.4 times compared to GSDP. Compared to the previous year, the increase was 13 *per cent*, due to increase in salary expenditure (₹934 crore), interest payments (₹1,507 crore), pensions (₹44 crore) and devolution to local bodies (₹2,303 crore) etc.

The revenue expenditure during 2016-17 also included ₹4,204.65 crore provided as Guarantee Commission[4] (₹52.91 crore), Adjustment of interest on Fund/GP Fund balances (₹1,164.21 crore), Adjustment of interest on fund balances under Karnataka Government Insurance Schemes (₹739.58 crore), Adjustment of interest on GP Fund balances under Karnataka General Provident Fund (₹988.28 crore), ESCOMs (₹1,259 crore) being the dues of electricity tax etc., treated as subsidy and adjustment of interest on Capital invested in Government Commercial Undertakings (GCU's) (₹0.67 crore) through book adjustment.

1.6.3 Committed Expenditure

Most of the revenue expenditure is in the nature of committed expenditure on salaries, interest, pension, subsidy etc., which affects the maneuverability of the State in prioritising expenditure and in meeting capital investments to meet growing needs of social and economic infrastructure. The expenditure on these components and also certain other expenses such as pensions under social security schemes, implicit subsidies arising under various schemes of the Government, Grant-in-aid & financial assistance, administrative expenses, devolution to local bodies etc., which are treated as committed expenditure from time to time in MTFP 2017-21 covering the period 2012-13 to 2016-17 is depicted in **Table 1.23** and **Chart 1.16**.

Table 1.23: Trends in Committed Expenditure

(₹ in crore)

Sl. No.	Particulars	2012-13	2013-14	2014-15	2015-16	2016-17	
						BE	Actuals
1	Salaries* of which	16,308	18,027	19,952	20,774	23,779	21,708
	Non-plan head	8,324	15,211	16,733	17,342		18,366
	Plan Head**	7,984	2,816	3,219	3,432		3,342
2	Interest payments#	7,454	8,027	9,804	11,343	12,672@	12,850
3	Expenditure on pensions	7,227	9,152	10,118	11,251	12,123	11,295
4	Social Security Pensions	1,880	1,870	2,322	2,247	3,966	2,503

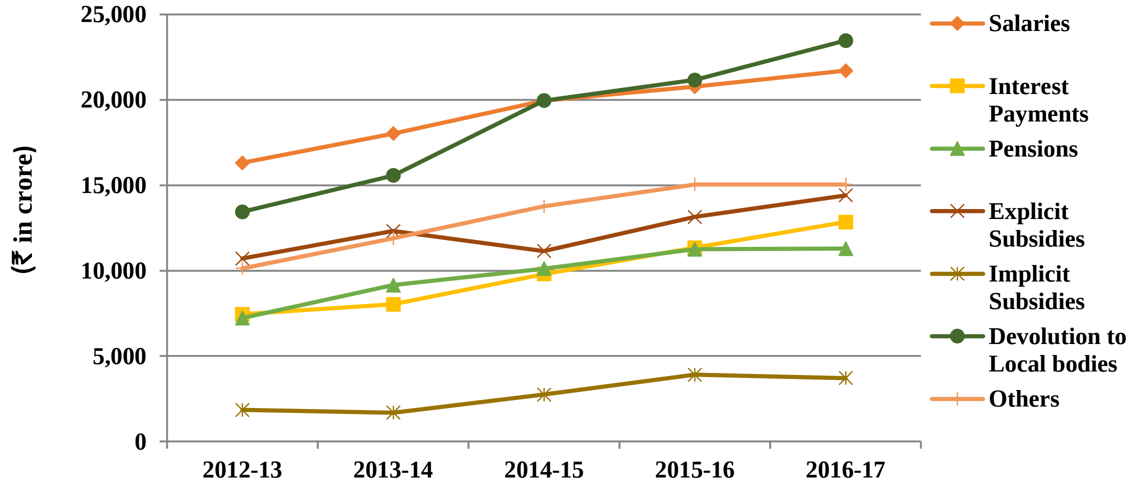
4 Rajiv Gandhi Rural Housing Corporation Ltd., (₹24.22 crore), Karnataka Slum Development Board (₹0.04 crore), Karnataka State Co-operative Marketing Federation Limited (₹22.64 crore), Karnataka Road Development Corporation Limited (₹5.08 crore) and Karnataka Police Housing Corporation (₹0.93 crore).

Sl. No.	Particulars	2012-13	2013-14	2014-15	2015-16	2016-17	
						BE	Actuals
5	Subsides of which						
	Explicit	10,709	13,323	11,153	13,149	18,492	14,387
	Implicit	1,849	1,690	2,973	3,913		3,714^
6	Grants-in-aid and financial assistance	6,898	8,471	9,737	10,840	9,580	13,163
7	Administrative Expenses	1,358	1,549	1,708	1,958	2,412	1,966
8	Devolution of Local Bodies	13,445	15,570	19,952	21,163	22,676	23,466
9	**Total Committed Expenditure**	**67,128**	**77,679**	**87,719**	**96,638**	**1,05,700**	**1,05,052**
10	**Revenue receipts**	**78,176**	**89,542**	**1,04,142**	**1,18,817**	**1,30,758**	**1,33,214**
11	Revenue receipts of which, committed expenditure as % of revenue receipts (9/10)	86	87	84	81	81	79

** Includes salaries paid out of grants-in-aid released to PRIs and others.*
*** Includes the salaries paid under centrally sponsored schemes.*
 # Includes interest on off-budget borrowings.
@ includes interest pertaining to 2049 only.
^ Excludes subsidy under Indira Awas Yojana, which was released as financial assistance.

The ratio of committed expenditure to revenue receipts was steadily increasing from 2012-13 to 2013-14 and there was decreasing trend from 2014-15 onwards. The high percentage of committed expenditure to revenue receipts indicates that the State has limited flexibility in allocation of its resources for new schemes. Medium term correction on the expenditure side is required to moderate such committed expenditure. There is also increasing demand on the public resources in the light of statutory legislation like Right to Education, Food Security Act and Employment Guarantee measures. These emerging concerns necessitate a review of public resources as a whole to assess their allocative and technical efficiency.

Chart 1.16: Committed expenditure during 2012-17



Expenditure on salaries

Expenditure on salaries increased from ₹16,308 crore in 2012-13 to ₹21,708 crore in 2016-17. It grew by four *per cent* over the previous year. It was noticed that the Finance Accounts captured data on salaries only in respect of State Sector, whereas the salary expenditure in case of PRIs (to the tune of ₹11,918 crore) was not captured. Since the salaries in respect of PRIs are released as grant-in-aid, the total salary expenditure is not reflected in the accounts. The salary expenditure excluding the salary grant relating to Urban Local Bodies (ULBs) of the State was 20 *per cent* of the revenue expenditure net of interest payment and pensions, which was within the norm of 35 *per cent* fixed by the Twelfth Finance Commission (TFC).

Finance Department replied (November 2014) that grants to PRIs/ULBs are released as lump sum grants as per constitutional requirement. Further, scheme wise breakup of salary and non-salary items is available in the link volumes. As such, the information is already being captured as part of PRI/ULB accounts.

PAC in its 5th Report (July 2015) reiterated its recommendation that the data of the district sector, relating to details of salary be consolidated for exhibition in the Appendix of Finance Accounts.

Also, the salary expenditure relating to the employees of ULBs overlapped with those under the State sector (Constitutional dignitaries). This is discussed in **paragraph 2.4.1.6**.

Misclassification of salary expenditure under capital section amounting to ₹13.23 crore instead of under revenue during 2016-17 is discussed in **paragraph 2.4.1.1**.

Pension Payments

The expenditure on pension (₹11,295 crore) during 2016-17 was short of MTFP (2013-17) projections by ₹1,494 crore. There was a moderate increase in expenditure over the previous year (₹44 crore).

Defined Contribution Pension Scheme known as New Pension Scheme (NPS), for all employees who joined the State Government service on or after 01 April 2006, became fully operational from 01 April 2010. A dedicated NPS Cell was created under the Directorate of Treasuries to operationalise NPS in the State. The State Government adopted NPS architecture designed by the Pension Fund Regulatory Development Authority (PFRDA) and appointed the National Securities Depository Limited (NSDL) as the Central Record Keeping Agency (CRA) for NPS. Bank of India is the Trustee Bank in charge of operation of Pension Funds. The security of investment of the pension corpus is also given primacy by mandating that 85 *per cent* of corpus be invested in bonds and fixed maturity investments and the remaining 15 *per cent* in equity and equity related instruments. The employees are given an option to pay their backlog either in lump sum outside salary or in multiple installments through salary deductions.

The New Pension Implementation Cell (NPIC) stated that (June 2017) there were 1,77,962 officials registered in the State and allotted Permanent Retirement Account Number (PRAN) as on 31 March 2017. An amount of ₹460.94 crore was contributed towards the scheme by the Government through revenue account. Employees' contribution of ₹565.97 crore (Regular + Backlog contribution) for the current year was also accounted against the scheme. The employee recoveries and backlog[5] contribution as on 31 March 2017 was ₹2,239.16 crore and the matching contributions made by State Government since inception of the scheme was ₹1,978.00 crore.

From fund balance, ₹900.08 crore was transferred to NSDL/Trustee bank, leaving net balance of ₹37.64 crore (Employees' contribution, Government's contribution and backlog/interest) under Major Head 8342 and Minor head 117-Defined Contribution Pension Scheme for Government Employees. The discrepancy was due to misclassification by the Director of Treasuries and needs to be reconciled. Un-transferred amounts with accrued interest represent outstanding liabilities of the Government. During 2016-17, ₹4.61 crore was paid from the Consolidated Fund as 'New Contributory Pension Schemes – Extension of benefit to the cases of persons/families who retire/died while in service' and were covered under NPS.

As per List of Major and Minor Heads (LMMH), the interest paid on Government backlog contributions in respect of New Pension Scheme recovery should be accounted under separate Major Head 2049-Interest Payments-03-117-Interest on Defined Contribution Pension Scheme (DCPS). During 2016-17, ₹6.35 crore was accounted under 2071-117 instead of under 2049-117 as interest. The progressive interest paid on the Government backlog contribution till 31-03-2017 was ₹70.21 crore. Finance Department replied (September 2017) that there was no Head of Account 2049-03-117-0-01 created in the database yet. As such for the year 2017-18, for the expenditure incurred under 2071-01-101-3-01 and 2071-01-117-0-01 towards interest on Government backlog contributions in respect of NPS will be transferred to the Head of Account 2049-03-117-0-01 by making a suitable provision in Supplementary Estimates-II of 2017-18. Thus, during 2016-17 the expenditure stood overstated under 2071 and stood understated under 2049 due to not carrying out of correction slip issued to List of Major and Minor Head (LMMH) by CGA.

Vide correction slip No. 793 effective from 2015-16 issued to LMMH a new minor head '119' below the functional Major head "2071 – Pension & Retirement benefits" was opened to account the expenditure towards service charges paid to NSDL. Accordingly, for the year 2016-17, ₹4.50 crore was paid to NSDL towards service charges under NPS and accounted under HOA '2071-01-119-0-01-NP'.

Government in its GO dated 30.01.2014 issued the detailed procedure for effecting NPS deductions of Government employees on foreign services to Boards/Corporations/Societies/Universities/State Aided Institutions/State Autonomous Bodies under all Ministries and Departments of State Government. For effecting NPS deductions, NPS cell stated that (July 2017), a unique Non-Treasury PAO/DDO code was allocated to 40 organisations, of which 20 organisations were registered by CRA as on 31.03.2017 and allotted PAO and DDO registration numbers.

[5]Refers to the contribution, the employee has to make from the date of his entry into service to the date of implementation of the scheme.

The payment of pension and other retirement benefits to All India Service (AIS) officers prior to 01 April 2008, was a liability to be borne by the State Government. The liability on account of pension payments that are to be borne by GOI from April 2008 are to be booked under suspense head – 8658 and a demand raised for reimbursement. At the end of March 2017, ₹50.65 crore was outstanding for settlement, when compared to ₹9.12 crore (March 2016), implying that the State Government was yet to receive amount due to it.

Out of outstanding amount of ₹50.65 crore for the year 2016-17, ₹3.63 crore was cleared in the accounts for August 2017 and the demand draft for ₹4.36 crore received from Central Pension Accounts Office (CPAO) was remitted into State Bank of India, Treasury branch, Bengaluru on 31 October 2017.

Interest Payments

Interest payments increased by ₹5,396 crore from ₹7,454 crore in 2012-13 to ₹12,850 crore in 2016-17. Interest payments during 2016-17 constituted interest on internal debt (₹9,578 crore), interest on small savings, provident fund etc., (₹1,904 crore), interest on loans and advances from the Central Government (₹659 crore) and interest on off-budget borrowings (₹817 crore).

The interest on internal debt increased by 17 *per cent* from ₹8,221 crore in 2015-16 to ₹9,578 crore in 2016-17 on account of increase in payment of interest on market loans by ₹1,198 crore (20 *per cent*), interest on special securities by ₹144 crore (seven *per cent*) issued to NSSF of the Central Government by the State Government and management of debt by ₹15 crore (94 *per cent*).

The interest on small savings, provident funds etc. increased by ₹60 crore (three *per cent*) from ₹1,844 crore during 2015-16 to ₹1,904 crore in 2016-17, mainly on account of increase in interest on State Provident funds and insurance and pension funds by three *per cent*.

Due to non-effecting of correction slip issued by CGA by booking the interest on DCPS under 2071 instead of under 2049, it stood understated and the interest payments to revenue receipts ratio was very close to 10 *per cent* as prescribed by XIV FC.

Subsidies

Subsidy expenditure increased from ₹10,709 crore in 2012-13 to ₹14,387 crore during 2016-17, which was 11 *per cent* of revenue receipts.

Explicit Subsidies

In MTFP (2013-17), the Government stated that subsidies provided by the State is of two kinds – explicit and implicit subsidies. Explicit subsidy provides for expenditure in the form of a subsidy or interest subvention for certain schemes of the Government. It was stressed that the challenge lies in ensuring that these subsidies do not become a permanent source of additional support and thereby deter these sectors from undertaking reforms. The three largest explicit subsidy outgoes for the State were power subsidy provided for supply of free electricity to farmers for usage of agricultural pump sets, food subsidy and interest subsidy for crop loans. Finance Accounts (Appendix-II) showed an explicit subsidy of ₹14,387 crore during 2016-17, which was ₹1,238 crore more than the previous year. The increase was nine *per cent* over the previous year. The details are given below.

Power

During 2016-17, subsidy to the power sector (₹8,647 crore) accounted for 60 *per cent* of the total subsidy (₹14,387 crore). It included financial assistance to electricity supply companies towards subsidy for supply to Irrigation Pump (IP) sets, Bhagya Jyothi (BJ)/Kutira Jyothi (KJ) consumers (₹8,647 crore). The power subsidy included book adjustment of ₹1,268.26 crore, of which, ₹1,218.83 crore was the tax dues retained by ESCOMs against power subsidy due.

Though Government stated (November 2007) that the Karnataka Power Transmission Corporation Limited (KPTCL) would be reflected as an off-budget entity in the budget documents, this was not complied with. Also subsidy of ₹8.95 crore given to KPTCL for meeting its debt servicing obligations to the Power Finance Corporation (PFC) and Rural Electrification Corporation (REC), was not captured under revenue account.

Food

Food subsidy to meet the differential cost of food grains in 2016-17 is ₹1,854 crore, which includes subsidy towards Annabhagya for BPL beneficiaries towards subsidies for food grains (₹1,171 crore), Annabhagya for BPL beneficiaries towards subsidies for other items (₹620 crore) and Annabhagya for Above Poverty Line (APL) beneficiaries towards subsidies for food grains (₹9 crore) and Sugar (₹54 crore).

Co-operation

Subsidy in the co-operative sector predominantly represented waiver of overdue loans (principal as well as interest) given to farmers. Such waiver of loans and interest aggregated to ₹6,234 crore (₹1,323 crore in 2012-13, ₹2,704 crore in 2013-14, ₹624 crore in 2014-15, ₹765 crore in 2015-16 and ₹818 crore in 2016-17).

According to the Vaidyanathan Committee Report (March 2008), and as reiterated by PAC, the Government both at the Centre and in the States should desist from the practice of waiver of recovery of loans and interest to prevent deterioration of the health of the co-operative credit system.

Transport

Transport subsidy increased from ₹748 crore in 2015-16 to ₹799 crore in 2016-17. This subsidy was mainly towards fare concession extended to students, freedom fighters, physically challenged, etc. It also included book adjustment of ₹291.39 crore being the motor vehicle tax dues of transport corporations, adjusted as subsidy towards concession value of bus passes issued to students, senior citizens, blind, handicapped and free bus passes provided to ex-MLAs and MLCs.

Implicit Subsidies

Implicit subsidies *inter alia* arise when the Government is unable to recover the costs it incurs on the provision of social and economic goods/services, even though sometimes these may have extended benefits. They can be indirect, in kind or take the shape of tax concessions. Some of the implicit subsidies extended during 2016-17 are detailed in **Appendix 1.5**.

The implicit subsidies increased from ₹1,849 crore in 2012-13 to ₹3,714 crore during 2016-17. They mainly include financial assistance for supply of seeds, weaver's package, Ashraya scheme, micro/drip irrigation, minimum floor price scheme, housing for weaker sections, house site for landless etc.

During 2016-17 also, the subsidy under Indira Awas Yojana (₹962.99 crore) was accounted for under HOA '2216-80-198-6-02-300(P)' as financial assistance/block grant to ZPs instead of for under HOA '2216-80-103-0-21' (Indira Awas Yojana) & '2216-80-800-0-04' (Indira Awas Yojana – State share).

1.6.4 Financial assistance to local bodies and other institutions

The quantum of assistance provided by way of grants to local bodies and other institutions during 2016-17, relative to the previous years, is presented in **Table 1.24**.

Table 1.24: Financial assistance to local bodies and other institutions

(₹ in crore)

	2012-13	2013-14	2014-15	2015-16	2016-17
Panchayat Raj Institutions	18,532.58	20,512.71	24,991.27	26,694.94	29,697.94
Urban Local Bodies*	4,018.42	5,020.43	6,011.45	6,076.05	5,685.58
Educational Institutions (including Universities)	738.69	961.62	1,145.04	1,406.50	1,449.75
Co-operative societies and co-operative institutions	47.04	849.85	818.09	1,023.13	1,009.47
Other institutions and bodies (including statutory bodies)	3,850.11	5,267.90	5,782.63	4,820.87	6,656.29
Assistance as a percentage of revenue expenditure	36	37	37	34	34
Total	**27,186.84**	**32,612.51**	**38,748.48**	**40,021.49**	**44,499.03**

Source: Finance Accounts.

**the figures under assistance to Urban Local Bodies differs from those shown in the earlier reports on account of inclusion of devolutions under the Minor Head 200 – Other compensations and assignment.*

As a sequel to the recommendations of the Eleventh Finance Commission, grants are released to PRIs under three distinct programme minor heads namely 196, 197 and 198. The assistance to PRIs increased from ₹18,533 crore in 2012-13 to ₹29,698 crore in 2016-17, while the assistance to ULBs increased from ₹4,018 crore in 2012-13 to ₹5,686 crore in 2016-17.

Out of the total devolution of ₹29,698 crore to PRIs during 2016-17, ₹11,918 crore (40 *per cent*) was towards salaries as the State Government's functions *viz*., education, water supply and sanitation, housing, health and family welfare etc., were transferred to PRIs. It also included XIV FC grants released to the State Government (₹1,547.66 crore).

The assistance to ULBs decreased by ₹390 crore and to Co-operatives by ₹14 crore respectively, as compared to the previous year. It increased for educational institutions by ₹43 crore and by ₹1,835 crore during 2016-17 for other institutions. The assistance to ULBs included ₹2,190 crore towards creation of capital assets. It also included XIV FC grants released to the State Government (₹1,007.99 crore).

Assistance to other institutions (₹6,656 crore) included assistance to Development Authorities (₹1,853 crore), NGOs (₹1,772 crore), PSUs (₹25 crore) and others (₹3,006 crore).

1.7 Quality of expenditure

The availability of better social and physical infrastructure in the State generally reflects the quality of its expenditure. The improvement in the quality of expenditure basically involves three aspects, *viz.*, adequacy of public expenditure (i.e., adequate provisions for providing public services), efficiency of expenditure, and its effectiveness.

1.7.1 Adequacy of public expenditure

The expenditure responsibilities relating to the social sector and economic infrastructure, assigned to the State Governments, are largely State subjects. Enhancing human development levels requires the States to step up their expenditure on key social services like education, health, etc. Low fiscal priority (ratio of expenditure category to aggregate expenditure) is attached to a particular sector if the priority given to that particular head of expenditure is below the General Category States' (GCS) average for that year.

Table 1.25 analyses the fiscal priority of the State Government with regard to development expenditure, social expenditure and capital expenditure relative to GCS in 2013-14 and the current year 2016-17.

Table 1.25: Fiscal priority of the State in 2013-14 and 2016-17

Fiscal priority by the State	AE/ GSDP	DE#/ AE	SSE/ AE	CE/ AE	Education/ AE	Health/ AE
General Category States* Average (Ratio) 2013-14	14.80	70.00	38.20	13.70	17.70	4.60
Karnataka (Ratio) 2013-14	13.06	71.45	33.79	16.51	15.49	4.24
General Category States* Average (Ratio) 2016-17	16.70	70.90	32.20	19.70	15.20	4.80
Karnataka (Ratio) 2016-17	14.50	76.53	38.96	18.57	13.08	4.25

AE: Aggregate Expenditure, DE: Development Expenditure, SSE: Social Sector Expenditure, CE: Capital Expenditure.
#Development expenditure includes Development Revenue Expenditure, Development Capital Expenditure and Loans and Advances disbursed.
Source: For GSDP, data is as per the Government of India conveyed figures, adopted by the State Government in its budget documents.
**refer note in Appendix 1.1.*

Comparative analysis reveals the following:

- The State's spending ratio of aggregate expenditure to GSDP increased during 2016-17 compared to 2013-14. However, ratio is less than that of GCS;

- Development expenditure as a proportion of aggregate expenditure in the State was higher than GCS average. Development expenditure consists of both economic and social service sector expenditure. The social sector expenditure as a proportion of aggregate expenditure in the State, was lower than that of GCS in 2013-14 and higher in 2016-17. As observed from the **Table 1.25**, adequate priority needs to be given to both education and health sectors as the ratio under both these sectors was well below GCS average during 2013-14 and 2016-17; and

- The State's ratio of expenditure on education was less than the average ratio of General Category State in 2013-14 and 2016-17, which implied that there was low priority by the State in the said area. However, as per the census of 2011, the State had a literacy rate of 75.40 *per cent*.

1.7.2 Efficiency of expenditure

In view of the importance of public expenditure on social and economic development, it is imperative for the State Government to take appropriate expenditure rationalisation measures with more emphasis on development expenditure. The higher the ratio of these components to total expenditure, the better will be the quality of expenditure. **Table 1.26** presents the trends in development expenditure relative to the aggregate expenditure of the State during 2016-17 *vis-à-vis* that of previous years.

Table 1.26: Development expenditure

(₹ in crore)

	2012-13	2013-14	2014-15	2015-16	2016-17
Development Expenditure (DE)	68,067	76,328	88,904	1,00,441	1,23,988
Percentage of DE to total expenditure	73	71	72	73	77
Components of DE					
Revenue	52,094 (76)	59,215 (77)	69,337 (78)	80,153 (80)	94,970 (76)
Capital	14,889 (22)	16,446 (22)	19,004 (21)	19,722 (20)	27,090 (22)
Loans and Advances	1,084(2)	667(1)	563(1)	566(-)	1,928(2)

Source: Finance Accounts.

Figures in brackets indicate percentage to development expenditure.

Development expenditure increased from ₹68,067 crore in 2012-13 to ₹1,23,988 crore in 2016-17. As a percentage of total expenditure, it decreased from 73 in 2012-13 to 71 in 2013-14 and thereafter increased to 77 *per cent* during 2016-17. On an average, 77 *per cent* of the development expenditure was on revenue account while capital expenditure, including loans and advances accounted for the balance during 2012-13 to 2016-17. In 2016-17, expenditure on salary (₹16,149 crore) and subsidy (₹14,364 crore) formed two major components of development revenue expenditure.

Table 1.27 provides the details of capital expenditure and the components of revenue expenditure incurred on salaries and maintenance of the selected social and economic services.

Table 1.27: Efficiency of expenditure in selected social and economic services

(ratio in *per cent*)

Sector	2015-16			2016-17		
	Ratio of capital expenditure to total expenditure	Revenue expenditure		Ratio of capital expenditure to total expenditure	Revenue expenditure	
		Salaries and wages	Operation and Maintenance		Salaries and wages	Operation and Maintenance
Social Services						
Education, sports, art and culture	0.52	8.68	0.01	0.68	8.25	0.01
Health and family welfare	0.59	1.96	0.01	0.50	1.63	0.01
Water Supply, sanitation, housing and urban development	1.42	0.08	0.12	2.61	0.09	0.11
Others	1.55	0.55	0.02	1.54	0.51	0.02
Total (SS)	**4.08**	**11.27**	**0.16**	**5.29**	**10.48**	**0.15**
Economic Services						
Agriculture and allied activities	0.14	1.04	0.04	0.34	0.94	0.04
Irrigation and flood control	5.02	0.12	0.29	5.33	0.10	0.26
Power and energy	0.06	-	-	0.57	-	-
Transport	3.90	0.07	0.62	4.71	0.05	0.56
Others	1.46	0.74	0.02	1.69	0.67	0.03
Total (ES)	**10.58**	**1.97**	**0.97**	**12.62**	**1.76**	**0.89**
Total (SS+ES)	**14.66**	**13.24**	**1.13**	**17.91**	**12.24**	**1.04**

Source: Finance Accounts.

Expenditure on Social Services

Capital expenditure on social services increased from ₹5,641 crore in 2015-16 to ₹8,571 crore in 2016-17 and the ratio of capital expenditure to total expenditure increased from 4.08 *per cent* in 2015-16 to 5.29 *per cent* in 2016-17. The share of salary expenditure (under social services) in total revenue expenditure was 10 *per cent* in 2016-17 (**Table 1.27**).

Expenditure on Economic Services

Capital expenditure on economic services increased from ₹14,647 crore in 2015-16 to ₹20,447 crore in 2016-17. The share of salary expenditure (under economic services) in total revenue expenditure was two *per cent* during 2016-17 (**Table 1.28**).

The priority sectors identified by the Government in respect of economic services were agriculture, rural development, irrigation and flood control, transport, industries and minerals. In 2016-17, capital outlay was higher by ₹2,224 crore, ₹1,680 crore, ₹812 crore, ₹319 and ₹43 crore under transport, irrigation and flood control, energy, agriculture and rural development respectively, while under industries and minerals and special areas programmes it was lower by ₹238 crore, and ₹10 crore, respectively compared to the previous year.

1.8 Financial Analysis of Government expenditure and investments

In the post KFRA framework, the Government is expected to keep its fiscal deficit (borrowing) at low levels and still meet its capital expenditure/investment (including loans and advances) requirements. In addition, the State Government needs to initiate measures to earn adequate return on its investments rather than bearing the same in the form of implicit subsidy, recover cost of borrowed funds and take requisite steps to infuse transparency in financial operations. This section presents the broad financial analysis of investments and other capital expenditure undertaken by the Government during 2016-17 *vis-à-vis* previous years.

1.8.1 Incomplete projects

Locking up of funds in incomplete works, which includes works stopped due to reasons like litigation, etc., impinge negatively on the quality of expenditure. The department-wise information pertaining to incomplete projects as on 31 March 2017 is given in **Table 1.28**.

Table 1.28: Incomplete projects

(₹ in crore)

Department	Incomplete Projects*				Cumulative expenditure as of March 2017
	Number	Budgeted Cost	Cost over run		
			Number	Amount	
Public Works					
Buildings	67	353.81	9	10.75	282.83
Roads and Bridges	232	1,798.08	74	68.93	1,682.66
Irrigation	42	76.19	5	0.62	61.12
Total	**341**	**2,228.08**	**88**	**80.30**	**2,026.61**

Source: Finance Accounts.

**Projects scheduled to be completed on or before 31 March 2017 are included.*

Against the initial budgeted cost of ₹2,228.08 crore in respect of 341 works, stipulated to be completed on or before March 2017, the progressive expenditure was ₹2,026.61 crore as on 31 March 2017, out of which, in 88 cases, the cost overrun aggregated ₹80.30 crore. No reasons for delay in completion of the works was given by the Public Works and Irrigation Departments.

1.8.2 Investment and returns

The investment of the Government in the share capital of Companies/Corporations etc., as brought out in Finance Accounts include the expenditure under the heads of account 4225-107 - Investment in Credit Co-operatives, 4225-108 - Investment in other Co-operatives, 4405-00-191 - Fishermen Co-operatives, and 4851-00-108-01 - Share Capital Assistance to Power Loom Co-operative Societies and the minor heads 190 – Investments in Public Sector and Other undertakings and 195 - Investment in Co-operatives under the various Capital Outlay heads.

Sick /non-working PSUs/Departmentally managed organisations

As on 31 March 2017, the Government invested ₹63,115 crore, in 84 Government Companies (₹57,674 crore including investment of ₹68 crore in 16 non-working Government Companies), Nine Statutory Corporations (₹2,520 crore), 43 Joint Stock Companies (₹2,524 crore), and Co-operative Institutions, Local bodies and Regional Rural Banks (₹397 crore). The return from investment was negligible **(Table 1.29)**.

Table 1.29: Return on investment

	2012-13	2013-14	2014-15	2015-16	2016-17
Investments at the end of the year (₹ in crore)	49,463.80	55,048.00	61,726.92	61,335.89	63,115.06
Return(₹ in crore)	56.29	55.49	74.84	69.40	82.50
Return(*per cent*)	0.1	0.1	0.1	0.1	0.1
Average rate of interest on Government borrowings (*per cent*)	6.6	6.2	6.5	6.5	6.3
Difference between interest rate and return (*per cent*)	6.5	6.1	6.4	6.4	6.2

Though the State Government accepted that the return on these investments was meager, it stated that it would not shy away from investing in social infrastructure involving long gestation and pay back periods. The Government further stated that efforts will be made to ensure due returns. Audit found that MTFPs placed before the Legislatures did not contain a road map for ensuring proper return on investments.

In addition, investment of ₹916.61 crore in respect of five[6] Companies/ Corporations was lying in Public Account as at the end of March 2017 without actual utilisation by the institutions. This resulted in locking up of funds in the Public Account. Efforts should be made for proper utilisation of these funds and a system should be put in place for scrutiny of proposals received from the companies seeking funds before releasing further money from the Consolidated Fund.

With regard to large sums remaining unutilised by certain entities, the Finance Department replied (October 2015) that a committee called Off Budget Borrowing Monitoring Committee (OMC) was constituted under the chairmanship of the Principal Secretary to Government, Finance Department, that has the power to review the status of the existing loan or bond and suggest action as may be required in the overall interest of the finances of the Board /Corporation. The Finance Department also stated (October 2015) that before releasing the amount towards payment of principal and interest, the utilisation of previous year's principal repayment and interest was also being ensured.

Out of the total investment of ₹63,115 crore upto the end of March 2017, ₹60,139 crore (95 *per cent*) were invested in 77 Government Companies and Statutory Corporations under irrigation sector (₹36,779 crore), transport sector (₹2,399 crore), infrastructure sector (₹4,251 crore), power sector (₹10,120 crore), industries sector (₹850 crore), housing sector (₹1,451 crore), financing sector (₹2,932 crore), construction sector (₹2 crore), social sector (₹1,267 crore) and other sectors (₹88 crore). The investment included ₹24,474 crore (39 *per cent*) in the following Companies/Corporations, which were running under losses and where the investments were substantial (**Table 1.30**).

[6] Krishna Bhagya Jala Nigam (₹629.26 crore), Karnataka Urban Infrastructure Development and Finance Corporation (₹177.83 crore), Karnataka Neeravari Nigam Limited (₹49.09 crore), Karnataka Rural Infrastructure Corporation Limited (₹53.30 crore), Karnataka Slum Development Board (₹7.13 crore).

Table 1.30: Investment in Companies/Corporation under loss

(₹ in crore)

Company/Corporation	Investment up to 2016-17	Cumulative loss	Cumulative loss to the end of
North Western Karnataka Road Transport Corporation	266.85	562.17	2014-15
North Eastern Karnataka Road Transport Corporation	183.43	432.74	2014-15
Krishna Bhagya Jala Nigam Limited	23,745.34	564.64	2015-16
The Mysore Sugar Company Limited	278.78	289.42	2012-13
Total	**24,474.40**	**1,848.97**	

Source: Finance Accounts.

During 2016-17, the Government invested ₹123 crore in these companies and the cumulative loss decreased by ₹45 crore over the previous year. During 2016-17 the Government invested ₹1,558.57 crore, in Statutory Corporations (₹75.00 crore), Government Companies (working) (₹1,466.52 crore) and co-operative institutions (₹17.05 crore).

1.8.3 Investment in Public Private Partnership (PPP) Projects

Recourse to PPP mode for project financing is encouraged because it frees valuable fiscal space for the provision of public goods in areas, where such financing may not be forthcoming. PPP projects are in the sectors of transport, agri-infrastructure, education, health, tourism, urban and municipal infrastructure and energy. The Infrastructure Development Department was established to play a significant role in the areas of developing air, train and maritime connectivity for the State and in promoting increased private investment in public infrastructure through PPP.

The summary of PPP projects that are completed, under implementation/ construction and in operation/planning/pipeline as on 31 March 2017 are detailed in **Table 1.31**.

Table 1.31: Sector and stage-wise status of PPP projects in the State

(₹ in crore)

Sector	Completed		Under implementation/ construction		Under Planning/Pipeline		Grand Total	
	No	Cost	No	Cost	No	Cost	No	Cost
Agri-Infrastructure	-	-	1	105.90	12	5,439.00	13	5,544.90
Education	-	-	-	-	-	-	-	-
Energy	-	-	-	-	1	20.00	1	20.00
Health	-	-	-	-	1	0.00	1	0.00
Industrial Infrastructure (including IT Parks and Telecommunications)	-	-	-	-	10	61,851.50	10	61,851.50
Roads and Bridges	6	983.34	3	1,085.35	28	41,438.00	37	43,506.69
Tourism	1	32.00	1	108.00	20	1,982.00	22	2,122.00
Transportation & Logistics excluding Roads and Bridges	2	2,763.29	3	60.82	19	23,483.00	24	26,307.11
Urban & Municipal Infrastructure	7	325.00	1	40.00	54	34,284.00	62	34,649.00
Total	**16**	**4,103.63**	**9**	**1,400.07**	**145**	**1,68,497.50**	**170**	**1,74,001.20**

Source: PPP Cell of Infrastructure Development Department.

From the table it is seen that as on 31 March 2017, 16 projects were completed at a cost of ₹4,103.63 crore. Another nine projects of ₹1,400 crore are under implementation and 145 projects of ₹1,68,498 crore were under pipeline/ planning.

1.8.4 Departmental Undertakings

Nineteen undertakings of certain Government departments performed activities of a quasi-commercial nature. According to the latest accounts furnished by six undertakings, the State Government's investment in these undertakings was ₹9.64 crore. The total loss incurred by these undertakings was ₹6.09 crore. Details are furnished in **Appendix 1.6**.

In view of the continued losses sustained by these undertakings, there is a need for reviewing their working so as to wipe out their losses in the short term and make them self-sustaining in the medium to long term.

State Government assured PAC in December 2013 that the departments would be advised to expedite the conduct of review on the working of these undertakings and submit the findings of the review to FD and PAC. The outcome of the review is yet to be received.

1.8.5 Loans and advances by the State Government

In addition to investments in Companies, Corporations and Co-operative Institutions, the Government also provided loans and advances to many institutions. **Table 1.32** presents the position of outstanding loans and advances as on 31 March 2017 and interest receipts *vis-à-vis* interest payments during the last five years.

Table 1.32: Average interest received on loans advanced by the State Government

(₹ in crore)

	2012-13	2013-14	2014-15	2015-16	2016-17
Opening balance	11,198	12,142	12,724*	13,216	13,813
Amount advanced during the year	1,102	695	576	657	1,934
Amount repaid during the year	158	109	84	60	100
Closing balance	12,142	12,729	13,216	13,813	15,648
Net addition	944	586	492	597	1,835
Interest receipts	247	235	127	264	145
Interest receipts as *per cent* to outstanding loans and advances	2.2	1.9	1.0	1.9	0.9
Interest payments as *per cent* to outstanding fiscal liabilities of the State Government	6.2	5.8	6.0	6.2	5.8
Difference between interest receipts and interest	-4.0	-3.9	-5.0	-4.3	-4.9

Source: Finance Accounts.

**differs by ₹5 crore on account of conversion of outstanding loans into equity in respect of M/s MSIL during 2014-15.*

Loans outstanding as on 31 March 2017 aggregated to ₹15,648 crore. Interest spread of Government borrowings was negative during 2012-13 to 2016-17, which meant that the State's borrowings were more expensive than the loans advanced by it.

The amount advanced during 2016-17 was ₹1,934 crore. Repayment of loans during 2016-17 aggregated ₹100 crore.

Detailed accounts of recovery of loans which are maintained in the office of the AG (A&E) indicated that arrears in recovery of loans and advances aggregating ₹6,973 crore (Principal: ₹4,069 crore and Interest: ₹2,904 crore) were overdue as on 31 March 2017 from 21 institutions (**Appendix 1.7**).

Information in respect of overdue principal and interest contained in Statement No.7 of Finance Accounts is incomplete, as only 16 out of 842 institutions in respect of whom the detailed accounts are maintained by the Heads of Departments/Chief Controlling Officers of the Government of Karnataka, furnished the required information. Indian Government Accounting Standards (IGAS)-3 requires disclosure of loans that were sanctioned without specific terms and conditions governing such loans. Out of the 53 loans valued at ₹1,934.38 crore sanctioned by the State Government in 2016-17, 29 loans valued at ₹1,777.42 crore were sanctioned without specifying any terms and conditions. Details are available as additional disclosures under Statement No.18 of the Finance Accounts.

The Finance Department stated (November 2014) that the department of treasuries will be directed to categorically check whether GOs pertaining to release of loan amounts adhere to the instructions delineated in general loan GO issued by the Finance Department in November 2013. It was observed in audit that even after the issue of instructions, compliance was poor.

1.8.6 Cash balances and investment of cash balances

Table 1.33 depicts the cash balances and investments made by the State Government during 2016-17.

Table 1.33: Cash balances and their investments

(₹ in crore)

	Opening Balance on 01-04-2016	**Closing Balance on 31-03-2017**	**Increase (+)/ Decrease (-)**
a) General cash balance			
Cash in treasuries	-	-	-
Deposits with RBI	(-) 74.90	100.05	174.95
Deposits with other banks	-	-	-
Remittance in transit- Local	0.01	0.01	-
Sub Total	(-) 74.89	100.06	174.95
Investments held in cash balance investment account	16,917.13	23,977.48	7,060.35
Total (a)	**16,842.24**	**24,077.54**	**7,235.30**
b) Other cash balances and investments			
Cash with departmental officers viz. PWD officers, Forest Department, DCs	2.09	2.09	-
Permanent Advances for contingent expenditure with departmental officers	1.69	1.74	0.05
Investment of earmarked funds	10,272.21	10,272.21	-
Total (b)	**10,275.99**	**10,276.04**	**0.05**
Grand Total (a+b)	**27,118.23**	**34,353.58**	**7,235.35**

Source: Finance Accounts.

Claims against Government are settled by preferring bills at treasuries, against which cheques are issued (by debit to the Consolidated Fund) to the claimants. The Major Head 8670 – Cheques and Bills is credited with the amount of each cheques and paired off with its encashment at the Agency Banks. Thus, credit balances under this head indicate the value of cheques that remained un-encashed. Article 75(1) of the Karnataka Financial Code, 1958, prescribes that the Treasury Officer should propose an Alteration Memorandum for the value of cheques outstanding for more than 12 months from the date of issue on the 15th of May each year. Due to non-compliance with these instructions by the treasury officers, the credit balance under this head increased from ₹13,752 crore in 2015-16 to ₹14,156 crore during 2016-17, which includes un-encashed cheques issued during January to March 2017.

Audit observed that the net credit under the account during 2016-17 was ₹404 crore. Action is required to be taken for analysis of data for cleaning up of the balances.

The cash balance of the State at the end of the year was ₹34,354 crore. The increase in the cash balance was 27 *per cent* over the previous year. The surplus cash was on account of release of funds by the Government of India to the State Government during 2016-17, which remained un-utilised and were released during 2017-18 through supplementary estimates to the extent of ₹1,235.52 crore.

Surplus cash balance was due to market borrowings of ₹28,007 crore raised during 2016-17. There was an increase of ₹7,060 crore in the investments held in cash balance investment account with RBI at the end of the year.

The surplus cash balance was invested partly in 14-day intermediate Treasury Bills of RBI with an average interest rate of 3.90 *per cent* per annum and partly in 91-day intermediate Treasury Bills of RBI with an average interest rate of 6.49 *per cent* against an average rate of 7.34 *per cent* per annum at which the borrowings were made. The interest received from investment in 91-day Treasury Bills during 2016-17 was ₹704.65 crore.

1.9 Assets and Liabilities

1.9.1 Growth and composition of assets and liabilities

In the existing Government accounting system, comprehensive accounting of fixed assets like land and buildings owned by the Government is not done. However, Government accounts do capture the financial liabilities of the Government and the assets created out of the expenditure incurred. **Appendix 1.8** gives an abstract of such liabilities and assets as on 31 March 2017 compared with the corresponding position as on 31 March 2016.

Total liabilities, as defined in KFRA, 2002, are the liabilities under the Consolidated Fund and the Public Account of the State. By an amendment to section 2(g) of KFRA, 2002, brought out in February 2014, the scope of the total liabilities was enlarged to include borrowings by PSUs and SPVs and other equivalent instruments where the principal and /or interest are to be serviced out of the budget of the Government of Karnataka.

The internal debt includes market loans, special securities issued to RBI and other negotiated loans. The Public Account liability includes small savings, provident funds etc., reserve funds and other deposits. The liabilities of the State as depicted in Finance Accounts, however, did not include pension, other retirement benefits payable to retired/retiring State Government employees/guarantees/letters of comfort issued by the State Government and borrowings through SPVs, termed off-budget borrowings.

Assets comprise assets under the Consolidated Fund and cash. The assets under the Consolidated Fund consist of capital outlay on fixed assets – investments in shares of companies and corporations and loans and advances, which consist of loans for power projects and other development loans. The growth rate of components of assets and liabilities is summarised in **Table 1.34**.

Table 1.34: Summarised position of Assets and Liabilities

(₹ in crore)

Liabilities				Assets			
	2015-16	**2016-17**	***per cent***		**2015-16**	**2016-17**	***per cent***
Consolidated Fund	**1,22,547**	**1,46,283**	**19**	***Consolidated Fund***	**1,90,566**	**2,20,527**	**16**
a. Internal Debt	1,09,545	1,32,489	21	Capital Outlay	1,76,753	2,04,880	16
b. Loans and advances from GOI	13,002	13,794	6	Loans and Advances	13,813	15,647	13
Off-budget borrowings	**7,699**	**10,248**	**33**	**Cash**	**27,118**	**34,354**	**27**
Public Account*	**53,076**	**64,788**	**22**				
a. Small savings, Provident Funds etc.,	22,262	24,920	12				
b. Reserve Funds	10,371	16,384	58				
c. Deposits	20,443	23,484	15				

**The liabilities are on net basis. It does not include investments from earmarked funds of ₹10,272 crore (2015-16 and 2016-17).*

The growth rate of assets increased from 13 *per cent* in 2015-16 to 16 *per cent* during 2016-17, while that of liabilities inclusive of off-budget borrowings, increased from 16 *per cent* in 2015-16 to 19 *per cent* in 2016-17.

The Finance Accounts reflected an amount of ₹1,32,489 crore as internal debt outstanding at the end of 2016-17 after taking into account the difference of ₹558.50 crore in the accounts of LIC, GIC, NABARD, NCDC etc. Further, the Reserve Bank of India in its quarterly statement of outstanding balances of the Government of Karnataka as on 31 March 2017 reflected closing balance of Market Loans – not bearing interest as ₹0.15 crore. However, the Finance Accounts reflected an amount of ₹0.70 crore, indicating that reconciliation of loan balances (capital account) was required. It was also observed that certain loan balances, which figure in the Finance Accounts, were not reckoned in RBI books (four cases). In respect of seven cases, there were differences, which require reconciliation. In respect of four cases, the balances as per the books of accounts of AG (A&E) tallied with those of RBI. Further, as per the communication from the Reserve Bank of India, there still exists a balance of ₹0.40 crore to be discharged in respect of compensation bonds, the transactions of which, are accounted under the minor head 106. However, these loans do not figure in the outstanding balances in the Finance Accounts. The loans and advances from GOI reflected an amount of ₹13,794 crore at the end of 2016-17.

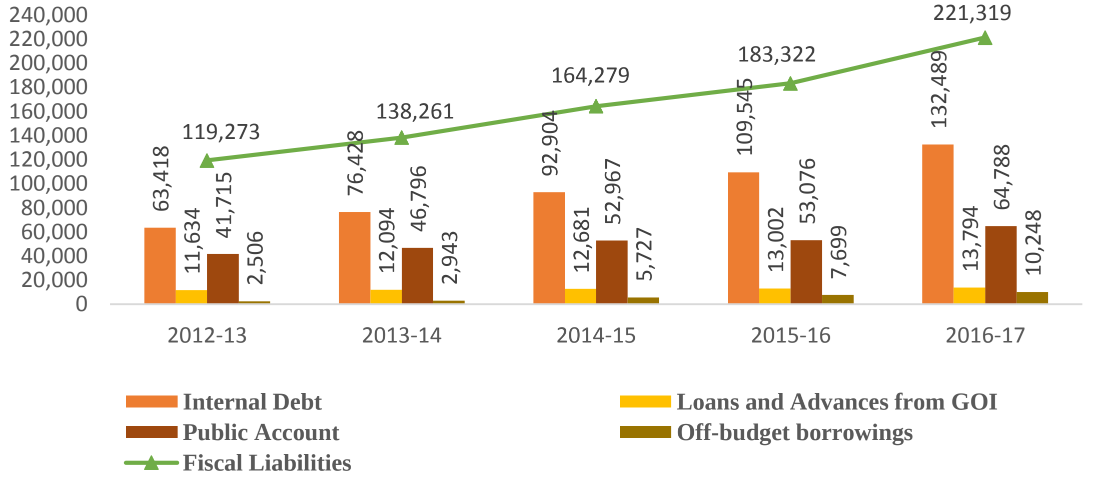
In the furtherance of the recommendations of XIII FC, the Ministry of Finance, GOI, in a series of orders (29 February 2012), wrote off loans advanced to the State Government by various Ministries (except those advanced by the Ministry of Finance itself) as on 31 March 2010 (limited to current balances outstanding in the records of the Ministries) towards Central Plan and Centrally Sponsored Schemes. The Ministry of Finance permitted the State Governments to adjust the excess repayments of principal and interest made from the effective date of the order (31 March 2010) and its implementation against future repayments to the Ministry of Finance. In respect of the Government of Karnataka, this excess payment amounted to ₹68.66 crore, of which, the Ministry of Finance adjusted ₹22.79 crore (June 2013) and ₹5.48 crore (May 2014) against the dues payable by the end of March 2013 and 2014. The balance amount pending for adjustment was ₹45.86 crore (Principal ₹23.66 crore and Interest ₹22.20 crore). This resulted in adverse balance (net debit) of ₹23.66 crore against the loans of the Ministries other than the Ministry of Finance in the books of the State Government.

The assets shown in the Finance Accounts (Statement No. 1 - Investment from earmarked funds - ₹10,272.21 crore) were understated to the extent of ₹317.45 crore. This is on account of the interest accrued on the investment of Consolidated Sinking Fund account made during 2012-13, which did not pass through the Government books.

1.9.2 Fiscal Liabilities

The trends in outstanding fiscal liabilities of the State are presented in **Appendix 1.4**. The composition of fiscal liabilities during the year 2012-13 to 2016-17 is presented in **Chart 1.17**.

Chart 1.17: Composition of outstanding Fiscal Liabilities
(₹ in crore)



Source: Finance Accounts.

The Fiscal liabilities of the State, their rate of growth, ratio of these liabilities to GSDP, revenue receipts and own resources as well as buoyancy of fiscal liabilities with respect to these parameters are brought out in **Table 1.35**.

Table 1.35: Fiscal Liabilities – basic parameters

	2012-13	2013-14	2014-15	2015-16	2016-17
Fiscal Liabilities (₹ in crore)	1,19,273	1,38,261	1,64,279	1,83,322	2,21,319
Rate of growth (*per cent*)	13.7	15.9	18.8	11.6	20.7
Percentage of fiscal liabilities to					
GSDP	17.24	16.90	17.82	17.85	19.81
Revenue Receipts	152.57	154.41	157.75	154.29	166.14
Own resources	206.64	207.49	219.42	226.59	249.37
Buoyancy ratio of fiscal liabilities to					
GSDP	0.94	0.87	1.48	1.02	2.35
Revenue Receipts	1.14	1.10	1.15	0.82	1.71
Own resources	0.96	1.03	1.52	1.44	2.13

Source: Finance Accounts.

The Fiscal liabilities of the State increased by 86 *per cent* from ₹1,19,273 crore in 2012-13 to ₹2,21,319 crore in 2016-17 comprising Consolidated Fund liabilities (₹1,46,283 crore), Public Account liabilities (₹64,788 crore) and off-budget borrowings (₹10,248 crore). In 2015-16 and 2016-17, due to increased borrowings, the growth rate of fiscal liabilities was 12 *per cent* and 21 *per cent* respectively. Further, the ratio of fiscal liabilities to GSDP during 2016-17 remained at 19.81 *per cent* and the buoyancy of fiscal liabilities to revenue receipts was at 0.82 *per cent* and 1.71 *per cent* in 2015-16 and 2016-17 respectively. Also, the buoyancy ratio of fiscal liabilities to own resources gradually increased from 0.96 *per cent* in 2012-13 to 2.13 *per cent* in 2016-17.

1.9.3 Off-budget borrowings

The borrowings of the State Government are governed by Article 293 (1) of the Constitution of India. The State stood as guarantor for loans availed by Government Companies /Corporations/ Societies. These Companies/ Corporations/ Societies borrowed funds from the market/financial institutions for implementation of various State Plan programmes projected outside the State budget. The borrowings of these concerns ultimately turn out to be the liabilities of the State Government termed 'off-budget borrowings' and the Government was repaying the loans availed of by these Companies/ Corporations/Societies including interest through regular budget provision under capital account.

During 2016-17, capital expenditure of ₹28,150 crore included ₹455.57 crore towards servicing of principal amount of off-budget borrowings. However, the accounts of the entities for the year show disbursement as ₹453.43 crore towards off budget borrowings. **Table 1.36** captures the trend in the off-budget borrowings of the State during 2012-13 to 2016-17 while **Table 1.37** gives the entity-wise position of borrowings to the end of 2016-17.

Table 1.36: Trend in off-budget borrowings

(₹ in crore)

Year	2012-13	2013-14	2014-15	2015-16	2016-17
Amount as furnished by entities*	18.16	1,914.50	3,081.50	2,372.00	3,005.16

Source: As reported by the concerned entities.

**Figures are yet to be reconciled with those indicated in Budget Overview.*

Table 1.37: Entity-wise position of off-budget borrowings

(₹ in crore)

Company/Corporation/Board	Outstanding off budget borrowing*	Borrowings during 2016-17	Repayment during 2016-17	
			Principal	Interest
Krishna Bhagya Jala Nigam Limited	3,880.85	1,232.36	1.63	406.64
Karnataka Neeravari Nigam Limited	1,562.32	800.00	188.20	162.78
Karnataka Road Development Corporation Limited	182.36	1.00	36.19	17.92
Rajiv Gandhi Rural Housing Corporation Limited	1,185.32	271.80	201.36	108.92
Karnataka Slum Development Board	5.71	-	4.11	0.38
Karnataka State Police Housing and Infrastructure Development Corporation	44.90	-	21.85	3.97
Cauvery Neeravari Nigam Limited	835.00	400.00	-	107.06
Visvesvaraya Jala Nigam Limited	-	300.00	-	0.07
Karnataka Power Transmission Corporation Limited	0.09	0.00	0.09	0.00
Total	**7,696.55**	**3,005.16**	**453.43**	**807.74**

**as there were differences in the closing balances of these entities (2015-16), the principal repayments are adjusted to bring them in concordance with the closing balances of 2016-17.*

Taking into account the off-budget borrowings of the State, the total liabilities at the end of March 2017 worked out to ₹2,21,319 crore. The ratio of fiscal liabilities (inclusive of off-budget borrowings) to GSDP, thus, worked out to 19.81 *per cent* at the end of the year.

1.9.4 Transactions under Reserve Fund

Reserves and Reserve Funds are created for specific and well defined purposes under the Sector 'J' in the accounts of the State Government (Public Account). These funds are fed by contributions or grants from the Consolidated Fund of India or State or from outside agencies. The contributions are treated as expenditure under the Consolidated Fund. The expenditure relating to the fund is initially accounted for under the Consolidated Fund itself for which, the vote of the Legislature is obtained. At the end of the year, at the time of closure of accounts, the expenditure relating to the fund is transferred to Public Account. The funds may further be classified as 'Funds carrying interest' or 'Funds not carrying interest'. Generally, the Reserve Funds are classified under the following three categories based on the sources from which they are fed.

- Funds accumulated from grants made by another Government and at times aided by public;
- Funds accumulated from sums set aside by the Union/State from the Consolidated Fund of India or Consolidated Fund of State, as the case may be, to provide reserves for expenditure to be incurred by them for particular purposes, e.g., Depreciation Fund; and
- Funds accumulated from contributions made by outside agencies to the State Government.

As given in 'Notes to Accounts' for the year, out of the total outstanding balance of ₹26,656.09 crore available in various reserve funds as on 31 March 2017, the

Government of Karnataka invested ₹10,272.21 crore (39 *per cent*). In addition, AG (A&E) requested (June 2011) the State Government to review the necessity to continue two reserve funds, namely

- State Renewable Fund, which did not record any transaction under it since 1999-2000; and
- Guarantee Reserve Fund, which needs to be replaced by Guarantee Redemption Fund in the light of recommendations of the TFC.

The operation of certain major reserve funds having a bearing on the liability position of the Government, its funding and expenditure are brought out below.

a) Consolidated Sinking Fund

The Government of Karnataka constituted a Consolidated Sinking Fund (CSF) in 2012-13 for the amortisation of all loans as recommended by the Twelfth Finance Commission and transferred ₹1,000 crore towards its corpus in 2012-13. The fund is administered by the Reserve Bank of India, which has invested the corpus in Government of India Securities. As per Government notification (February 2013), the State Government is required to make minimum annual contributions to the fund at 0.50 *per cent* of the outstanding liabilities at the end of the previous financial year. During 2016-17, against the requirement of ₹878.12 crore, the State Government made provision of ₹535 crore under Major Head 2048 – Contribution to Consolidated Sinking Fund. However, no investment was made, despite the fact that the State Government had a surplus cash balance of ₹23,997 crore at the end of 31 March 2017.

Even, XIV FC in its report analysed that Consolidated Sinking Fund is an integral part of prudent fiscal management. CSF creates a cushion to meet repayment obligations in times of fiscal/market stress, as it boosts investor confidence and thereby facilitates borrowings in the primary market at a reasonable cost even in normal times. The balance under the fund at the end of the year remained at ₹2,070 crore. However, the interest of ₹317.45 crore accrued (2016-17) on re-investment made by RBI from the fund did not pass through the accounts. Failure to comply with the instructions contained in notification dated 28.02.2013 and non-investment resulted in compression of revenue expenditure and also revenue/fiscal deficit to the extent of ₹878 crore.

Finance Department in its reply (July 2017 and December 2017) stated that transfer to CSF & investment thereof is contingent on the State being able to balance all its fiscal needs. The commitment to contribute certain percentage of outstanding liabilities is dependent on available revenue/fiscal space. The provision to the fund during budgeting depends on the fiscal space available then and investment also depends on the cash balance and that the Government cannot fund its contribution from out of borrowings.

The reply of the Finance Department is not satisfactory as the commitment on account of investment should form part of the budgetary exercise at the beginning of the year itself. Further, prudent financial management requires that the fund is built up through regular contribution on a year to year basis so as to reach a minimum corpus of three to five *per cent* of outstanding liabilities within a time frame of three to five years as recommended by RBI through investments.

b) Green Tax

Government of Karnataka, vide the Karnataka Motor Vehicles Taxation (Amendment) Act, 2002, introduced collection of a Cess called ‘Green Tax’ to control air pollution. There shall be levied green tax cess on old vehicles, which had completed fifteen years in respect of two wheelers and non-transport vehicles and seven years in respect of transport vehicles at the time of renewal of Certificate of Registration in addition to the tax levied under this act at the rates specified for the purpose of implementation of various measures to control air pollution.

A mention was made vide para 1.3.1.1 of the Report of the Comptroller and Auditor General of India on State Finances for the year ending 31 March 2016, regarding ‘Improper accounting and Non-utilisation of Green Tax Cess collections of ₹45.90 crore’. The green tax cess collected is to be accounted under revenue receipt head ‘0041-00-102-0-11 – Green Tax’. A Reserve Fund to transfer the Green tax cess collected is opened under Development and Welfare Funds – ‘8229-00-200-0-63 – Green Tax’.

During the year 2016-17, ₹4.37 crore was collected under the revenue receipt head apart from the amount of ₹53.52 crore collected from 2006-07 to 2015-16. Hence the total green tax cess collected up to 2016-17 i.e. ₹57.89 crore along with the relevant expenditure needs to be transferred to fund account in Public Account. However, neither the revenue receipts of green tax cess collections nor its corresponding expenditure was transferred to the Public Account. This resulted in overstatement of revenue receipts/expenditure.

Finance Department replied (December 2017) that a UO note was sent to Transport Department on 16.10.2017 and the matter would be taken up with the department once again.

c) Infrastructure Initiative Fund (IIF), Bangalore Metro Rail Corporation Limited (BMRCL) Fund and Chief Minister’s Rural Road Development (CMRRD) Fund

Karnataka Act of 1998, provided for levy of infrastructure cess on taxes on sales, trade etc., excise license fee, motor vehicles tax and non-judicial stamp duty in the State. The cess collected was to be allocated to IIF and BMRCL fund in the ratio of 2:1 of the total collections, which was subsequently revised in 2004. The total infrastructure cess collected was to be allocated between IIF, BMRCL fund and CMRRD fund in the ratio of 57, 28 and 15 *per cent* respectively. On the introduction of a uniform value added tax (VAT) in 2005 levy of infrastructure cess was dispensed with and the Government decided to contribute to the fund out of general revenues of the State.

In 2016-17, the Infrastructure Cess realised (₹951.53 crore) through taxes on motor vehicles, stamp and registration and state excise was allocated to IIF, BMRCL fund and CMRRD fund. The sum transferred to the said funds were ₹542.36 crore, ₹266.43 crore and ₹142.74 crore respectively. However, the related expenditure under revenue and capital were not debited to the fund, but remained under the Consolidated Fund only resulting in overstatement of revenue and capital expenditure.

Further, an amount of ₹3,670 crore available under General Revenues were transferred to Infrastructure Initiative Fund, which included ₹2,092 crore to IIF, ₹1,027 crore to BMRCL fund and ₹551 crore to CMRRD fund respectively. However, the expenditure for infrastructure works, which had to be met out of the fund, were not transferred to IIF, BMRCL fund and CMRRD fund. This transfer of funds from general revenues had the effect of inflating the revenue expenditure as also the fiscal deficit. Further, this has resulted in increased liability in the Public Account also the same amount was used again for financing the fiscal deficit through surplus from Public Account.

d) State Urban Transport Fund (SUTF)

Based on the Ministry of Urban Development, GOI recommendations, Government of Karnataka created SUTF with a corpus of ₹10 crore from the State Finance Commission grants during November 2010. The fund was created initially under Deposit bearing interest for funding urban transport initiatives. During March 2012, one more fund was created under Reserve Fund (not bearing interest) under Major Head of Account '8229 – Development and Welfare Funds' with accruals from budgetary grants, cess on motor vehicles registration (one *per cent*) and cess on property tax.

The fund, which had an opening credit balance of ₹40.48 crore, was credited with ₹43.82 crore from cess on motor vehicle tax, ₹3.59 crore from cess on property tax and ₹13.49 crore from general revenues during the year 2016-17. Thus, an amount of ₹60.90 crore was transferred to fund account. However, the relevant expenditure incurred under the capital head was not transferred to the fund account, leaving a balance of ₹101.38 crore as on 31 March 2017. This resulted in overstatement of capital expenditure and fiscal deficit.

Finance Department replied (December 2017) that transfer or otherwise to a fund is a decision of State Government which is taken based on prevailing fiscal conditions. It is incorrect to state that the expenditure was overstated or understated to the extent that the expenditure was not met out of a fund account. The reply of the FD is not satisfactory as in the present case budget was made both for transfer of revenue and the related expenditure. By only transferring the revenues, the liability under the Public Account had only increased in the absence of any investment transactions carried out. As the budget was made for transfer of related expenditure also, by not transferring, expenditure relating to the fund remained under the Consolidated Fund only, thus, overstating the expenditure.

Inoperative Reserve Funds

At the end of 31 March 2017, out of 43 Reserve Funds, 33 funds remained inoperative with a balance of ₹7,784.40 crore.

1.9.5 Contingent liabilities

1.9.5.1 Status of guarantees

Guarantees are contingent liabilities on the Consolidated Fund of the State in case of default by the borrower for whom the guarantee was extended. The details of last five years are given in **Table 1.38**.

Table 1.38: Guarantees given by the State Government

(₹ in crore)

	2012-13	2013-14	2014-15	2015-16	2016-17
Maximum amount guaranteed	14,306	16,145	16,869	18,358	21,115
Outstanding amount of guarantees as on 1 April (including interest)	6,688	7,783	11,033	11,327	13,310
Percentage of outstanding amount guaranteed to total revenue receipts of the second preceding year	11	11	14	13	13

Source: Finance Accounts.

The Karnataka Ceiling on Government Guarantees Act, 1999, provides for a cap on outstanding guarantees extended by the Government at the end of any year at 80 *per cent* of the State's revenue receipts of the second preceding year. The outstanding guarantees on 1st April of each year were within the prescribed limit.

The outstanding guarantees amounting to ₹15,392 crore at the end of the year 2016-17 (principal + interest) included guarantees extended to 169 institutions/companies under irrigation (₹8,522 crore), co-operative (₹1,476 crore), finance (₹1,489 crore), power (₹564 crore), housing (₹2,493 crore), transport (₹147 crore) and other sectors (₹701 crore).

Against the total estimated guarantee commission of ₹362.52 crore receivable as reported by the State Government, only ₹166.32 crore was received during 2016-17. The guarantee commission received includes book adjustment made by the State Government towards the guarantee commission payable to it by Karnataka Slum Development Board (₹0.04 crore), Rajiv Gandhi Rural Housing Corporation Limited (₹24.22 crore), Karnataka State Co-operative Marketing Federation Limited (₹22.64 crore) and Karnataka State Police Housing and Infrastructure Development Corporation (₹0.93 crore) by way of subsidies /grants-in-aid/financial assistance. Consequently, the net shortfall in guarantee commission received was ₹244.03 crore (₹362.52 crore *minus* ₹118.49 crore, excluding book adjustment of ₹47.83 crore).

In MTFP (2016-20) presented before the Legislatures, the Government stated that since the guarantees result in increase in contingent liability, they should be examined in the same manner as a proposal for a loan, taking into account, *inter alia*, the credit-worthiness of the borrower, the amount and risks sought to be covered by a sovereign guarantee, the terms of the borrowing, the justification and public purpose to be served, probabilities that various commitments will become due and possible costs of such liabilities, etc. The utility of having a functional Guarantee Reserve Fund and Guarantee Policy is under consideration with the State Government.

PAC also recommended (July 2015) that suitable efforts should be made to operate and continue the Guarantee Reserve Fund.

1.9.5.2 Adequacy of disclosure about Guarantees

The Government of India notified "IGAS - 1 – Guarantees given by Governments" standard required disclosure of information relating to Guarantees as part of financial statement and provided formats for disclosure. During 2016-17, a perusal of the Statement No 9 of the Finance Accounts, it was observed that in respect of Other Infrastructure Sector, one entity namely Karnataka Rural Infrastructure Development Corporation Limited (KRIDCL), the maximum amount guaranteed and the guarantee commission receivable only has been disclosed.

Finance Department (September 2017) replied that KRIDCL cleared the loan availed from Housing and Urban Development Corporation (HUDCO) Limited on Government Guarantee. No Due Certificate from HUDCO was awaited. The Guarantee Commission receivable is rectified by the Corporation which was reduced when compared to previous year. The status of guarantee extended is retained by disclosing only the maximum guaranteed amount, even though the principal and interest was zero, during the period under report. As seen from the above, the report on guarantees as furnished by the department is not accurate.

1.10 Debt Management

1.10.1 Debt Profile

The revenues of the Government are of two types *viz*. current revenues, which are termed as revenue receipts, realised through administration of taxes, user charges and grants received from GOI and capital receipts that comprise of borrowings, non-debt receipts and surplus from Public Account. For working out the borrowings, certain book adjustments are also reckoned as if these are cash transactions. Such transactions are in the nature of subsidy dues of electricity supply companies, student/elderly concession passes etc., which on one side are shown as expenditure and on the other, as revenues, under relevant receipt heads (tax/non-tax). Such accounting amounted to ₹1,620 crore during 2016-17. These transactions had the impact of showing the tax/non-tax revenues without actual cash flow. Such revenue, adjusted through book adjustment was ₹1,516 crore (tax revenues) and ₹94 crore (non-tax revenues) constituting 1.2 *per cent* of revenue receipts.

Table 1.39 gives details of outstanding fiscal liabilities of the Government under Consolidated Fund and Public Account compared with the per capita liability.

Table 1.39: Debt Profile of the State

(₹ in crore)

Borrowings through	2012-13	2013-14	2014-15	2015-16	2016-17
Open market loans	39,920	53,326	69,419	84,334	1,08,359
Negotiated loans	3,425	3,372	3,318	3,482	3,973
NSSF loans	20,074	19,730	20,167	21,729	20,157
GOI loans	11,634	12,094	12,681	13,002	13,794
Public Account borrowings	41,714	46,796	52,968	53,076	64,788
Off budget borrowings	2,506	2,943	5,726	7,699	10,248
Total Fiscal Liabilities	**1,19,273**	**1,38,261**	**1,64,279**	**1,83,322**	**2,21,319**
Population (in crore)	6.11	6.11	6.11	6.11	6.11
Per capita debt ratio (in ₹)	19,521	22,629	26,887	30,004	36,222

Source: Finance Accounts.

The per capita debt ratio increased significantly from ₹19,521 in 2012-13 to ₹36,222 in 2016-17 (an increase of 86 *per cent).*

1.10.2 Debt Sustainability

Apart from the magnitude of the debt of the State Government, it is important to analyse various indicators that determine the debt sustainability of the State. Debt sustainability is defined as the ability of the State to maintain a constant debt-GDP ratio over a period of time and also embodies the concern about the ability to service its debt. This section assesses the sustainability of debt of the State Government in terms of debt as a percentage of GSDP, rate of growth of outstanding debt, interest payments/ revenue receipts ratio and net debt available to the State. **Table 1.40** analyses the debt sustainability of the State according to these indicators for the period from 2012-13 to 2016-17.

Table 1.40: Debt sustainability indicators and trends

(in *per cent)*

Debt sustainability indicators	2012-13	2013-14	2014-15	2015-16	2016-17
Debt*/GSDP	10.85	10.82	11.45	11.93	13.09
Rate of growth of Outstanding Debt*	14.91	17.95	19.28	16.06	19.37
Rate of growth of GSDP	14.56	18.24	12.70	11.42	8.79
Average interest rate of Outstanding Debt (Interest payments/(opening balance of Public Debt +closing balance of Public Debt/2)	10.62	9.81	10.10	9.94	9.56
Interest/Revenue Receipts	9.53	8.96	9.41	9.55	9.65
Debt Repayment/ Debt Receipts	27.68	22.08	22.00	19.50	23.82
Net Debt available to the State (₹ in crore)	9,738	13,470	17,062	16,962	23,736

Source: Finance Accounts.

**Excluding Public Account liabilities and Off Budget Borrowings.*

- The rate of growth of outstanding debt was 19.37 *per cent* during 2016-17, being four percentage points increase over the year 2012-13 (14.91 *per cent*);

- Interest payments on debt and other liabilities totaling ₹12,850 crore constituted 9.6 *per cent* of revenue receipts during 2016-17, being 0.09 percentage points increase over previous year. The interest payment/Revenue Receipt ratio remained same in 2015-16 and in 2016-17, which was at 9.6 *per cent* due to increased interest payments (by

13.29 *per cent*) as compared to revenue receipts (12.11 *per cent*) during 2016-17;

- The increase in Debt Repayment/Debt Receipts ratio was mainly due to increase in total debt receipts by ₹10,084 crore as compared to debt repayment made during 2016-17, which increased by ₹3,310 crore; and
- Increase in net debt available to the State was mainly due to increase in receipt under internal debt from ₹19,801 crore in 2015-16 to ₹29,238 crore in 2016-17 (**Appendix 1.4**) and by ₹647 crore under Loans and Advances from Government of India.

1.10.3 Debt stability

Fiscal liabilities are considered sustainable if the Government is able to service these liabilities over the foreseeable future and the debt-GSDP ratio does not grow to unmanageable proportions. A necessary condition for stability is that if the rate of growth of economy exceeds the cost of borrowings, the debt-GSDP ratio is likely to be stable provided primary balances are positive/zero/ moderately negative. Primary revenue balance is the difference between revenue receipts and primary revenue expenditure and indicates whether the balance of revenue receipts left out after meeting current revenue expenditure is sufficient for meeting the interest expenditure. During 2012-13 to 2016-17, the primary revenue balance was positive and sufficient to meet incremental interest expenditure.

1.10.4 Sufficiency of incremental non-debt receipts

Another indicator of debt sustainability is the adequacy of incremental non-debt receipts of the State to cover the incremental interest liabilities and incremental primary expenditure. Debt sustainability is facilitated if the incremental non-debt receipts meet the incremental interest burden and the incremental primary expenditure. Negative resource gap indicates non-sustainability of debt while positive resource gap indicates sustainability of debt. The details for the last five years are indicated in **Table 1.41**.

Table 1.41: Sufficiency of incremental non-debt receipts

(₹ in crore)

Sl. No.		2012-13	2013-14	2014-15	2015-16	2016-17
1	Incremental Non-Debt Receipts	8,231	11,372	14,497	14,993	14,112
2	Incremental Interest Payments	850	573	1,777	1,539	1,507
3	Incremental Primary Expenditure	9,588	13,384	15,204	13,047	22,101
4	Resources gap	(-) 2,207	(-) 2,585	(-) 2,484	407	(-) 9,496

The resource gap, which was negative from 2012-13 to 2014-15 turned positive during 2015-16 and again turned negative during 2016-17. This was mainly on account of growth of revenue receipts being same as that of growth of total expenditure. This meant that the State had to depend on borrowed funds for meeting current revenue and capital expenditure.

1.10.5 Net availability of borrowed funds

Debt sustainability also depends on the ratio of debt redemption (principal *plus* interest payments) to total debt receipts and application of available borrowed funds. The ratio of debt redemption to debt receipts indicates the extent to which the debt receipts are used in debt redemption indicating the net availability of borrowed funds for capital spending. The debt redemption to debt receipts ranged between 19.5 *per cent* and 27.68 *per cent* during 2012-13 to 2016-17. During 2016-17, the debt redemption ratio increased by 4.3 *per cent* points compared to the previous year.

1.10.5.1 Short receipt of interest relief on NSSF loans as per the award of the XIII Finance Commission - ₹192.42 crore

The National Small Saving Funds (NSSF) was created in Public Account of India with effect from April 1999 with the Central Government taking on the responsibility of servicing the small savings deposits outstanding as on the date of creation of the fund. Since loans against the deposits outstanding on April 1999 were extended to State Government from the Consolidated Fund of India prior to creation of NSSF, interest from States on these loans was also credited to Consolidated Fund of India and accounted as a non-tax receipt of GOI.

Till 2001-02, the net Small Savings collection in a State (Gross collection *minus* repayments to depositors) were being shared between the Central and State Governments, with the share of State Government being progressively increased from 66.66 *per cent* to 75 *per cent* from 1 April 1987 and to 80 *per cent* from April 2000. From 01.04.2002 to 31.03.2007, the entire net collections in a State were being invested in special securities issued by the State Governments. However, with effect from 2007-08, the mandatory share of State Governments was reduced to 80 *per cent* with the option to go up to 100 *per cent*. The administration of the fund rests with the Reserve Bank of India.

The XIII Finance Commission (XIII FC) in paragraph 9.106 had recommended that loans to States from NSSF contracted till 2006-07 and outstanding at the end of 2009-10 to be reset at nine *per cent* rate of interest subject to the State with FRBM acts already in place, amend the same as indicated by the Commission in terms of paragraph 9.82. No further conditionality with regard to compliance with the target were set as the Finance Commission believed that the mechanism mentioned in paragraph 9.85 for setting borrowing limits and allowing open market borrowing to States can act as an effective tool.

In the explanatory memorandum as to the action on the recommendations made by XIII FC in its report submitted to the President on December 30, 2009, Government of India, Ministry of Finance, Department of Economic Affairs, stated that with regard to the recommendations relating to interest rate reset on NSSF loan to the States, the Government accepted it in principle. However, since the recommendations were comprehensive, and cover other structural aspects like interest rate mis-match, tenor mis-match and other administrative matters, the Ministry of Finance will constitute a Committee to work out detailed modalities for implementation of its recommendations.

According to the data on the interest relief that the State Government of Karnataka received on the recommendations of XIII FC, as made available by the Reserve Bank of India and verified from accounts, a sum of ₹397.54 crore only was received by the State Government towards interest relief as against the recommended amount of ₹589.96 crore, indicating a short fall of ₹192.42 crore as detailed in **Table 1.42**.

Table 1.42: Short receipt of interest relief from 2010-11 to 2014-15

(₹ in crore)

Year	Interest relief as recommended by XIII FC	Interest relief received	Interest relief to be received
1	**2**	**3**	**2 - 3 = 4**
2010-11	132.77	45.17	87.60
2011-12	125.77	123.78	1.99
2012-13	118.12	118.12	0.00
2013-14	110.47	110.47	0.00
2014-15	102.83	0.00	102.83
Total	**589.96**	**397.54**	**192.42**

There was less interest relief extended for the period 2010-11 and 2011-12, as the amount of relief did not match the amount recommended by the Commission. Government of Karnataka amended its Fiscal Responsibility Act as per the recommendations of XIII FC and adhered to the provisions of the Act during the award period and that there were no deviations from the fiscal consolidation path as set out by the FC and the amendments brought out to KFRA.

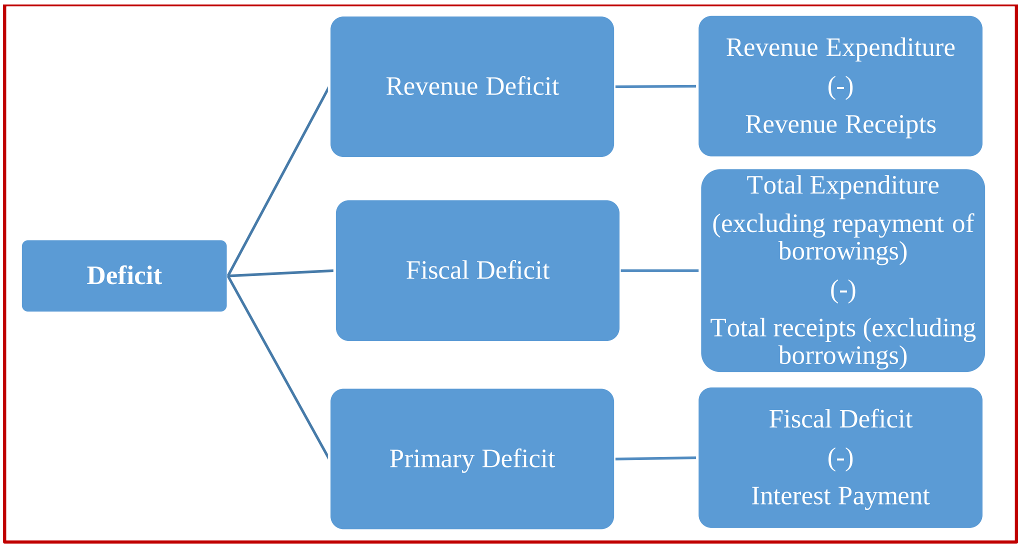
The matter was brought to the notice of the State Government (April 2017) for their remarks. The Finance Department while referring the matter to Ministry of Finance, Department of Economic Affairs, GOI, and endorsing a copy to audit (July 2017) stated that the award of interest relief started to flow from January 2013 onwards only i.e., after a gap of nearly two years of the recommendations. This resulted in extending the benefit of interest relief belatedly. Also, the interest relief of ₹397.54 crore covered the period (financial year only up to 2013-14). The interest relief of ₹102.83 crore worked out by the Commission for the year 2014-15 was not extended.

The Ministry of Finance, Department of Economic Affairs (Budget Division), Government of India replied (July 2017) that the interest relief actually due, was to be calculated on a yearly basis, starting from the day on which the amount was released to the State. That is why there was a difference in amount of interest relief calculated by XIII FC and amount of interest relief received by Karnataka. Further, Reserve Bank of India was asked to extend interest relief to Karnataka for the year 2014-15 also.

1.11 Fiscal Imbalances

Three key fiscal parameters – revenue, fiscal and primary deficits – indicate the extent of overall fiscal imbalances in the finances of the State Government during a specified period. The deficit in the Government accounts represents the gap between its receipts and expenditure. **Chart 1.18** gives an indication of the various kinds of deficits that occur if the Government borrows to balance the budget.

Chart 1.18: Type of deficits



The nature of deficit is an indicator of the prudence of fiscal management of the Government. Further the ways, in which, the deficit is financed and the application of resources raised are important pointers to its fiscal health. This section presents trends, nature and magnitude and the manner of financing these deficits and also the assessment of actual levels of revenue and fiscal deficits *vis-à-vis* targets set under KFRA for the financial year 2016-17.

1.11.1 Trends in deficits

Chart 1.19 and **Chart 1.20** present the trends in deficit indicators over the period 2012-13 to 2016-17.

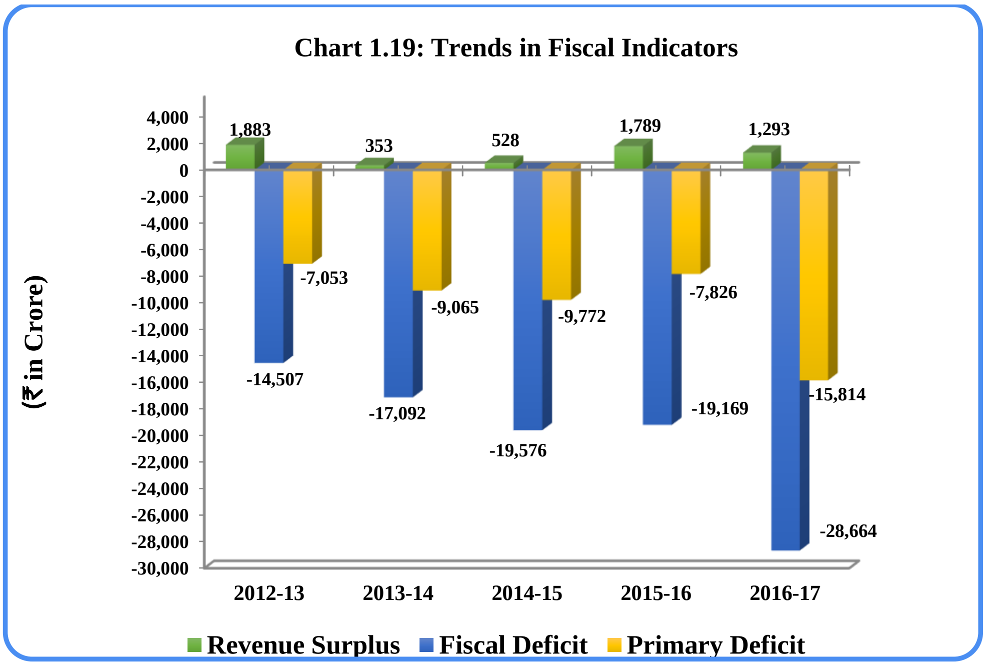
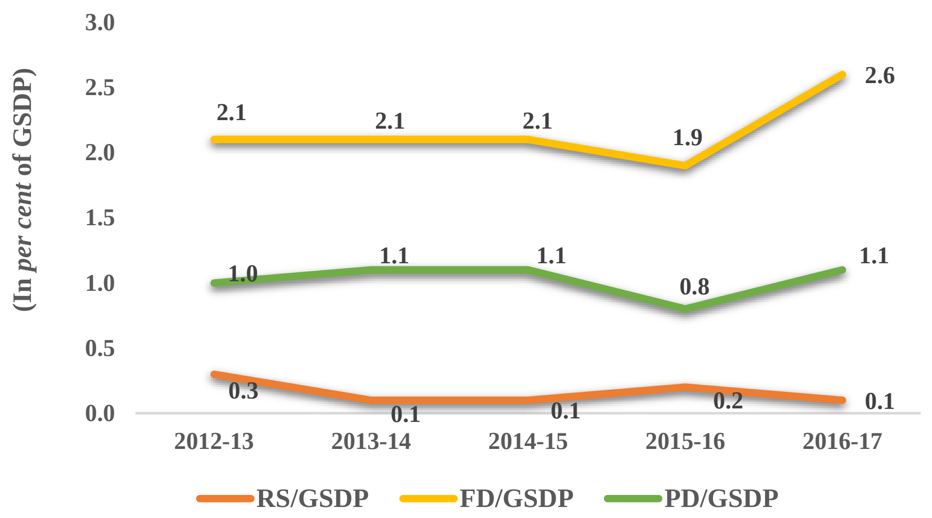


Chart 1.20: Trends in Deficit indicators relative to GSDP



The targets for revenue and fiscal deficits set for XIII FC and XIV FC periods along with their actual levels are given in **Table 1.43**.

Table 1.43: Outcome vis-à-vis targets under KFRA

Period	Revenue Deficit/Surplus		Fiscal Deficit (in *per cent*)	
	Targets as per KFRA	Actual	Targets as per KFRA	Actual
XIII FC (2010-15)				
2012-13	Maintain Revenue Surplus	Achieved the target	3.00	2.10
2013-14			3.00	2.09
2014-15			3.00	2.12
XIV FC (2015-20)				
2015-16	Maintain Revenue Surplus	Maintained Revenue Surplus	3.00	1.87
2016-17			3.00	2.57

The Government was able to maintain revenue surplus during 2012-13 to 2016-17. The fiscal target of wiping out revenue deficit by March 2006, as laid down in KFRA, was achieved by the State one year ahead in 2004-05, which was appreciable. Thereafter, the State maintained revenue surplus till 2016-17 with inter-year variations. In 2015-16, the revenue surplus increased by ₹1,261 crore over previous year and was ₹1,789 crore. However, during 2016-17 there was a decrease in revenue surplus and it was ₹1,293 crore.

KFRA target of reducing fiscal deficit to GSDP ratio to less than three *per cent* was also achieved. In 2016-17, there was increase in the ratio of fiscal deficit to GSDP as compared to the previous year and was 2.57 *per cent* considering the figure of GSDP as communicated by the State Government (₹11,17,334 crore), which was well within the target of three *per cent*.

Revenue Surplus

Revenue surplus represents the difference between revenue receipts and revenue expenditure. Revenue surplus helps to decrease the borrowings. The revenue surplus drastically reduced from ₹1,883 crore in 2012-13 to ₹353 crore in 2013-14, on account of increased expenditure (committed) on revenue account under salaries, pensions, interest, subsidies and devolutions affecting the fiscal space, but increased by ₹940 crore to ₹1,293 crore during 2016-17, due to increase in net proceeds of State share of Union Taxes and duties and increase in respect of devolutions to local bodies (₹1,031.71 crore) which helped the Government to maintain surplus.

The growth rate of revenue receipts and revenue expenditure was 12 *per cent* and 13 *per cent* respectively during 2016-17, as a result of which, there was considerable increase in revenue surplus. The factors responsible for the surplus on revenue account are discussed in **paragraph 1.1.2**.

The State Government in MTFP (2016-20) stated that though the size of budget went up over the years, it was characterised by a substantial portion being in the nature of committed expenditure. This reduced maneuverability around expenditure decision and that the State had limited revenue space available after accounting for its committed expenditure needs. Hence, the State Government needs to make medium term corrections on the expenditure side to moderate such committed expenditures.

Fiscal Deficit

Fiscal deficit represents the net incremental liabilities of the Government or its additional borrowings. The shortfall is met either by additional public debt (internal or external) or by the use of surplus funds from Public Account. Fiscal deficit trends along with the trends of the deficit relative to key components are indicated in **Table 1.44**.

Table 1.44: Fiscal deficit and its parameters

(₹ in crore)

Period	Non-Debt Receipts	Total Expenditure	Fiscal deficit	Fiscal Deficit as *per cent* of		
				GSDP	Non-debt receipts	Total expenditure
2012-13	78,367	92,874	14,507	2.10	18.51	15.62
2013-14	89,739	1,06,831	17,092	2.09	19.50	16.00
2014-15	1,04,236	1,23,812	19,576	2.12	18.78	15.81
2015-16	1,19,229	1,38,398	19,169	1.87	16.08	13.85
2016-17	1,33,341	1,62,005	28,664	2.57	21.50	17.69

Source: Finance Accounts.

During 2012-13 to 2016-17, fiscal deficit as a percentage of GSDP increased from 2.10 *per cent* to 2.57 *per cent*, with marginal variations in between. The fiscal deficit as *per cent* of GSDP, Non-debt receipts and Total expenditure increased during 2016-17 over the previous year, on account of increased borrowing/reduced revenue surplus.

Primary Deficit

While fiscal deficit represents the need for additional resources in general, a part of such resources may be needed to finance interest payments in respect of States having deficit on revenue account. Interest payments represent the expenditure of past obligations and are independent of ongoing expenditure. To look at the imbalances of current nature, these payments need to be separated and deducted from the total imbalances. The primary deficit and its parameters for the last five years are indicated in **Table 1.45**.

Table 1.45: Primary deficit and its parameters

(₹ in crore)

Period	Fiscal Deficit	Interest Payments	Primary Deficit
2012-13	14,507	7,454*	7,053
2013-14	17,092	8,027*	9,065
2014-15	19,576	9,804*	9,772
2015-16	19,169	11,343*	7,826
2016-17	28,664	12,850*	15,814

Source: Finance Accounts.

**includes interest payments of ₹621 crore, ₹190 crore, ₹400 crore, ₹597 crore and ₹817 crore towards off-budget borrowings during 2012-13, 2013-14, 2014-15, 2015-16 and 2016-17 respectively.*

During 2012-13 to 2016-17, the fiscal deficit was almost twice the amount of interest payments. Containing the committed expenditure, which constitutes the major chunk of the revenue expenditure, will enable the State Government to attain surplus on revenue account to a considerable extent. Since the costs of salary, pension and interest are inflexible, the expenditure on subsidies and grants-in-aid other than to local bodies, which are increasing steadily, requires utmost attention from the State Government.

1.11.2 Composition of fiscal deficit and its financing pattern

The financing pattern of fiscal deficit has undergone a compositional shift as reflected in the **Table 1.46**. Breakdown of fiscal deficit reveals the extent of various borrowings resorted to by the State to meet its requirement of funds over and above revenue and non-debt receipts.

Table 1.46: Components of fiscal deficit and its financing pattern

(₹ in crore)

Breakdown of fiscal deficit		2012-13		2013-14		2014-15		2015-16		2016-17	
		Amount	% of GSDP	Amount	% of GSDP	Amount	% of GSDP	Amount	% of GSDP	Amount	% of GSDP
		(-) 14,507	2.10	(-) 17,092	2.09	(-) 19,576	2.12	(-) 19,169	1.87	(-) 28,664	2.57
1	Revenue surplus	1,883	0.27	353	0.04	528	0.06	1,789	0.17	1,293	0.11
2	Net capital expenditure	15,446	2.23	16,859	2.06	19,612	2.13	20,361	1.98	28,123	2.52
3	Net loans and advances	944	0.14	586	0.07	492	0.05	597	0.06	1,834	0.16
Financing pattern of fiscal deficit*											
1	Market borrowings	9,149	1.32	13,406	1.64	16,093	1.74	14,914	1.45	24,026	2.15
2	Loans from GOI	652	0.09	461	0.05	586	0.06	321	0.03	791	0.07
3	Special securities issued to NSSF	(-) 517	(-) 0.07	(-) 344	(-) 0.04	437	0.05	1,563	0.15	(-) 1,573	(-) 0.14
4	Loans from financial institutions	454	0.07	(-) 53	(-) 0.01	(-) 54	-	164	0.02	491	0.04
5	Small savings, PF etc.,	1,732	0.25	2,107	0.26	2,156	0.23	2,086	0.20	2,657	0.24
6	Deposits and advances	2,511	0.36	2,840	0.35	3,702	0.40	284	0.03	3,041	0.27
7	Suspense and Miscellaneous	98	0.01	2,671	0.33	3,282	0.35	990	0.10	491	0.04
8	Remittances	(-) 32	-	(-) 12	-	(-) 32	-	(-) 17	-	(-) 38	-
9	Reserve Funds	1,362	0.20	135	0.01	1,547	0.17	2,081	0.20	6,013	0.54

Breakdown of fiscal deficit		2012-13		2013-14		2014-15		2015-16		2016-17	
		Amount	% of GSDP	Amount	% of GSDP	Amount	% of GSDP	Amount	% of GSDP	Amount	% of GSDP
		(-) 14,507	2.10	(-) 17,092	2.09	(-) 19,576	2.12	(-) 19,169	1.87	(-) 28,664	2.57
10	Increase (-)/ decrease (+) in cash balance	(-) 902	(-) 0.13	(-) 4,119	(-) 0.50	(-) 8,141	(-) 0.88	(-) 3,217	(-) 0.31	(-) 7,235	(-) 0.64
11	Net of Contingency Fund transactions	-	-	-	-	-	-	-	-	-	-
	Total	**14,507**	**2.10**	**17,092**	**2.09**	**19,576**	**2.12**	**19,169**	**1.87**	**28,664**	**2.57**

Source: Finance Accounts.

**All figures are net disbursements/outflows during the year.*

The components of fiscal deficit are Deduct Revenue Surplus, Net Capital Expenditure and Net Loans and Advances. Since the State attained revenue surplus in 2004-05 itself, the surplus on revenue account along with market borrowings, loans from GOI etc., were utilised to finance capital expenditure. The capital expenditure was financed by revenue surplus to the extent of 12, 2 and 3 *per cent* in 2012-13, 2013-14 and 2014-15 respectively. In 2015-16 and 2016-17, revenue surplus financed nine and five *per cent* of capital expenditure.

In 2016-17, there was substantial increase in market borrowings and its share in financing fiscal deficit increased to 84 *per cent*. There was increase in Small Savings, Provident Fund and Deposits and Advances over the previous year and increase in loans from financial institutions. There was decrease in suspense and miscellaneous balances which comprised transactions, relating mainly to cheques and bills, the net transactions, of which, were added for financing the fiscal deficit. There was a considerable decrease in the receipts during 2016-17 under special securities issued to NSSF.

1.11.3 Quality of deficit/surplus

The position of primary deficit with bifurcation of factors are given in **Table 1.47**.

Table 1.47: Primary deficit/Surplus-Bifurcation of factors

(₹ in crore)

Year	Non-debt receipts	Primary revenue expenditure	Capital expenditure	Loans and advances	Primary expenditure	Primary revenue deficit (-)/ surplus(+)	Primary deficit (-)/ surplus(+)
1	**2**	**3**	**4**	**5**	**6 (3+4+5)**	**7 (2-3)**	**8 (2-6)**
2012-13	78,367	68,839	15,479	1,102	85,420	9,528	(-) 7,053
2013-14	89,739	81,162	16,947	695	98,804	8,577	(-) 9,065
2014-15	1,04,236	93,810	19,622	576	1,14,008	10,426	(-) 9,772
2015-16	1,19,229	1,05,686	20,713	657	1,27,054	13,544	(-) 7,826
2016-17	1,33,341	1,19,071	28,150	1,934	1,49,155	14,270	(-) 15,814

Source: Finance Accounts.

Primary deficit, which was ₹7,053 crore during 2012-13 increased to ₹15,814 crore during 2016-17. The interest payment with respect to fiscal deficit was 45 *per cent* during 2016-17.

1.12 Follow up

The Report of C&AG of India on State Finances for the year 2009-10 was discussed by PAC during the period May 2011 to August 2011. The report containing the recommendations was placed before the Legislature in December 2011. Compliance to the recommendations of PAC, the Action Taken Note were placed before PAC for its consideration during September 2014. PAC discussed the Action Taken Note submitted by the Government in five sittings and submitted its report on the Action Taken Note of the Government on 20-07-2015.

1.13 Conclusion and recommendations

Fiscal Position

The State continued to maintain revenue surplus during 2012-13 to 2016-17 and kept fiscal deficit relative to GSDP below the limit prescribed under KFRA.

Non adjustment of budget proposals to the Consolidated Sinking Fund (₹878 crore) in Public Account contributed to maintaining surplus on revenue account.

The fiscal deficit during 2016-17 was 2.57 *per cent* of GSDP (₹11,17,334 crore), which was within the limit laid down under KFRA.

Recommendation: Timely and proper accounting adjustments need to be carried out to reflect the true and fair picture of the fiscal parameters.

The proposals made in the budget are to be implemented so that unspent provisions by way of non-adjustments are avoided.

The accounting adjustments should be in accordance with the principles governing the adjustments and partial accounting adjustments should be done away with.

State's own resources

The ratio of State's tax revenue to GSDP showed a declining trend from 7.80 *per cent* in 2012-13 to 7.42 *per cent* in 2016-17. However, there was no improvement in the ratio of non-tax revenue to GSDP and it continued to be less than one *per cent* of GSDP during 2012-13 to 2016-17 also.

Recommendation: Non-tax revenues require significant thrust by rationalising user charges and reviewing the same regularly as recommended by FMRC (MTFP 2017-21) and Expenditure Reforms Commission.

Revenue expenditure

During 2016-17, there was 18 *per cent* growth under social sector over the previous year and the share of expenditure on social services to total revenue expenditure increased by two *per cent* over the previous year and was at 41 *per cent* in 2016-17. The growth in expenditure on economic services was at 13 *per cent* during 2015-16 whereas it was 19 *per cent* in 2016-17.

The share of plan revenue expenditure to total revenue expenditure increased from 34 *per cent* in 2015-16 to 36 *per cent* in 2016-17.

Eighty *per cent* of revenue expenditure constituted of committed expenditure on salaries, interest payments, pensions, subsidies, grants-in-aid and financial assistance, administrative expenditure and devolution to local bodies. Expenditure on subsidy of ₹18,101 crore contained implicit subsidy amounting to ₹3,714 crore, which was in the form of financial assistance under various schemes of socio-economic services. The release of money from the Consolidated Fund to corporations should be based on requirement of funds.

Recommendation: Adequate priority needs to be given to both education and health sectors as the ratio under both these sectors are below General Category States average during 2016-17.

Since the costs of salary, pension and interest are inflexible, the expenditure on subsidies, grants-in-aid other than to local bodies, which are increasing steadily, requires utmost attention from the State Government.

Containing the Committed expenditure, which constitutes the major chunk of the revenue expenditure, will enable the State Government to attain surplus on revenue account to a considerable extent.

Parking of funds especially with reference to developmental schemes either in nationalised banks/deposit account should be avoided.

Quality of expenditure

The share of capital expenditure to total expenditure during 2016-17 (19 *per cent*) increased by four *per cent* from that of previous year. The percentage of developmental expenditure to total expenditure increased to 77 *per cent* in 2016-17 from 73 *per cent* in 2015-16.

Funds aggregating ₹2,027 crore were locked up in incomplete projects at the end of 2016-17.

The return from investment of ₹63,115 crore as on 31 March 2017 in Companies/Corporations was 0.1 *per cent* (₹82.50 crore). The investment included ₹24,474 crore (39 *per cent*) to Companies/Corporations which were under perennial loss.

Recommendation: The State Government should formulate guidelines for quick completion of incomplete projects and strictly monitor reasons for time and cost overrun with a view to take corrective action.

The State Government should review the working of State Public Sector Undertakings incurring losses and take appropriate action for their closure/revival.

Funds and other Liabilities

Reserve funds of the State *viz*., corpus fund of Guarantee Redemption Fund was not created/revived. During 2016-17, the transactions relating to the Consolidated Sinking Fund included interest of ₹317.45 crore accrued on re-investment made by RBI, which did not pass through the accounts and non-investment in Consolidated Sinking Fund (₹878.12 crore) and Green Tax collections of ₹57.89 crore and corresponding expenditure was not transferred to fund account. Efforts should be made for liquidating Public Account balances under fund account by making suitable provision and incurring expenditure.

Recommendation: Rules with regard to administration and investment pattern of various reserve funds are required to be framed.

Also, expenditure should match the revenues so as to liquidate the balances within a reasonable period of time.

Debt sustainability

Open Market Loans had a major share (49 *per cent*) in the total fiscal liabilities of the State. The burden of interest payments measured by interest payments to revenue receipts ratio (IP/RR) was between 9.0 *per cent* and 9.6 *per cent* during 2012-13 to 2016-17. The net debt available to the State during 2016-17 (₹23,736 crore) increased by 40 *per cent* when compared to the previous year. The interest relief on NSSF loans as recommended by XIII FC was short to the extent of ₹192.42 crore.

Recommendation: Interest on Off-budget borrowings should form part of calculation of IP/RR ratio.

C h a p t e r – II

Financial Management and Budgetary Control

Chapter 2

Financial Management and Budgetary Control

2.1 Introduction

2.1.1 Appropriation Accounts are accounts of the expenditure, voted and charged, of the Government for each financial year compared with the amounts of the voted grants and appropriation charged for different purposes as specified in the schedules appended to the Appropriation Acts, passed by the Legislature. These accounts list the original budget estimates, supplementary grants, surrenders and re-appropriation 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. The Karnataka Budget Manual contains the procedure for preparation of the estimates of budget, subsequent action regarding authorisation to incur expenditure, distribution of grants, watching the progress of actual expenditure and control over it.

2.1.2 Audit of appropriation by the C&AG 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 provision of the Constitution and through various legislations of the Legislature is so charged. It also ascertains whether the expenditure so incurred is in conformity with law, relevant rules, regulation and instructions.

2.2 Summary of Appropriation Accounts

2.2.1 The summarised position of actual expenditure during 2016-17 against 29 grants/appropriations is given in **Table 2.1.**

Table 2.1: Summarised position of actual expenditure *vis-à-vis* original/supplementary provision

(₹ in crore)

Nature of expenditure		Original grant/ Appropriation	Supplementary grant/ Appropriation	Total	Actual expenditure	Unspent Provision (-) / Excess over provision (+)	Amount surrendered	Amount surrendered on 31 March	*Per cent* of savings surrendered on 31 March
Voted	I Revenue	1,19,836.38	9,310.29	1,29,146.67	1,22,025.63	7,121.04	1,470.74	1,470.74	100
	II Revenue Public Debt	0.00	0.88	0.88	0.88	0.00	0.00	0.00	0
	III Capital	28,733.59	3,562.37	32,295.96	27,887.15	4,408.81	833.07	833.07	100
	IV Loans and Advances	1,625.19	529.69	2,154.88	1,934.38	220.50	7.04	7.04	100
Total Voted		**1,50,195.16**	**13,403.23**	**1,63,598.39**	**1,51,848.04**	**11,750.35**	**2,310.85**	**2,310.85**	**100**
Charged	*V Revenue*	*14,594.25*	*130.04*	*14,724.29*	*13,327.32*	*1,396.97*	*179.32*	*179.32*	*100*
	VI Public Debt Repayment	*6,841.41*	*417.41*	*7,258.82*	*7,420.24*	*(+)161.42*	*0.01*	*0.01*	*100*
	VII Capital	*466.34*	*4.50*	*470.84*	*449.42*	*21.42*	*14.08*	*14.08*	*100*
Total Charged		***21,902.00***	***551.95***	***22,453.95***	***21,196.98***	***1,256.97***	***193.41***	***193.41***	***100***
Grand Total		**1,72,097.16**	**13,955.18**	**1,86,052.34**	**1,73,045.02**	**13,007.32**	**2,504.26**	**2,504.26**	**100**

Source: Appropriation Accounts

2.2.2 The summary of demands for grants placed before the Legislature, seeks approval for incurring the expenditure during the course of the year on various specified services, as brought out in the schedules appended to the demand. The expenditure so indicated implies that the amounts so drawn are expended for the purpose. However, test check in audit revealed that the expenditure so indicated did not meet the intended purpose, which are discussed below:

The total expenditure stands inflated/without details of expenditure to the following extent:

Detailed accounts in support of advances drawn through Abstract Contingent bills amounting to ₹42.05 crore were not submitted by the Drawing and Disbursing Officers, as required under Rule 37(b) (3) of the Manual of Contingent Expenditure, 1958. In the absence of Non-payment Detailed Contingent bills, the genuineness of the expenditure cannot be vouchsafed. The total number of outstanding bills as on 31 March 2017 was 3,272. In reply, the Finance Department stated (December 2017) that after receipt of DDO-wise details of pending AC Bills from AG, instructions were issued by Finance Department to the concerned departments for clearance of pending AC bills.

2.2.3 The total expenditure stood overstated in the following cases:

- Out of the funds released to Zilla Panchayat/Taluk Panchayat, an amount of ₹473.66 crore under the ZP Fund and ₹906.95 crore under the TP fund under category II (in Public Account) remained unutilised;
- The expenditure of ₹60.90 crore incurred in the capital section (Major Head 4217) for transfer to State Urban Transport Fund under Public Account was not transferred to the fund account (**For details refer Para No 1.9.4)**;
- During the year 2016-17, an amount of ₹951.53 crore relating to the collection of the Infrastructure Cess were transferred to the Infrastructure Development Fund in Public Account. However, the expenditure incurred on capital/revenue heads were not transferred to the fund account resulting in overstatement of expenditure to the extent of ₹951.53 crore. In addition, an amount of ₹3,670 crore was also transferred from the Consolidated Fund to the Fund Account as stated. In the absence of related expenditure under revenue/capital not being accounted against the fund head in Public Account resulted in overstatement of expenditure (**For details refer Para No 1.9.4**);
- An amount of ₹106 crore released to Suvarna Arogya Suraksha Trust, a society formed for the purpose of implementation of Rashtriya Swasthya Bhima Yojana (RSBY) scheme was unutilised (**Details in Para 3.10.2**);
- Out of the amount released (₹4.16 crore) to Karnataka State Women Development Corporation during the year 2016-17 for implementation of Category A scheme namely 'Training Programme for Women Entrepreneurs', ₹1.38 crore was unutilised (**for details refer Para 1.1.5)**;
- Unspent amount under the Head of Account 4401-00-001-1-01-436 - NABARD Works for implementation of Farmer Connectivity Centre, which was released to Executive Engineer, PRED, Zilla Panchayat was not remitted to Government Account to an extent of ₹6.89 crore. The unspent amount related to balance remaining with the departmental authorities, which were required to be adjusted to the accounts of the

current year itself as reduction of expenditure, under the relevant minor head; and

- An amount of ₹260.29 crore relating to Scholarships to Minority students, deposited in the PD Account of Directorate of Minorities was undisbursed (**for details refer Para 3.8.2**).

2.2.4 The total expenditure stood understated in the following cases:

- Non-transfer of Green Tax Cess of ₹4.37 crore collected to the Public Fund Accounts (Details vide **paragraph 1.9.4**); and

- Non-investment and adjustment of ₹535 crore to the Consolidated Sinking Fund. (**for details refer Para 1.9.4**).

From the above, it was observed that there was overstatement of expenditure to the extent of ₹5,898.23 crore.

2.2.5 The unspent provision of ₹11,921.91 crore during the year 2016-17 was the result of overall unspent provision of ₹13,007.32 crore under 29 grants/appropriation, which was offset by excess expenditure of ₹1,085.41 crore under Demand Nos. 01, 05, 14, 20 and 29 under voted/*charged* expenditure of the revenue/capital sections.

2.2.6 During 2016-17, ₹6,057.11 crore covering 26 grants under revenue/capital section, (this is only illustrative), through 293 executive orders (**Appendix 2.1**) for incurring expenditure not covered by the budget initially were released by the FD on the request of the Administrative Department, as additionalities without the authorisation of the Legislature. These cases did not attract the criteria fixed (₹5.00 crore) for the New Service/New Instruments of Services as recommended by PAC (December 2014) of the State Legislature. However, provision to cover these additionalities was made through supplementary demands under Article 205(1) (a) of the Constitution.

(a) Details of such additionalities for the period 2014-15 to 2016-17 are shown in **Table 2.2**.

Table 2.2: No. of additionalities for which orders issued during 2014-15 to 2016-17

(₹ in crore)

Year	No. of Grants	No. of Executive orders	Supplementary Demand	Additionalities Amount
2014-15	25	112	12,336.76	3,022.33
2015-16	25	190	18,708.02	5,065.69
2016-17	26	293	13,955.18	6,057.11

Source: Appropriation Accounts of concerned years

The practice of release of funds initially through executive orders and getting it ratified later by seeking approval of the Legislature through supplementary demands shows an increasing trend as shown in the table above. PAC vide Para 5, GO dated 6 August 2015 recommended for incurring expenditure through additionalities orders in extraordinary circumstances for emergent/immediate necessity cases. However, the releases through additionalities are to be voted through provision in the subsequent Supplementary Estimates.

(b) During the year 2016-17, it was noticed that in four cases under three grants as shown in **Table 2.3**,

Table 2.3: Additionalities not regularised through Supplementary Estimates

(₹ in lakh)

Sl. No.	Grant No.	Head of Account	Order No. and Date	Original Budget	Amount of Additiona-lity	Expenditure incurred	Excess Expend-iture
1	11	2235-02-196-1-03-405 Shivamogga	FD 453 BRS 2016, Bengaluru dated 18.03.2017	8.00	**9.67**	17.67	**9.67**
2		2235-02-196-1-03-410 Hassan		8.00	**9.67**	17.67	**9.67**
3	17	2202-02-001-0-01-059 (NP)-Other Expenses	FD 38 BRS 2016 dated 20.08.2016	26.00	**74.00**	48.39	**22.39**
4	26	3451-00-101-5-03-015 Subsidiary Expenses	FD 02 BRS 2016 dated 30.04.2016	1.00	**10.00**	3.75	**2.75**
	Total				**103.34**		**44.48**

Source: Appropriation Accounts.

While accepting the audit observation, the Finance Department stated (December 2017) that in respect of serial numbers (1), (2) and (3) above, the additionality orders issued were not regularised through Supplementary Demands. Further, it stated that for the additionality order mentioned at (4) above, it was regularised in Supplementary Estimate III. However, it was noticed that the additionality order issued was with respect to the object head '059 – Other Expenses' and not for the object head '015 – Subsidiary Expenses'.

2.3 Excess Expenditure

In 17 cases, expenditure in excess of ₹25 crore of the budget provision was incurred under 11 Major Heads of account pertaining to 10 grants aggregating to ₹4,327.82 crore **(Appendix 2.2)**.

2.3.1 Excess expenditure requiring regularisation in the previous years

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. Although no time frame for regularisation of expenditure was prescribed under the Article, the regularisation of excess expenditure was done after the completion of discussion of the Appropriation Accounts by the Public Accounts Committee.

Excess expenditure aggregating to ₹1,124.66 crore for the year 2012-13 to 2015-16 is yet to be regularised as detailed in **Table 2.4**.

Table 2.4: Excess expenditure requiring regularisation

(₹ in crore)

Year	Grant No./ Description	Excess required to be regularised as commented in the AA/AR	Remarks
2012-13	08-Forest, Ecology and Environment	494.02	Excess expenditure of ₹209.51 crore was on account of transfer of Forest Development Tax to Public Account. The receipt was more than anticipated collection. Further, an amount of ₹284.51 crore, which was misclassified, remained as revenue of Commercial Tax Department and was transferred to Public Account on rectification of misclassification.
2013-14		355.39	Excess expenditure was on account of transfer for Forest Development Tax to Forest Development Fund in Public Account. The receipt was more than the anticipated collection.
	26-Planning, Statistics, Science and Technology	20.42	Withdrawal of budget provision in the budget presented in July 2013 in respect of certain heads for which, budget was included in the Vote on Account presented during February 2013.
2014-15	08 - Forest, Ecology and Environment	188.75	Excess expenditure was on account of transfer of Forest Development Tax to Forest Development Fund in Public Account. The receipt was more than the anticipated collection and also due to erroneous budgeting.
	10 - Social Welfare	0.06	No specific reasons furnished for the excess.
2015-16	01 – Agriculture and Horticulture	7.93	This was due to error in budgeting. Provision was made under Grant No.18 instead of Grant No.1. However, expenditure was classified under Grant No.1.
	05 – Home and Transport	44.94	No specific reason furnished for the excess.
	06 – Infrastructure Development	*5.11*	This was due to error in budgeting. Provision provided under Voted category instead of under *Charged* category. However expenditure was accounted correctly.
	19 - Urban Development	8.04	
Total		**1,124.66**	

Source: Appropriation Accounts.

2.3.2 Excess expenditure over provision during 2016-17

Excess expenditure of ₹1,085.41crore against Demand No.1-Agriculture and Horticulture, 05-Home and Transport, 14-Revenue, 20 – Public Works and 29 – Debt Servicing incurred during 2016-17 are required to be regularised. The details of which are given in **Table 2.5**.

Table 2.5: Excess expenditure during 2016-17

(Amount in ₹)

Sl. No.	Grant	Provision	Expenditure	Excess
1	01 –Agriculture and Horticulture Capital Voted	1,06,10,00,000	2,82,84,83,304	1,76,74,83,304
2	05 – Home and Transport Capital Voted	7,67,73,11,000	8,23,09,99,503	55,36,88,503
3	14 –Revenue Revenue Voted	79,36,67,94,000	85,68,74,27,666	6,32,06,33,666
4	20 – Public Works Revenue Voted	24,51,18,25,000	25,10,99,26,797	59,81,01,797
5	*29 – Debt Servicing Capital Charged*	*72,58,82,00,000*	*74,20,23,83,927*	*1,61,41,83,927*
	Total	**1,85,20,51,30,000**	**1,96,05,92,21,197**	**10,85,40,91,197**

Source: Appropriation Accounts.

The main reasons for excess expenditure under the above demands are discussed below:

- The excess under Grant No. 1- Agriculture and Horticulture was due to shifting of expenditure (₹186.01 crore) from revenue head (2401-00-108-2-30-059) to capital head (4401-00-800-1-08-436). However, the requisite provision under Demand No. 1 was not made through Supplementary Provision;

- Excess under Demand No.5 – Home and Transport was due to issue of re-appropriation orders between revenue and capital with the authority of the FD (**for details refer Para 2.7.9)**;

- The excess under Grant No. 14 – Revenue was due to release of Government of India's contribution of ₹1,235.52 crore towards NDRF on the last day of the financial year 2016-17, which was transferred to fund account during 2016-17 itself;

- The excess under Grant No.20 - Public Works was due to the transfer of actual receipts collected under Ports, Light Houses and Shipping to Ports and Development Fund. The provision made for transfer was less than the actual collection. The excess was also due to entire GOI grants (received on the last day of March 2017) credited to Consolidated Fund of the State towards Central Road Fund was transferred to the Deposit Account of subvention from Central Road Fund under Public Account; and

- The excess under Grant No.29 – Debt Servicing was due to the provisions for discharge of debts, not being made scientifically based on requirement of funds, but made as per the actuals of previous years, without consultation from the beneficiary departments of such loans, assistance from the funding agencies.

Excess of expenditure over appropriation was in contravention to the provisions requiring Legislative sanction and was indicative of bad planning.

2.3.3 New Service/New Instrument of Service

Article 205 of the Constitution provides that expenditure on a 'New Service' not contemplated in the Annual Financial Statement (Budget) can be incurred only after its specific authorisation by the Legislature. The Government issued orders in August 2015 based on the recommendations of the Public Accounts Committee in its Fourth Report (Fourteenth Assembly), exempting certain items of expenditure for which 'New Service' criteria shall not be applicable and also prescribed the criteria, for treating the expenditure as "New Service'. The revised criteria for 'New Service' became effective from the financial year 2015-16. As per the above order, the cases already provided for and approved by the Legislature but where the expenditure is subsequently expected to exceed the amount originally provided in the budget will not be treated as 'NEW SERVICE', provided the increase over the actual provision does not exceed twice the provision or ₹5 crore, whichever is more.

During the year 2016-17, in five cases, involving five grants, excess expenditure amounting to ₹124.12 crore, which should have been treated as 'New Service/New Instrument of Service', was incurred without the approval of the Legislature as shown in **Table 2.6**.

Table 2.6: Cases of New Service/New Instrument of Service

(₹ in crore)

Sl. No.	Grant No./ Nomenclature	Head of Account	Total Grant	Expendi-ture	Excess
1	01-Agriculture and Horticulture	2851-00-797-0-01-261 Inter-account Transfers	0.00	37.12	37.12
2	02-Animal Husbandry and Fisheries	2405-00-195-0-01-106 Subsidies	1.00	6.97	5.97
3	07-Rural Development and Panchayat Raj	2215-01-001-1-03-003 Pay-Staff	10.73	36.62	25.89
4	14-Revenue	2235-60-102-1-03-059 Other Expenses	24.00	74.00	50.00
5	22-Health and Family Welfare	4210-03-105-1-02-386 Construction	2.31	7.45	5.14
Total					**124.12**

Source: Appropriation Accounts

In reply (December 2017), the Finance Department accepted the audit observations at serial numbers (1), (3) and (5) and in respect of (2) and (4) above, it was stated that the re-appropriation orders were issued to cover the excess expenditure. However, as the re-appropriation orders issued involved criteria of 'New Service', the same were rejected by the office of AG(A&E).

2.4 Scrutiny of Budget Estimates and Supplementary Estimates for the year 2016-17

2.4.1 Errors in budgeting

2.4.1.1 Misclassification between 'Capital' and 'Revenue' section

- During 2016-17, an expenditure of ₹5.57 crore was classified under the Revenue Section (2210-01-110-1-21-147 – 'Land and Building') towards payment to the land owners as compensation for land acquired, for construction of Hospital at Koppal. Since the amount was towards the acquisition of Land, as per Finance Department Circular (15.01.2013), the expenditure in respect of acquisition of land was to be classified as 'capital', as land is an asset. The classification under revenue was incorrect which had the effect of distorting the fiscal indicators *viz*., revenue surplus. The Finance department while accepting the audit observation, stated (October 2017) that steps were being taken to issue circular instructions for the FY 2017-18 to shift such provisions, if any, under revenue to capital;

- During the year, an amount of ₹19.11 crore was released as grants for four Farm Universities in Karnataka, under the Head of Account 4401-00-800-1-05/06/03/02 – NABARD works, on the concurrence of the Finance department. As this amount was given as grants-in-aid to the Universities, the release made under the capital head 4401 was not in order in the light of IGAS - 2, which stipulates that the grants-in-aid disbursed by a grantor to a grantee, shall be classified and accounted for as revenue expenditure in the financial statements for the grantor (Government), irrespective of the purpose for which, the funds are disbursed. Hence, the booking of expenditure resulted in inflation of capital expenditure;

- Mention was made in the previous reports (Para 2.8.2.9/AR 2014-15 and 2.4.1.1/AR 2015-16) on State Finances that budget provisions were made under capital section for incurring expenditure on salaries instead of revenue account. In the year 2016-17 also, salaries amounting to ₹13.23 crore were booked under the capital account (Major Heads 4700, 4701 and 4711). This inflated the capital expenditure and suppressed revenue expenditure as also expenditure on salaries under revenue account; and

- Mention was made in para 2.6.3.5 of the report on State Finances for the year ending March 2012, wherein it was observed that payment of Haulage charges made under the capital head through the funds released to Karnataka State Tourist Development Corporation was for meeting the revenue expenditure. During the year 2016-17, it was observed that an amount of ₹7.78 crore was drawn under the capital head of account

5452-03-101-05-132 – Capital Expenses and paid to Karnataka State Tourist Development Corporation towards payment of Haulage charges of Golden Chariot train to Railways. This resulted in overstatement of Capital Expenditure to that extent.

While accepting the audit observation, the Finance Department (December 2017) stated that by issuing internal circulars in 2013 and 2017, such cases came down. It also stated that however, concerned sections were instructed not to repeat this in 2018-19.

2.4.1.2 Misclassification between 'voted' and '*charged*' sections while budgeting

A comment was made in the AR 2015-16 (Para 2.4.1.2) regarding the misclassification while budgeting between 'voted' and '*charged*' sections which was rectified in the Supplementary Demand. During the year 2016-17 also, it was noticed that in six cases, provisions were made under voted category, instead of *charged* under Revenue/Capital sections as detailed in **Table 2.7** amounting to ₹5.61 crore which was rectified in Supplementary Demand – I for the year. It was replied (April 2017) that this was due to a technical snag, which went unnoticed during peak budgeting work and that in future, a system would be put in place to ensure such errors do not recur.

Table 2.7: Misclassification between voted and *charged*

(₹ in crore)

Sl. No.	Demand No	Head of Account	Provision
1	4 – Department of Personnel and Administrative Reforms	2012-03-102-0-00-103 Grants-in-aid General	0.35
2		2014-00-102-0-02-103 Grants-in-aid General	0.01
3		2014-00-102-0-03-059 Other Expenses	0.41
4		2014-00-102-0-09-059 Other Expenses	0.23
5		2014-00-102-0-10-059 Other Expenses	0.11
6	19 – Urban Development	4217-60-800-3-01-240 Debt Servicing	4.50
Total			**5.61**

Source: Supplementary Estimates

2.4.1.3 Error in budgeting due to non-provision for transfer of Market Fees/License Fees

Karnataka Silk Worm Cocoon and Silk Yarn Development and Price Stabilisation Fund was created for the purpose of stabilising the prices of cocoons and silk yarn and for the development of rearing of silk worm seed, reeling and twisting of silk yarn and connected therewith. The Fund is credited with all the moneys received by way of Market Fees/License fees and contribution made by the Government. During the year 2016-17, an amount of ₹37.12 crore was collected as License fees/Market fees under the revenue receipt head 0851 in the Consolidated Fund which was to be transferred to the fund in Public Account by operating revenue expenditure head. However, it was noticed that the provision for transfer of revenues to the Public Account was not made in the budget. The expenditure was booked under the revenue head and the same was transferred to the fund account resulting in expenditure without provision, as also attracting the criteria fixed for New Service /New Instrument of Service.

2.4.1.4 Incorrect provision made under Major Heads of Account

- Provision of ₹223.87 crore was erroneously made under the major head 2401-Crop Husbandry-Commercial Crops-Horticulture Department-PMKSY-National Mission on Sustainable Agriculture-Other Expenses instead of under Major head 4401- Capital Outlay on Crop Husbandry – Other Expenditure- Agriculture University- Micro Irrigation Installation – Horticulture-NABARD works and a token provision was made under 4401- Capital outlay on Crop Husbandry in the Supplementary Estimate (III instalment). However, the expenditure was transferred to the capital head 4401 resulting in excess expenditure under the head;
- Provision of ₹15.00 crore was erroneously made under the major head 4860-Capital Outlay on Consumer Industries –Sugar - Investment in Public Sector and Other Undertakings – MYSUGAR -investment and a token provision was made under 6860- Loans for Consumer Industries-Sugar-Investment in Public Sector and Other Undertakings-Working Capital Assistance and Soft Loans – Mysore Sugar Company – Loans, for transfer of expenditure from the former head to the latter head in the Supplementary Estimate-I. However, the expenditure was booked under the latter head of account, which resulted in excess expenditure over the provision under the loan head. Finance Department in its reply (July 2017) stated that such occasions arise only on unforeseen circumstances and steps will be taken to avoid it in future to the extent possible;
- A provisions of ₹0.10 crore was provided in Grant No.29 under the major head 2049 - Interest Payments for payment of interest on compensation bonds instead of under major head 2075-Miscellaneous General Services contrary to the instruction contained in note (1) below major head 2049 in the LMMH;
- In the Supplementary Estimate-III (Grant No.29), under the head of account 2049-60-101-1-00-240 Debt Servicing, a provision of ₹0.88 crore was erroneously made under voted category being interest on delayed refunds of Sales Tax/VAT by Commercial Tax Department. However, under the Demand No.3- Finance, a token provision was taken under the head of account 2020-00-108-0-01-059 stating that the interest on delayed refunds on Sales Tax obtained under the major head 2049 would be shifted. The provision made under the functional major head -2020 for transfer of interest on delayed refunds was incorrect as it relates to the sub sector (a) below Sector A-Taxes on Income and Expenditure and not sub-sector (c)-Taxes on Commodities and Services from where interest on delayed refunds was proposed to be made. In reply, (May 2017) the department stated that the observation made were noted and necessary action would be taken in future; and

- As a general rule, the classification of transactions in Government Accounts, shall have closer reference to the function, programme and activity of the Government. Due to rationalisation of heads of accounts and aligning the activities of the department to the demand in the year 2003-04, all the activities connected with the department are brought under 29 demands for grants. Contrary to this practice, it was noticed that the provisions/expenditure of ₹25.06 crore relating to the activities connected with functional major head 2205 – Art and Culture were made/incurred under the functional major head 2202 – Education. The department, while accepting the observation, replied (May 2017) that the action will be initiated to change head of account to 2205 – Art and Culture and that further development will be intimated in future course after consultation with the Finance Department. Further, it was also observed that provision/expenditure of ₹0.54 crore relating to the activity connected with the functional major head 2852 – Industries for dealing with Industrial Education, Research and Training, was made under 2202 – Education resulting in erroneous budgeting. The department in its reply stated (May 2017) that suitable action will be taken to provide grants under the respective major heads relating to Industries and Commerce after consultation with Finance Department.

2.4.1.5 Incorrect provision made under Minor Heads

According to the instructions contained in Para 3.10 of LMMH, recoveries of over payments made during the same financial year shall be recorded as reduction of expenditure under the concerned service heads. Recoveries of overpayments pertaining to previous year(s) shall be recorded under distinct minor head '911 – Deduct - recoveries of overpayments' below the concerned Major head/sub-major head without affecting the gross expenditure under the functional major/sub-major head.

On a scrutiny of budget estimate for the year 2016-17, it was noticed that apart from the fund transactions for which deduct entry made in the budget under the minor head 902 - Amount met from (name of the Reserve Fund/Deposit Account), it also had provisions relating to recoveries of overpayments relating to previous years of Zilla Panchayat and Taluk Panchayat under the Grant No 17, 22 etc., where there are no fund transactions, which was erroneous. In reply to audit observation, the Finance Department issued errata (March 2017/December 2017) stating that the in such cases, the Minor Head '902' may be read as '911'. It also stated that this minor head is operated only by FD since departments do not submit budget under this minor head. The reply is not satisfactory as accounting of transactions of excess release of earlier years as recovery of over payment is inconsistent with the provision of LMMH mentioned above.

2.4.1.6 Errors in classification

The budget/expenditure suffered on account of operation of incorrect budget lines for release and accounting of ULB grants at the object level of classification. Distinct heads were to be opened for accommodation of budget/expenditure of the ULB sector. Such details which are to be shown distinctly in a separate budget document are discussed below in **Table 2.8**.

Table 2.8 Details of errors in object level of classification

Item of expenditure	Amount involved (₹ in crore)	Remarks
Pension and other Retirement Benefits	12,486.41	This expenditure included grants released to ULBs for payment of pension (₹54.94 crore), which are not in the nature of pensions paid to Government Servants, to be accounted under Consolidated Fund of the State.
Consolidated Salaries	853.88	This object head is intended for recording the salary expenditure of only Constitutional dignitaries, but has included releases made to ULBs for payment of salary (₹816.48 crore)
Maintenance	2,729.40	This includes releases made to ULBs for maintenance expenditure of (₹949.52 crore).

Source: Finance Accounts

Though this was pointed out in earlier Audit Reports, corrective action was not initiated.

In reply to SFR 2012-13, the Finance Department stated that the object head with respect of ULBs though being the same did not figure in the State section of accounts as the budget heads in the link document of ULBs were not captured under the State Sector. The reply is not tenable as the bills are submitted by the DDOs of the ULBs and the amount drawn from the treasury, the same amount is booked under the same functional object heads as revealed in Statement -4 B. Expenditure by nature of Finance Accounts.

2.4.1.7 Incorrect budgeting

A provision of ₹7.64 crore was provided in the Supplementary Estimate – I for the year 2016-17 under the head of account 2040-00-101-0-10-100 – Financial Assistance for re-imbursement of cane purchase tax and road cess paid by the 12 sugar factories in South Karnataka for the period 01.04.2013 to 21.11.2013. As the sugar factories already paid the purchase tax and road cess for the above period, which formed the tax revenue for that year (2013-14), refund of the amount by making provision in the Supplementary Estimate – I was incorrect. In this circumstance, the correct procedure was to reimburse the money through executive order by following the normal procedure for refund of excess tax paid, as tax expenditure. The Government, on the request of Commercial Tax Department, issued orders (October 2016) for refund of ₹7.48 crore, which was refunded during November 2016.

The department in its reply (August 2017) stated that the issue involved was procedural error due to provision in the supplementary estimate and there was no financial implication as the adjustment carried out in the Books of Accounts was also withdrawn and the provision was treated as surrendered to Government.

However, the fact remains that the provision made in the SE-I was unnecessary and erroneous, which resulted in overstatement of budget provision.

2.4.1.8 Erroneous provision relating to adjustment of Guarantee Commission to Guarantee Reserve Fund

The XII Finance Commission (2005-10) in its Paragraph 12.60 recommended that States should set up Guarantee Redemption Fund through earmarked guarantee fees, which should be preceded by risk weighting of guarantees. The quantum of contribution to the fund should be decided accordingly.

In the Reports on State Finances from 2008-09 onwards, the deviation in the accounting procedure followed with regard to the guarantees discharged due to its invocation by the lenders were commented. With regard to setting up of Guarantee Reserve Fund through earmarked guarantee fees, the Finance Department stated that it would be considered at appropriate stage and that the recommendations of the commission are not binding on the State for setting up of a Fund. With regard to the risk based weighting of guarantees, it was stated that there was no specific policy on guarantees and that one brought out by GOI was under examination.

During the year 2016-17, ₹67.19 crore was made under Demand No.3 in the Supplementary Estimate-I for transfer to Guarantee Reserve Fund already created under Public Account (1999-2000). In the explanatory note, it was stated that the AG would be requested for transfer based on the executive order being issued in due course. However, it was observed by AG (A&E) that this amount pertains to outstanding amount of principal and interest in respect of six[7] corporations and was not in consonance with the recommendations of XII Finance Commission and was also in contrary to the general directions under LMMH, which states that reserve funds are to be used for transferring the intended receipts only.

In reply to the issue raised by AG (A&E), the FD stated that the matter would be considered during 2017-18.

Thus, the provision of ₹67.19 crore made for transfer to Guarantee Reserve Fund through accounting adjustment was not in order and resulted in erroneous budgeting.

2.5 Errors in budgeting under the Fund Accounts

Infrastructure Cess collected under tax revenues is assigned to various Fund Accounts in Public Account (IIF, BMRCL Fund and CMRRD Fund) through accounting adjustment by treating the transaction as Consolidated Fund expenditure. Similarly, the expenditure against revenue/capital heads in respect of fund accounts, initially accounted for under the Consolidated Fund is

[7] The Karnataka State Co-operative Marketing Federation Limited (₹25.27 crore), BWSSB (₹16.68 crore), Karnataka Minorities Development. Corporation (₹6.64 crore), Karnataka Maharshi Valmiki Scheduled Tribes Development Corporation (₹3.69 crore), D. Devaraj Urs Backward Class Development Corporation (₹5.86 crore) and Dr. B.R. Ambedkar Development Corporation (₹9.05 crore).

withdrawn and transferred to the Public Account through accounting adjustments at the end of the year.

A comment was made vide Paragraph 2.5 of the Report on State Finances for the year ending 2015-16, bringing out the mismatch between the anticipated collection of cess and the provision made for transfer of expenditure. During the year 2016-17, ₹1,101.24 crore was anticipated as collection of cess, which was to be apportioned in the ratio of 57:28:15 among IIF, BMRCL and CMRRD funds respectively. As against this amount, provisions of ₹617.73 crore was made under MH 5465(IIF), ₹1,000 crore was made under MH 6217 (BMRCL) and ₹312.56 crore was made under the Major Head 3054(CMRRD), aggregating to ₹1,930.29 crore in the budget for its transfer to the fund account. Hence, there was a mismatch between anticipated collection and the provision made for expenditure by transfer, which resulted in the excess provision of funds to the extent of ₹829.05 crore.

In reply, the Finance Department stated (December 2017) that the transfer to the fund may also be made from the general revenues of the budget if the fiscal condition is favourable. Therefore, it was incorrect to state that there was an excess provision of funds to be transferred in the cases mentioned.

The reply of the department is not justifiable as the audit comment was with regard to the collection of cess and the provision made for transfer of the related expenditure, which were not in the ratio prescribed for transfer.

2.6 Lack of transparency in Provisioning-Budget Operation of Omnibus Object Head 059-Other Expenses

Provisions/expenditure in Government Accounts are classified according to Sector/Sub-sector/Function/Sub-function/Programme/Detailed/Object head using 15 digit classifications. Expenditure classifications as per object head, last tier of classification, exhibits the object/nature of expenditure, required to be prepared by exercising high degree of accuracy/Acumen/competency. In order to simplify the classifications of expenditure, new object heads were formed during the year 2003-04, by merging certain object heads of account. The object head 059-Other Expenses, an omnibus head, was to record such provisions/expenditure, which could not be classified under any other object heads devised. According to the Budget Circular, the provision under this head should be the bare minimum.

During 2016-17, on a scrutiny of vouchers relating to seven departments, it was noticed that an expenditure of ₹1,265.77 crore was wrongly classified under the object head "059-Other Expenses" instead of under the relevant objects heads, *viz*., 015-Subsidiary expenses, 102 – Grants-in-aid – General, 103 - Grants-in-aid – Asset creation, 106-Subsidy, etc. the details of such misclassification are detailed in **Appendix 2.3**. In reply, the Health and Family Welfare Department stated (September 2017) that from next year, the remuneration paid to Asha and Anganwadi Workers would be provided under '015- Subsidiary expenses'. The Department of Agriculture and Horticulture, in its reply stated that the suggestion made by audit is acceptable and in future, budgeting under New Crop Insurance provided for farmers would be made under 106 – Subsidy. The Finance department, in its reply regarding payment of remuneration to personal staff on contract made under 059 – Other Expenses, stated that the same was set right during 2017-18 by opening a new object head '034 – Contract/Outsource' and currently the payment was being made under the above mentioned head of account.

2.7 Financial Accountability and Budget Management

2.7.1 Appropriation *vis-a-vis* allocative priorities

There were 22 cases of unspent provisions, each exceeding ₹100 crore and above under 16 grants/appropriation, which aggregated to ₹12,628.06 crore during 2016-17. Large unspent provisions were in areas of Rural Development and Panchayat Raj, Finance, Urban Development, Education, Water Resources, and Debt Servicing as indicated in **Table 2.9**.

Table 2.9: Grants/appropriations with unspent provisions of ₹100 crore and above

(₹ in crore)

Sl. No.	Grant/Nomenclature	Provisions: Original	Provisions: Supplementary	Provisions: Total	Expenditure	Unspent provision and it's *per cent*
1	01 - Agriculture and Horticulture Revenue – Voted	5,375.75	965.85	6,341.60	5,687.63	653.97(10)
2	03 - Finance Revenue - Voted	19,385.38	102.01	19,487.39	16,458.91	3,028.48(16)
3	04 – Department of Personnel and Administrative Reforms Revenue – Voted	595.49	64.42	659.91	516.76	143.15(22)
4	07 - Rural Development and Panchayat Raj Revenue- Voted Capital – Voted	10,934.34 2,084.02	2,024.81 1.84	12,959.15 2,085.86	12,655.27 1,242.94	303.88(2) 842.92(40)
5	*08 - Forest, Ecology and Environment* *Revenue Charged*	*300.19*	*0.32*	*300.51*	*154.17*	*146.34(49)*
6	10 – Social Welfare Revenue – Voted Capital – Voted	6,897.01 2,441.20	182.20 41.22	7,079.21 2,482.42	6,906.70 2,243.23	172.51(2) 239.19(10)
7	11 – Women and Child Development Revenue – Voted	4,335.14	34.36	4,369.50	4,182.98	186.52(4)
8	13 – Food and Civil Supplies Revenue – Voted	2,090.48	21.74	2,112.22	1,941.69	170.53(8)
9	16 - Housing Revenue - Voted	3,579.17	75.00	3,654.17	3,394.66	259.51(7)
10	17 – Education Revenue - Voted Capital – Voted	21,233.55 790.53	66.08 377.23	21,229.63 1,167.76	20,432.31 1,060.06	867.32(4) 107.70(9)
11	19 – Urban Development Revenue – Voted Capital – Voted	8,744.08 4,348.58	487.06 438.20	9,231.14 4,786.78	8,558.00 3,448.10	673.14(7) 1,338.68(28)
12	20 – Public Works Capital – Voted	5,458.18	2,384.79	7,842.97	7,310.07	532.90(7)

Sl. No.	Grant/Nomenclature	Provisions			Expenditure	Unspent provision and it's *per cent*
		Original	Suppleme-ntary	Total		
13	21 – Water Resources Revenue – Voted Capital – Voted	 1,001.38 9,493.47	 23.00 159.67	 1,024.38 9,653.14	 905.22 8,400.17	 119.16(12) 1,252.97(13)
14	23 - Labour Revenue – Voted	 897.04	 23.63	 920.67	 809.30	 111.37(12)
15	26 - Planning, Statistics, Science and Technology Revenue – Voted Capital – Voted	 795.37 1,020.49	 0.63 0.00	 796.00 1,020.49	 626.35 894.83	 169.65(21) 125.66(12)
16	*29 - Debt Servicing* *Revenue charged*	 *13,206.54*	 *118.32*	 *13,324.86*	 *12,142.35*	 *1,182.51(9)*
Total		**1,25,007.38**	**7,592.38**	**1,32,599.76**	**1,19,971.70**	**12,628.06 (10)**

Source: Appropriation Accounts

Major heads of accounts, under which the unspent provisions including re-appropriation amount was more than ₹25 crore, are detailed in **Appendix 2.4**.

The reasons furnished by certain departments for part of unspent provisions under a few Major Heads of account, as reported in Appropriation Accounts are given below:

Finance

Unspent provision of ₹149.71 crore under the Major Head 3475 – Other General Economic Services –Transfer to Reserve Funds and Deposits Accounts – Transfer of Cess to the Infrastructure Initiative Fund – Inter-account transfers was due to actual collection of Infrastructure Cess less than the estimated receipts that required to be transferred to Reserve Fund under the Public Account.

Unspent provisions of ₹67.19 crore under the Major Head 3475- Other General Economic Services – 800 Other Expenditure – Contribution to Guarantee Reserve Fund was due to revision of Guarantee Redemption amount, which is being adjusted during 2017-18.

Unspent provision of ₹7.64 crore under the head 2040 – Taxes on Sales, Trade etc., - Collection charges- Reimbursement of Cane Purchase Tax and Road Cess was due to erroneous budgeting made for refund of cane purchase tax and road cess to 12 sugar factories.

Rural Development and Panchayat Raj

Unspent provision of ₹10.50 crore under 2515 – Other Rural Development Programme – Panchayati Raj –RDPR Computerization – Other expenses was due to lack/want of sufficient time for purchase of Computer parts from Gemportal.

Education

Unspent provision of ₹14.87 crore under the MH 2202-General Education - Elementary Education-Government Primary Schools-Students Motivation Initiatives, was due to wrong budgeting under the head as funds could not be spent to High schools and PU colleges from this head.

Unspent provision of ₹15 crore under Major Head 2202 - General Education - Elementary Education-Teachers and Other services – Quality Assurance Initiatives, was due to wrong budgeting under the head as funds could not be spent to High schools and PU colleges from this head.

Unspent provision of ₹24.48 crore under the Major Head 2202-General Education-Secondary Education- Government Secondary Schools- Opening of Schools for Girls was due to implementation of the scheme in 2016-17 by utilising funds released to SSA Society during the earlier years.

Urban Development

Unspent Provision of ₹36.01 crore under the Major Head 2217 – Urban Development – Other Urban Development Schemes – Other Expenditure – Housing for All – Urban, was due to non-receipt of proposal for release of funds from the Directorate of Municipal Administration.

Unspent Provision of ₹55.08 crore under the Major Head 2217- Urban Development – General – Direction and Administration – Municipal Administrative Service, was due to vacant posts not filled during the financial year.

Unspent Provision of ₹5 crore under the Major Head 2217 – Urban Development – Other Urban Development Schemes - General – Other Expenditure –Support for KMRP Projects-grants for creation of capital assets, was due to non-receipt of proposal for release from KUIDFC.

Unspent Provision of ₹76.99 crore under the Major Head 2217 – Urban Development – Other Urban Development Schemes – Other Expenditure – Swaccha Bharat-Other expenses, was due to non-receipt of proposal for release of funds from the Directorate of Municipal Administration.

Unspent provision of ₹76 crore under the Major Head 4217 – Capital outlay on Urban Development-Other Urban Development Schemes-Other Expenditure-Bangalore Sub-Urban Rail System- Grants for creation of capital assets, was due to non-issue of policy guidelines for Sub-Urban Rail Project by the Ministry of Railways.

Public Works

Unspent provision of ₹80.55 crore under Major Head '2059'-Public Works-General- Other Expenditure- Administration of sand mining – General Expenses, was due to delay in calling tenders for sand mining.

Unspent provision of ₹8.66 crore under the Major head '3054'- Roads and Bridges-State Highways – Bridges - Maintenance of State Highway bridges, was due to sanction of tender less than the actual estimate.

Unspent provision of ₹17.18 crore under the Major Head 5051 – Capital Outlay on Ports and Light Houses - General- Sustainable Coastal Protection and Management – EAP – Capital Expenses, was due to the tendering process was in progress.

Unspent provision of ₹60.04 crore under the Major Head 5054 - Capital Outlay on Roads and Bridges - State Highways – Road Works - Karnataka State Highway Improvement Project (KSHIP) EAP –II(ADB) – EAP – Roads, was due to non-receipt of bills on time.

Water Resources

Unspent provision of ₹30.85 crore under the Major Head 4702-Capital Outlay on Minor Irrigation –Surface Water- Unspent SCSP-TSP amount as per SCSP-TSP Act, was due to non-approval of works by Technical Advisory Committee.

Unspent provision of ₹65 crore under the Major head 4702-Capital Outlay on Minor Irrigation-Surface water- Lift irrigation schemes, was due to delay in land acquisition.

Unspent provision of ₹198.61 crore under the Major Head 4702-Capital Outlay on Minor Irrigation –Surface Water-Special Component Plan- SCSP, was due to non-approval of works by Technical Advisory Committee.

Unspent provision of ₹81.09 crore under the Major Head 4702 - Capital Outlay on Minor Irrigation – Surface Water - Tribal Area Sub Plan, was due to receipt of approval for estimation of new civil works at the end of the Financial year leading to delay in executing the new civil works.

Health and Family Welfare

Unspent provision of ₹21.71 crore under the Major Head 2210 - Medical and Public Health – Rural Health Services - Allopathy – Other Expenditure - National Health Mission - Other expenses, was due to non-receipt of Government Orders for release of funds.

Unspent provision of ₹10.02 crore under the Major Head 2210 – Medical and Public Health – General – Other Expenditure - Rashtriya Swasthya Bhima Yojana – Other Expenses, was due to non-receipt of release orders from Government.

Debt Servicing

Unspent Provision of ₹192.39 crore under the Major Head 2049 – Interest payments – Interest on Internal debt – Interest on current loans – New Loans of 2015-16 – Debt Servicing, was due to repetitive provision of funds for Debt Servicing of 16 Loans of 2013-14 under this head and also under the distinct line items.

Unspent Provision of ₹292.50 crore under the Major Head 2049 – Interest payments – Interest on Internal debt – Interest on current loans – New Loans of 2016-17 – Debt Servicing, was due to non-availment of Open Market Borrowings in the first half of the financial year.

It was observed that reasons given by the departments in the above cases accounted for only a small fraction of the eventual savings.

PAC, in its 13th Report submitted to the Legislature (December 2011), observed that in order to control over provision/expenditure, unutilised provisions should be surrendered as and when it came to the notice of the grant controlling authority and that specific instructions were required to be issued in this regard. Finance department in its circular dated December 19, 2013 directed all the Administrative department and the Heads of Departments to take appropriate action to surrender the full unspent provisions to Finance Department as soon as it was anticipated without waiting for the year end. However, it was observed in audit that large amounts remained unutilised/un-surrendered, indicating poor quality of control over expenditure, despite PAC recommendations. As the compliance of the executive to the recommendation of the PAC were poor, strict action is required against officers, who are not adhering to the above instructions in the Finance Department's circular.

2.7.2 Persistent Unspent Provision

In one grant, there was persistent unspent provisions of more than ₹100 crore in each case during the last five years, as detailed in **Table 2.10**.

Table 2.10: Persistent unspent provision

(₹ in crore)

Sl. No.	Grant/ Nomenclature Major head	2012-13	2013-14	2014-15	2015-16	2016-17
1	03-Finance (Revenue – Voted)	4,101.04	116.64	489.34	1,215.44	3,028.48
	2070-00-800-11 Filling up of Vacant Post	999.98	500.00	1,181.28	1,250.03	1,575.00

Source: Appropriation Accounts

Reasons for persistent savings in the above grant revealed the following:

- Under the head of account '2070-800-11- Filling up of vacant posts', provisions made remained unutilised. The Finance Department, in its reply (December 2017) stated that the filling up of vacant posts was provided in order to take care of posts that may get filled up during the course of the year. Further, it stated that from 2017-18, some amount would be allocated under the individual demands.

2.7.3 Supplementary Provisions

The supplementary budgets are not 'fiscally neutral' as required by KFRA and commitments of significant amounts are included as a part of the supplementary estimates, which affect the budget-execution process. Too many supplementary budgets could affect fiscal discipline as over-reliance is placed on the supplementary budget rather than the original budget. The Government should aim to reduce the number of supplementary Estimate passed through the year to ideally one, as recommended by Fiscal Management Review Committee and limit approvals to a minimum of second installment of Supplementary Estimate.

Supplementary provisions (₹13,955.18 crore) made during 2016-17 constituted eight *per cent* of the original provisions (₹1,72,097.17 crore).

As per sub-section (5) of section (6) of Karnataka Fiscal Responsibility Act, 2002, whenever one or more Supplementary Estimates are presented to the Houses of Legislature, the State Government shall also present an accompanying statement indicating the corresponding curtailment of expenditure and/or augmentation of revenue to full offset the Fiscal impact of the Supplementary Estimates in relation to the budget targets of the current year and the Medium Term Fiscal Plan objectives and targets for the future year.

During 2016-17, three installments of Supplementary Estimates (SE) were laid before the Legislature. The statement indicating the supplementary estimates, corresponding curtailment of expenditure and augmentation of revenue are shown in **Table 2.11**.

Table 2.11 Details of curtailment of expenditure, augmentation of revenue, provision for book adjustments in the Supplementary Estimates

(₹ in crore)

	First Supplementary Estimate - 2,916.42	**Second Supplementary Estimate - 3,447.81**	**Third Supplementary Estimate - 7,590.94**
Amount met out of Reserve Funds	606.98	667.33	450.00
Amount covered by Central Assistance	7.00	396.31	816.87
Other receipts	612.04	0.29	342.74
Amount covered by Adjustments	635.17	6.23	0.00
Net cash outgo	**1,055.23**	**2,377.65**	**5,981.33**

Source: Supplementary Estimates

It is seen from the table that the entire supplementary provision was not made expenditure neutral to keep in line with the budgeted targets.

2.7.4 Incorrect Supplementary Provision

Out of the funds released for National Rural Drinking Water Programme (NRDWP) over the years, it was noticed that a part remained unutilised with the implementing agencies and remained parked in three banks. The Government constituted a team from State Accounts Department to conduct special audit and investigation including the amount lying unutilised in various banks. It emanated from the special audit that funds to the tune of ₹612.04 crore, including interest, remained in the bank accounts of several scheduled banks. The cabinet in its meeting held on 04.05.2016 decided to get the money remitted to the Consolidated Fund then release the amount again for the purpose of the above scheme. The amount was remitted (receipt head 0515) to Consolidated Fund during May 2016 and the provision for the same amount was made in Supplementary Estimate – I. The action of the Government in obtaining the demand was incorrect as the funds released in earlier years were booked as expenditure to Consolidated Fund and all fiscal indicators of earlier years were worked out accordingly.

The department in its reply (June 2017/December 2017) stated that since the amount was remitted to the Consolidated Fund as per the direction of the Cabinet, there was shortage of funds for committed works and hence provided for through Supplementary Estimate – I.

The reply of the department is not acceptable as it amounts to double provisioning of grant for the same work, thus, resulting in the distortion of fiscal indicators of the current year as well as the concerned previous years.

2.7.5 Unnecessary Supplementary Provision

Supplementary provision of ₹2,047.40 crore made under 16 grants in 15 object heads proved unnecessary (**Appendix 2.5**).

2.7.6 Excessive Supplementary Provision

Supplementary grant of ₹203.82 crore made under 7 object heads relating to 10 grants proved excessive. The resultant unutilised provision in these cases was ₹112.52 crore **(Appendix 2.6)**.

The Finance Department replied (December 2017) that if the supplementary provisions were not made, then it would have definitely resulted in excess expenditure. It was also stated that as the budgeting was an estimating exercise, the expenditure depends on many factors which were administrative in nature. The reply is not justifiable as more than 40 *per cent* of the supplementary provision obtained remained unutilised.

2.7.7 Inadequate Supplementary Provision

Supplementary provision of ₹1,055.39 crore made under nine object heads relating to seven grants proved inadequate. The uncovered excess expenditure in these cases was ₹453.02 crore (**Appendix 2.7).**

2.7.8 Re-appropriation of Funds

A grant or appropriation for disbursement is distributed by functional head/sub-head /detailed head/object head under which it is accounted for. The competent executive authority may approve re-appropriation of funds between the primary units of appropriation within a grant or appropriation before the close of the financial year to which such grant or appropriation relates. Re-appropriation means the transfer, by a competent authority, of saving from one unit of grant/appropriation to meet excess expenditure under another unit within the same voted grant or charged appropriation. Re-appropriation of funds should be made only when it is known or anticipated that the appropriation for the unit from which funds are to be transferred will not be utilised in full or will result in unspent provision in the unit of appropriation.

2.7.9 Belated receipt of re-appropriation and surrender orders

The re-appropriation and surrender orders issued by the grant controlling authorities are required to be received in the office of AG(A&E) for incorporation in the accounts before the accounts for the year are closed

(30.06.2017). However, it was observed that six re-appropriation orders involving an amount of ₹33.37 crore in five grants were received after the cut-off date. Similarly, 31 surrender orders involving an amount of ₹395.54 crore in eight grants were received. As the comments in appropriation accounts brings out the reasons for savings/excess as adduced by the executive, it is important that the timelines for sending such orders to the AG(A&E) are adhered to scrupulously.

2.7.10 Unnecessary/Excessive/Insufficient re-appropriation of Funds

In 2016-17, 62 cases of re-appropriation of funds was made injudiciously as compared to 73 cases in 2015-16, resulting either in un-utilised provision or excess over provision in each case **(Appendix 2.8)**, as summarised below:

In 28 cases, the un-utilised provision was not properly assessed as, even after the withdrawal of ₹560.88 crore through re-appropriation, ₹674.87 crore remained un-utilised.

In nine cases, additional funds of ₹81.60 crore, provided through re-appropriation, proved insufficient as the final expenditure exceeded the provision by ₹70.88 crore.

In 22 cases, additional funds ₹497.20 crore, provided by re-appropriation, resulted in overall un-utilised provision of ₹221.95 crore.

In three cases, withdrawal of ₹31.78 crore resulted finally in excess expenditure of ₹21.68 crore.

The Finance department replied (December 2017) that by expecting the savings under a particular head, re-appropriation from that head was made and that if the re-appropriation was not done, it would result in further excess provision under the head. The reply of the department is not satisfactory as it was observed that there were unnecessary, excessive and insufficient re-appropriations in some heads of account.

2.7.11 Defective Re-appropriation

Article 309, 312 and 315(a) of the Karnataka Financial Code *inter alia* stipulated that no re-appropriation should be made from one grant voted by the Legislature to another such grant, from voted items of expenditure to charged items of expenditure, from capital to revenue and *vice versa* if the re-appropriation statement is not self-balanced and not in the prescribed form (Form No.22A of KFC). During 2016-17, 328 re-appropriation orders for an amount ₹2,456.73 crore were issued of which 49 re-appropriation orders for ₹907.68 crore were not acted upon as they violated the provisions stated above (**Appendix 2.9**).

A scrutiny of the defective re-appropriation orders revealed that in 25 cases involving ₹32.45 crore, there were arithmetical inaccuracies in the statement forming part of re-appropriation, which resulted in their rejections. The administrative departments are required to exercise proper checks before they are submitted to AG(A&E) for acceptance.

For re-appropriation, which are issued with the authority of the Finance Department, it was observed in audit that in five cases involving ₹362.73 crore, the re-appropriation was between revenue and capital heads of account. As the appropriations are obtained separately under revenue, capital, the effect of such orders had the effect of altering the destiny of the demand. Hence they were rejected. Finance department replied that it was done with an intention of creating assets, which was necessary, while the same amount would have become savings under revenue heads. The reply is not acceptable for the reasons stated supra.

It was also observed that the treasury uploaded the re-appropriation order and allowed for withdrawal of sums from the capital head of account. Due to inadequate provisioning under the capital head, the expenditure exceeded the provision, which required regularisation (Demand No.5 – Home and Transport).

As per Para 277 of the Budget Manual, plan provision should not be diverted to non-plan items of expenditure and *vice versa* except with the specific approval of the Government. However, it was observed that re-appropriation orders were issued disregarding the provisions of the budget manual in 04 cases, involving ₹211.04 crore, which was not accepted by the Office of AG(A&E).

While accepting the audit observation, Finance Department stated (December 2017) that to avoid technical mistakes such as self-balancing, incorrect budget provision etc., re-appropriation module is introduced, which will take care of such mistakes and henceforth such mistakes will not occur.

2.7.12 Surrender of unspent Provision

Spending departments are required to surrender the grants/appropriations or a portion thereof to the FD as and when the unspent provision is anticipated.

Unspent provision not surrendered

In the case of 18 grants/appropriations, the entire unspent provision, aggregating ₹4,387.13 crore, was not surrendered **(Appendix 2.10)**.

Further, in the case of 29 grants /appropriations, there was only partial surrender and around 85 *per cent* (₹11,994.81 crore) of the total unspent provision (₹14,092.72 crore) was not surrendered (**Appendix 2.11**). Besides, in 15 grants where surrender of funds was in excess of ₹five crore, ₹1,789.36 crore was surrendered on the last two working days of the financial year, indicating inadequate financial control (**Appendix 2.12**).

2.7.13 Substantial surrenders

Out of the total provision of ₹1,305.10 crore in 41 cases, ₹989.89 crore (76 *per cent*) were surrendered, which included *cent per cent* surrenders in 11 cases (₹154.91 crore) (**Appendix 2.13**). These surrenders were stated to be due to non-approval of construction of Oceanarium in Pilikula Nisargadama, the revision of Guarantee Commission amount which would be adjusted during 2017-18, delay in calling of tenders for sand mining, late receipt of guidelines etc.

2.8 Contingency Fund

The Contingency Fund of the State was established under the Contingency Fund Act, 1957, in terms of provisions of Articles 267(2) and 283(2) of the Constitution of India. Advances from the fund are to be made only for meeting expenditure of an unforeseen and emergent character, postponement of which till its authorisation by the Legislature, would be undesirable. The fund is in the nature of an imprest and its corpus is ₹80 crore. Fund drawn out of Contingency fund are subsequently recouped to the fund through supplementary provisions.

During the year 2016-17, an amount of ₹7.64 crore was released from Contingency Fund, which was recouped to the fund account subsequently through supplementary provision.

2.9 Outcome of review of selected grants

A review on Budgetary Procedures followed and Methodology employed for control over expenditure in respect of two selected grants over a three-year period from 2014-15 to 2016-17 showed the following:

2.9.1 Grant No. 11- Women and Child Development

2.9.1.1 Introduction

The Department of Women and Child Development is entrusted with the objective of promoting social, economic and political empowerment of women through various policies and programme, mainstreaming gender concerns, creating awareness about their rights and facilitating institutional and legislative support for enabling them to develop to their full potential. Also, to ensure, all children in the State to be provided with care and protection that is required for a safe and healthy childhood, thereby laying the foundation for holistic development through various policies and programme.

2.9.1.2 Budget and Expenditure

The overall position of the budget provision, actual disbursements and savings under the functional heads of the grant below Revenue and Capital for the last three years is brought out in **Table 2.12**.

Table 2.12: Budget and Expenditure

(₹ in crore)

Year	Section	Budget Provision	Total	Expenditure	Unutilised Provision and its percentage
2014-15	Revenue-Original (V)*	3,571.94	3,758.77	3,464.08	294.69(8)
	Supplementary	186.83			
	Capital-Original (V)	98.65	118.90	70.17	48.73(41)
	Supplementary	20.25			
2015-16	Revenue-Original (V)	4,164.32	4,213.20	4,007.50	205.70(5)
	Supplementary	48.88			
	Capital-Original (V)	67.66	87.52	76.30	11.22 (13)
	Supplementary	19.86			
2016-17	Revenue-Original (V)	4,335.14	4,369.50	4,182.98	186.52 (4)
	Supplementary	34.36			
	Capital-Original (V)	161.65	189.65	139.74	49.91(26)
	Supplementary	28.00			

Source: Appropriation Accounts

**V – Voted.*

During 2014-15 to 2016-17, under the Revenue section, the deviation of unutilised provisions ranged between 4 and 8 *per cent*, in case of Capital section, the percentage of deviation was between 13 and 41 *per cent.*

2.9.1.3 Budget Revenue and Capital

The budget presented to the Legislature is further bifurcated into Revenue and Capital, Plan and Non-Plan in the detailed demand for grants. The bifurcation of provision/expenditure during the period 2014-15 to 2016-17 under Revenue/Capital is given in **Table 2.13 and Table 2.14**.

Table 2.13: Revenue

(₹ in crore)

Year	Budget including Supplementary		Expenditure		Deviation in Percentage	
	Non-Plan	Plan	Non-Plan	Plan	Non-Plan	Plan
2014-15	1,223.14	2,535.63	1,050.35	2,413.73	(-)14	(-)5
2015-16	1,551.69	2,661.51	1,275.13	2,732.37	(-)18	(+)3
2016-17	1,686.23	2,683.27	1,387.79	2,795.19	(-)18	(+)4

Source: Grant Register.

As can be seen from the **Table 2.13**, the percentage of the deviation was between 14 and 18 *per cent* under non-plan. In respect of plan expenditure, the deviation ranged between 3 and 5 *per cent*.

Table 2.14: Capital

(₹ in crore)

Year	Budget Including Supplementary		Expenditure		Deviation in Percentage	
	Non-Plan	Plan	Non-Plan	Plan	Non-Plan	Plan
2014-15	0	118.90	0	70.17	0	(-)41
2015-16	0	87.52	0	76.30	0	(-)13
2016-17	0	189.65	0	139.74	0	(-)26

Source: Grant Register.

As seen from **Table 2.14**, the percentage of deviation ranged between 13 and 41 *per cent* under capital section. The savings under the capital section was mainly under construction of Anganawadi Buildings – NABARD Works due to partial utilisation of the budget allocation. In reply, the department stated (November 2017) that follow-up action will be initiated to spend the released grants in full and within the financial year.

2.9.1.4 Role of Internal Financial Advisor (IFA)

Government appoints an Internal Financial Advisor for a Department or a Group of Departments in consultation with the Finance Department. As per Notification issued (July 1982), IFA is responsible for ensuring that the budget estimates are properly framed, the time schedule is scrupulously followed, and to examine and advice for all new schemes of new expenditure etc. The inputs of IFA in Secretariat's decision making process, are to examine and advise on all issues having an impact on the department's budget having financial implication of a short, medium or long term nature. He will render advice on financial prudence, preparation of department budget, tracking audit reports and action taken reports and the items covered in the Government of Karnataka

Rules and circulars/orders issued from time to time. During the review of departmental records, it was noticed that the files were not submitted to the Internal Financial Advisor for scrutiny and formulation of budget proposals in accordance with the instructions issued.

In reply (September 2017) the department stated that it would follow protocol issued in Notification dated 15 July 1982, in respect of consultation with Internal Financial Advisor for ensuring of the preparation of budget and matter connected therewith.

2.9.1.5 Non-release of Government of India grants to Sneha Shivir Scheme

Sneha Shivir is a new scheme introduced in the year 2014-15, in which, 4-5 anganwadi centers in a cluster are selected and parents and caregivers of severely and moderately malnourished children are given training for twelve days in preparation of nutrition food, feeding practices, health and hygiene.

This scheme is a Centrally Sponsored Scheme with a sharing pattern of 75:25 between Centre and State. The Guidelines for the scheme were issued during 2013-14. For the year 2014-15, an amount of ₹4.24 crore was allocated for this scheme, out of which, the GOK's share of ₹1.06 crore was released in anticipation of receipt of GOI's share. An expenditure of ₹0.58 crore was incurred towards training programme. The share of GOI was not received in spite of reminders to the Ministry of Women and Child Development.

Further, it was seen that though the provision for ₹1.06 crore (State's share) was made during 2015-16 and 2016-17, no amount was released and the scheme was not implemented. The action of the department to make provisions of ₹1.06 crore each year was not correct, as the provision could have been made after the receipt of Union Government funds in the supplementary estimates.

The department in their reply (August 2017) stated that the State Government made provision of ₹4.24 crore in the budget for 2014-15 towards the scheme and released an amount of ₹1.06 crore. It also stated that the provisions for 2015-16 and 2016-17 was made in anticipation of release of budget grants by GOI, which was not received.

2.9.1.6 Delay in submission of action plan to Union Government - Multi Sectorial Nutrition Programme

A Centrally Sponsored Scheme *viz*., Multi Sectorial Nutrition Programme was proposed by the Government of India with a sharing pattern of 75:25 to address the maternal and child under nutrition in 200 high burden districts under National Nutrition Mission. The GOI released ₹0.08 crore as an advance to the State Government for setting up of District Nutrition Councils and for preparation of District Nutrition Action Plans. However, it was noticed that the State Government did not submit the action plan within the stipulated time. Hence, the GOI (July 2014) directed the State Government to refund the amount of ₹0.08 crore released for this purpose. The Finance Department (February 2017) directed the administrative department to refund ₹0.08 crore to the Central Government. However, the amount is yet to be refunded (August 2017).

Hence, the provisions of ₹1.55 crore, ₹0.39 crore, and ₹0.50 crore made for the above scheme from 2014-15 to 2016-17 respectively was unutilised and the scheme, which was intended to address the maternal and child undernutrition was not implemented as there was a delay in submission of action plan by State Government.

2.9.1.7 Non-implementation of Assured Income Scheme for Orphan and Destitute Children Programme

A new scheme *viz*., 'Assured Income scheme for Orphan and Destitute Children Programme' was included in the budget for the year 2014-15 based on the Budget Speech. The scheme was intended to provide with insurance for livelihood security to orphan and destitute children undergoing long term Rehabilitation in the Government Child Homes under Juvenile Act. An allocation of ₹2.50 crore was provided in the budget for the year 2014-15 for this purpose. It was noticed that the implementing agency (Karnataka State Integrated Child Protection Society) submitted the draft guidelines/proposal during November 2014 i.e, after a delay of nearly 8 months. The budget provision made during 2014-15 was unutilised as the guidelines for the scheme, financial concurrence and the approval of the planning department were not obtained.

During the years 2015-16 and 2016-17, provision of ₹0.50 crore and ₹0.24 crore respectively was made in the budget. However, it was noticed that no expenditure was incurred. The financial concurrence was obtained during May 2016 and the planning department suggested some modification to the draft guidelines submitted by the department. Finally, the department submitted the revised guidelines during April 2017. The Government Order is yet to be issued in this regard.

Hence, due to the delay in formulation and approval of guidelines, the scheme which was to be implemented in the year 2014-15 was not taken up till date (October 2017).

The department in their reply (November 2017) stated that the scheme would be taken up once the Government Order in this regard is issued.

2.9.1.8 Additionality amount not regularised in the Supplementary Estimate – III Instalment

Under the provisions contained in Article 205 (1) of the Constitution, the Governor shall

a) If the amount authorised by any law made in accordance with the provisions of the Article 204 to be expended for particular service for the current financial year is found to be insufficient for the purpose of that year or when a need has arisen during the current financial year for supplementary or additional expenditure upon some new service is not contemplated in the annual financial statement for that year, or

b) If any money is spent on any service during a financial year in excess of the amount granted for that service and for that year, cause to be laid before the House or the Houses of the Legislature, another statement showing the estimated amount of that expenditure or cause to be presented to the Legislative Assembly, a demand for such excess, as the case may be.

During the financial year 2016-17, provision of ₹8 lakh each were made in the budget under the Heads of Account 2235-00-101-0-30-103 – Financial Assistance (2235-02-196-1-03-405 Shivamogga and 410 - Hassan). Further, the Finance Department in its order dated 18 March 2017, approved an amount of ₹19.34 lakh (₹9.67 lakh each) to these districts through additionality order stating that the same would be regularised in the Supplementary Estimate – III instalment. However, it was noticed that this amount was not regularised in the Supplementary Estimate – III, which was placed in the Legislature during the fag end of March 2017. Hence, the excess expenditure incurred was not regularised, which was in contravention to the provision contained in Article 205(1) (b) of the Constitution.

2.9.1.9 Persistent Savings

It was observed that a portion of the budget allocation was unutilised every year under certain heads of accounts during 2014-15 to 2016-17, indicating non-achievement of the projected financial outlays in the respective years. This indicates that the budget allocations were made without considering the previous years' expenditure as required under Paragraph 110 of the KBM, as shown in **Table 2.15**.

Table 2.15: Persistent saving

(₹ in crore)

Sl. No.	Head of Account / Nomenclature	2014-15	2015-16	2016-17
1	2235-02-001-0-01 Directorate of Women and Children Welfare	3.44	2.19	2.83
2	2235-02-101-0-53 NPDRP Programme for Disabled	1.88	1.46	1.77
3	2235-02-101-0-55 Placement Cell for Different Abled	2.43	1.00	2.13
4	2235-02-101-0-99 Welfare of Physically & Mentally Challenged	4.04	5.97	9.73
5	2235-02-102-0-05/ CSS (100 %) Training of Anganwadi Workers and Helpers	13.02	13.61	15.94
6	2235-02-102-0-36 Integrated Child Protection Scheme	18.94	30.84	1.33
7	2235-02-102-0-38 Sneha Shivir	3.18	1.06	4.24
8	2235-02-102-0-40 Maintenance of Anganwadis	12.82	2.84	8.10
9	2235-02-103-0-41	10.54	1.27	1.86

Sl. No.	Head of Account / Nomenclature	2014-15	2015-16	2016-17
	Sthree Shakti - Revolving fund for SHGs			
10	2235-02-103-0-46 Rajiv Gandhi Scheme for Empowerment of Adolescent Girls (SABALA)	3.26	1.27	3.60
11	2235-02-103-0-61 Indira Gandhi Mathruthva Shahayoga Yojane	12.22	8.94	34.49
12	2235-02-104-2-04 Senior Citizen Policy	1.80	1.07	1.55
13	2236-02-197-6-01 Block Grants	202.13	6.08	3.69

Source: Appropriation Accounts

2.9.1.10 Rush of Expenditure

As per paragraph 6 of instruction issued by Finance Department, GOK dated 09 September 2004, regarding releases, drawal and accounting of funds, the Administrative Departments and the Heads of Departments were to plan the expenditure for the remaining part of the financial year with due diligence and within the available grants. Bunching of bills and rush of expenditure in the month of March were to be avoided. Administrative orders were to be issued well in advance after obtaining necessary approvals at the required levels for expenditure likely to be incurred in February and March.

It was noticed that the percentage of expenditure during March ranged between 41 and 100 *per cent* during the year 2016-17. The detailed head-wise expenditure is detailed in **Appendix 2.14**.

2.9.2 Grant No. 20 – Public Works

2.9.2.1 Introduction

The Public Works, Ports and Inland Water Transport Department is the Administrative Department and in charge of all matters relating to Public Works, Ports and Inland Water Transport. The department is entrusted with an objective to plan, design, construct and maintain a safe, technically sound and cost effective road network for socio-economic growth of the State; efficient and high quality public buildings and minor ports; and need based inland water transport.

This grant of the Appropriation Accounts, apart from covering the budget and expenditure on functional major Heads on Public works also covers the other functional heads as detailed below:

1. Public Works
2. Other Administrative Services
3. Housing
4. Ports and Light Houses
5. Roads and Bridges

6. Inland Water transport

During the year 2014-17, more than 90 *per cent* of the budget allocation and expenditure was under major Heads 2059-Public works, 3054-Roads and Bridges, 4059-Capital Outlay on Public Works and 5054- Capital Outlay on Roads and Bridges. Owing to the vastness of transactions, the scope of the grant review was restricted to the aforementioned four functional heads.

A review of budgetary procedure and control over expenditure in the Grant No. 20 – Public Works, showed the following:

2.9.2.2 Budget and Expenditure

The overall position of budget provisions, actual disbursements and savings under the functional heads of the grant for the last three years (2014-15 to 2016-17) is detailed in **Table 2.16**.

Table 2.16: Budget and Expenditure

(₹ in crore)

Year	Section	Budget Provision	Total	Expenditure	Unutilised provision/Excess and its percentage
2014-15	Revenue Original(V)*	2,395.48	2,490.08	2,188.89	301.19 (12)
	Supplementary	94.60			
	*Revenue Original(C)**	*0.00*	*26.00*	*19.82*	*6.18(24)*
	Supplementary	*26.00*			
	Capital Original(V)	3,651.84	5,748.15	5,009.88	738.27(13)
	Supplementary	2,096.31			
	Capital Original (C)	*0.00*	*45.00*	*45.00*	*0.00*
	Supplementary	*45.00*			
2015-16	Revenue Original(V)	2,217.10	2,263.27	2,009.86	253.41(11)
	Supplementary	46.17			
	Revenue Original(C)	*26.65*	*26.65*	*17.72*	*8.93(34)*
	Supplementary	*0.00*			
	Capital Original(V)	4,564.89	6,592.25	6,450.82	141.43(2)
	Supplementary	2,027.36			
	Capital Original(C)	*44.00*	*44.00*	*43.61*	*0.39(1)*
	Supplementary	*0.00*			
2016-17	Revenue Original(V)	2,177.26	2,234.19	2,319.69	(+) 85.50(4)
	Supplementary	56.93			
	Revenue Original(C)	*27.50*	*27.50*	*16.76*	*10.74(39)*
	Supplementary	*0.00*			
	Capital Original(V)	5,177.23	7,531.02	7,049.40	481.62(6)
	Supplementary	2,353.79			
	Capital Original(C)	*42.50*	*42.50*	*28.42*	*14.08(33)*

Source: Grant Register

**V – Voted; C - Charged*

During 2014-15 and 2015-16 as a percentage of total provision, under Revenue voted section, unutilised provision was 12 and 11 *per cent* respectively and during 2016-17, there was an excess of 4 *per cent*. Under Revenue *charged* section, the deviation varied between 24 and 39 *per cent* and between 2 and 13 *per cent* under Capital Voted Section and 01 and 33 *per cent* under Capital charged Section.

2.9.2.3 Budget Revenue and Capital

The budget is presented under Revenue and Capital, Plan and Non-plan in the detailed demand for grants. The bifurcation of provision/expenditure during the period 2014-15 to 2016-17 under revenue and capital are given in **Table 2.17 and 2.18**.

Table 2.17: Revenue

(₹ in crore)

Year	Section	Budget including Supplementary		Expenditure		Deviation of Percentage	
		Non Plan	Plan	Non-Plan	Plan	Non-Plan	Plan
2014-15	Voted	2,152.20	337.88	1,870.22	318.67	13	6
	Charged	*26.00*	*0.00*	*19.82*	*0.00*	*24*	*0*
2015-16	Voted	1968.27	295.00	1,696.15	313.71	14	(+)6
	Charged	*26.65*	*0.00*	*17.72*	*0.00*	*34*	*0*
2016-17	Voted	2,066.55	167.64	1,692.68	627.01	18	(+)274
	Charged	*27.50*	*0.00*	*16.76*	*0.00*	*39*	*0*

Source: Grant Register

As can be seen from the table above, under voted plan section, there was saving of 6 *per cent* during 2014-15 and there was an excess of 6 *per cent* in 2015-16. During 2016-17, the expenditure was in excess of budget allocation due to the provision made (₹171.85 crore) for transfer of subventions to be paid from Central Road Fund to the State for expenditure on road development schemes was less than the actual amount transferred (₹489.63 crore) to the fund account (Public Account).

In respect of non-plan section, the deviation ranged from 13 to 18 *per cent* under voted section and 24 to 39 *per cent* under *charged* Section. It was due to the provision made for debt servicing obligation for the year 2015-16 in respect of the off-budget entity namely, M/s. KRDCL was far more than the actual requirement of funds. It was also noticed that the department was aware of the reduction in rate of interest leading to less requirement of funds for debt servicing. However, the budget was made for the subsequent year disregarding the facts known beforehand. The Internal Financial Advisor replied (October 2017) that the amount of ₹5.65 crore during 2015-16 and ₹9.40 crore during 2016-17 was withdrawn by the Finance Department. The fact, however, remains that the budget prepared was more than the actual requirement of funds.

Table 2.18: Capital

(₹ in crore)

Year	Section	Budget including Supplementary		Expenditure		Deviation of Percentage	
		Non Plan	Plan	Non-Plan	Plan	Non-Plan	Plan
2014-15	Voted	45.00	5,703.15	0.00	5,009.88	100	12
	Charged	*45.00*	*0.00*	*45.00*	*0.00*	*0*	*0*
2015-16	Voted	0.00	6,592.25	0.00	6,450.82	0	2
	Charged	*44.00*	*0.00*	*43.60*	*0.00*	*1*	*0*
2016-17	Voted	0.00	7,531.02	0.00	7,049.40	0	6
	Charged	*42.50*	*0.00*	*28.42*	*0.00*	*33*	*0*

As seen from the table above, the deviation under Plan (voted) expenditure was between 2 and 12 *per cent*. Under Non-plan (voted), the deviation was 100 *per cent* during 2014-15 due to an error in the budgeting, where the provision was provided under voted section instead of *charged* section, which was surrendered and the provision was obtained under the *charged* section in the supplementary estimate to comply with the amended provision to Section 2 of KFRA Act 2002. The percentage of deviation was 33 *per cent* during 2016-17 under *charged* section due to provision being made far in excess of the required amount for debt servicing obligation in respect of M/s. KRDCL, an Off-budget entity. It was also observed in audit that the budget making exercise was not effective resulting in unnecessary provision of funds thereby inflating the capital expenditure for the year in the budget. The Internal Financial Advisor replied that the provision to the extent of ₹6.80 crore was withdrawn by the Finance Department during the year. However, even after the withdrawal by FD there remained unutilised provision of ₹7.28 crore for which, no tangible reasons were forthcoming.

2.9.2.4 Inclusion of new works without obtaining administrative/technical sanction

Paragraphs 132 and 134 of KBM provides that the Chief Engineers should ensure that new major works which are administratively approved and technically sanctioned are only included in the budget estimates. However, during 2014-15 and 2016-17, out of 3,551 works (budget estimate of ₹7,378.34 crore), 3,366 works constituting 94 *per cent* (budget estimate of ₹6,890.42 crore), which were not administratively approved and technically sanctioned were proposed and included in the budget estimates as detailed in the **Table 2.19** below:

Table 2.19: Details of works included in the budget which are not administratively approved

(₹ in crore)

Year*	Head of Account	Total No. of works	Amount
2014-15	5054	1,687	3,640.74
2016-17	5054	1,705	3,534.75
	4059	159	202.85
Total		**3,551**	**7,378.34**

Source: Appendix-E of PWP &IWTD

**for the year 2015-16, Appendix – E for the new major works was not prepared.*

On this being pointed out, it was replied that only after budget provision and scrutiny of Appendix –E by the Finance Department, administrative approval and technical sanction would be given to fresh works included in Appendix –E. The reply is not acceptable in view of the rule provisions stated above.

2.9.2.5 Lapse of Budget /surrender of savings

According to Paragraph 264 of the Karnataka Budget Manual (KBM) and Article 314 of the Karnataka Financial Code (KFC), all savings anticipated by the Controlling Officers should be reported by them with full details and reasons to the Finance Department immediately after these are foreseen. No amounts out of the savings should be held in reserve for meeting additional expenditure not definitely foreseen or not already approved by the competent authority. This provision was violated as the amount surrendered was lesser/nil than the total unutilised provision. Thus, the instructions contained in the manual were not scrupulously followed by controlling officers. The position of surrender of unutilised provision is brought out in the **Table 2.20**.

Table 2.20: Surrender of unutilised provision

(₹ in crore)

Year	Section	Savings		Amount surrendered	
		Revenue	Capital	Revenue (percentage)	Capital (percentage)
2014-15	Voted	301.19	738.27	0.00(0)	510.39(69)
	Charged	*6.18*	*0.00*	*0.00(0)*	*0.00(0)*
2015-16	Voted	253.41	141.43	132.49(52)	123.08(87)
	Charged	*8.93*	*0.39*	*8.93(100)*	*0.39(100)*
2016-17	Voted	(+)85.50	481.62	218.20	351.06(73)
	Charged	*10.74*	*14.08*	*10.74(100)*	*14.08(100)*

Source: Grant Register

It is seen from the table that the percentage of surrender was between 52 and 100 *per cent* in revenue section and between 69 and 100 *per cent* in capital section.

2.9.2.6 Persistent savings

It was observed that a substantial portion of the budget allocation remained unutilised every year under certain Heads of Accounts during 2014-17, indicating non-achievement of the projected financial outlays in the respective years. This indicates that the budget allocations were made without considering the previous years' expenditure as required under Rule 110 of the KBM, which resulted in persistent savings under the several Heads of Accounts as shown in **Table 2.21** below.

Table 2.21: Persistent Savings

(₹ in crore)

Sl. No.	Head of Account	Savings		
		2014-15	2015-16	2016-17
1	2059-80-053-4-00-200 Maintenance	34.78	29.71	42.69
2	2059-80-800-0-06-051 General Expenses	42.68	78.18	80.55
3	3054-03-102-0-01-200 Maintenance	8.67	2.53	8.66
4	3054-04-105-0-01-200 Maintenance	3.92	1.38	4.53
5	3054-80-190-0-01-240 *Debt Servicing(charged)*	*6.18*	*8.93*	*10.74*
6	5054-04-337-0-01-422 Special Component Plan	10.52	0.87	187.58
7	5054-04-337-0-01-423 Tribal Development Plan	5.84	3.92	72.59
8	5054-04-337-0-84-436 NABARD Works	27.90	72.82	25.12
9	5054-03-337-0-86-172 Roads	274.05	66.51	99.04

Source: Grant Register

In reply the department stated that timely action will be taken to utilise the grants provided in the budget.

2.9.2.7 Rush of Expenditure

As per Paragraph 6 of instructions issued by the Department of Finance, GOK dated 09 September 2004, regarding releases, drawal and accounting of funds, the Administrative Department and the Heads of department were to plan the expenditure for the remaining part of the financial year with due diligence and within the available grants. Bunching of bills and rush of expenditure in the month of March was to be avoided. Administrative Orders were to be issued well in advance after obtaining necessary approvals at the required levels for expenditure likely to be incurred in February and March. However, it was noticed that the percentage of expenditure during March was between 36 and 66 *per cent* during the year 2016-17. The object-head wise details of expenditure are detailed in **Table 2.22**.

Table 2.22: Rush of expenditure

(₹ in crore)

Sl. No.	Head of Account	2016-17		
		Total Expenditure	Expenditure during the last Quarter and its percentage	Expenditure during the month of March and its percentage
1	2059-80-053-4-00-200 Maintenance	302.16	228.86(76)	178.66(59)
2	3054-03-102-0-01-200 Maintenance	39.74	30.48(77)	26.34(66)
3	3054-03-337-0-05-200 Maintenance	305.43	218.25(75)	167.73(55)
4	3054-04-337-1-09-172 Roads	263.16	237.59(79)	126.94(48)
5	3054-04-337-1-10-200 Maintenance	363.76	222.10(61)	138.19(38)
6	4059-80-051-0-32-386 Construction	245.96	82.53(42)	69.54(36)
7	5054-03-101-0-02-132 Capital Expenses	90.30	52.18(58)	50.02(55)
8	5054-80-190-0-01-132 Capital Expenditure	332.00	215.32(65)	215.34(65)

Source: Grant Register

2.10 Excess payment of Family Pension

The Karnataka Government Servants (Family Pension) Rules, 2002, provide that when a Government servant dies while in service, his/her family is entitled to Family Pension at double the normal rate or 50 *per cent* of the last pay drawn by the deceased Government servant, whichever is less, for a period of seven years from the date following the date of death or till the date on which the Government servant would have attained the age of sixty five years had he/she remained alive, whichever is earlier. Majority of the pension payments are made through Banks. After crediting the Family Pension amounts to the SB accounts concerned, the Banks forward the claim through the link branch and the claim is settled by the Treasury.

During 2016-17, it was noticed that in 151 cases relating to 32 District Treasuries, Public Sector Banks made payments of Family Pension at enhanced rates beyond the period mentioned in the Pension Payments Orders, resulting in excess payment of ₹1.39 crore (**Appendix 2.15**). Further, in respect of 21 District Treasuries, excess payment of ₹0.55 crore was noticed during 2015-16 in 79 cases, despite the excess payments in these cases having been pointed out in earlier years, resulting in cumulative continued excess payments of ₹1.23 crore (**Appendix 2.16**).

Failure on the part of the Banks to monitor/incorporate a validation check to facilitate adherence to the cutoff date for payment of Family Pension at enhanced rates resulted in the excess payments.

To a similar observation brought out in the Report of the State Finances 2015-16, the Government replied (December 2016) that action would be taken to recover the excess amount immediately and instructions were issued to all treasuries to send alert messages to all the bank branches in their jurisdiction, a month in advance to avoid excess payment. However, excess family pension continued during 2016-17 also indicating that the steps taken to prevent excess payment was inadequate.

Further, as the excess amount of ₹1.39 crore was reimbursed to the banks, Government incurred an avoidable loss of interest of ₹0.04 crore (**Appendix 2.17**) that could have accrued, had the amount been invested in 14 days Treasury Bills. (The interest calculated refers to cases pointed out during 2016-17 only and the period is reckoned from the month of issue of Inspection Report to the end of March 2017).

2.11 Conclusion

As brought out in earlier paragraphs, the State Government should exercise tighter control over budgetary exercise/expenditure control for prudent financial management as the following irregularities took place due to inadequate controls:

- Against the total provision of ₹1,86,052.34 crore during 2016-17, an amount of ₹1,73,045.02 crore was incurred. This resulted in unspent provision of ₹13,007.32 crore (seven *per cent*). The budgetary exercise should be more rigorous as an amount of ₹45.69 crore was misclassified under the capital/revenue section affecting the fiscal indicators;

- Executive orders for expenditure, prior to approval of the Legislature, were issued for ₹6,057.11 crore forming 43 *per cent* of Supplementary Estimate. Resorting to executive route of incurring expenditure before Legislature's sanction should be the barest minimum and resorted to only in exceptional circumstances as recommended by PAC. Further, the executive orders issued in three cases involving ₹1.03 crore was not regularised subsequently in Supplementary Estimates resulting in excess expenditure of ₹0.44 crore;

- Excess expenditure of ₹2,210.07 crore relating to the period 2012-13 to 2016-17 required regularisation under Article 205 of the Constitution;

- In five cases, involving five grants, excess expenditure amounting to ₹124.12 crore, which should have been treated as 'New Service/New Instrument of Service' was incurred without the approval of the Legislature;
- Supplementary Provision was not completely supported by the savings under other demands to make the transaction revenue neutral as required under sub section (5) of Section (6) of KFRA, 2002;
- Supplementary provision of ₹2,047.40 crore in 15 object heads was unnecessary and ₹203.82 crore made under 7 object heads proved excessive;
- Re-appropriation in 62 cases was made injudiciously resulting in either un-utilised provision or excess over provision;
- In 15 grants, ₹1,789.36 crore was surrendered in the last two working days of the financial year; and
- Excess payment of family pension was noticed.

2.12 Recommendation

- ***Budgetary control should be strengthened in all the departments to avoid cases of provision remaining unutilised;***
- ***Scrupulous scrutiny of the budget proposals, rigorous monitoring of pace of expenditure and strict compliance with provisions of Karnataka Budget Manual are essential to eliminate the possibility of excess expenditure. Top priority should be accorded to regularise the excess expenditure from the year 2012-13 by bringing those cases before the PAC;***
- ***Excessive/unnecessary supplementary provision should be avoided;***
- ***The re-appropriation orders should be issued in conformity with the provisions of the Karnataka Financial Code; and***
- ***Validation checks for facilitating adherence to cutoff date for payment of family pension is to be ensured.***

C h a p t e r – III

Financial Reporting

CHAPTER 3

FINANCIAL REPORTING

A sound internal financial reporting system based on compliance with financial rules is one of the attributes of good governance. This chapter provides an overview and status of compliance of the departments of the State Government with various financial rules, procedures and directives during the current year.

3.1 Non-submission of Utilisation Certificates

Financial Rules stipulate that for the grants provided for specific purposes, Utilisation Certificates (UCs) should be obtained by the departmental officers from the Grantees and, after verification, these should be forwarded to the AG (A&E) within 18 months from the date of their sanction unless specified otherwise. However, 173 UCs aggregating ₹723.94 crore in respect of grants released up to 2016-17 were in arrears as detailed in **Appendix 3.1**. The status of outstanding UCs is given in **Table 3.1**.

Table 3.1: Year-wise arrears of Utilisation Certificates

(₹ in crore)

Year	No. of utilisation certificates awaited	Amount
Up to 2014-15	53	61.98
2015-16	49	261.47
2016-17*	71	400.49
Total	**173**	**723.94**

Source: Finance Accounts

** The year mentioned above relates to 'Due year' i.e., after 18 months of actual drawal.*

The majority of cases of non -submission of UCs related to the Medical and Public Health Department (66 *per cent*). Pendency in submission of UCs indicates lack of monitoring of utilisation of grants released to the grantees by the department. Non -submission of UCs defeats the very purpose of Legislative control over the public purse and is fraught with the risk of the funds released for various schemes/programme being locked up, misused or diverted for unauthorized purposes.

3.1.1 Non-submission of UCs by the Director of Municipal Administration

The devolution to ULBs are governed by the recommendations of the State Finance Commission. The devolution of grants to ULBs revealed non-utilisation of provision by ₹673.14 crore constituting seven *per cent* of total provision (₹9,231.14 crore). Out of the unutilised provision during 2016-17, 37 *per cent* of the (₹254.34 crore) was on account of non-submission of UCs by the Directorate. The matter was reported to the department in October 2017 and the reply is awaited.

3.2 Non-receipt of information pertaining to institutions substantially financed by the Government

To identify the institutions, which attract audit under Sections 14 and 15 of the CAG's (Duties, Powers and Conditions of Service) Act, 1971, heads of the

Government Departments are required to furnish to audit every year information about the institutions to which financial assistance of ₹25 lakh or more was given, the purpose for which assistance was granted and the total expenditure of the institutions.

Fourteen Departments did not furnish the information pertaining to 438 institutions receiving grants aggregating ₹25 lakh or more for periods ranging from one year to more than 20 years, as detailed in **Appendix 3.2**. As seen from the appendix, major defaulter was the department of Education.

Circular instructions were issued by the Finance Department (December 2013) to all the Secretaries of Administrative Departments to furnish the required information to the AG (A&E) directly. However, there was no significant improvement in compliance.

3.3 Status of submission of accounts of Autonomous Bodies and placement of Audit Reports before the State Legislature

Several Autonomous Bodies were set up by the State Government in the fields of Village and Small Industries, Urban Development, *etc*. The audit of accounts of 11 autonomous bodies in the State was entrusted to the C&AG under Sections 19 and 20 of CAG's DPC Act, 1971. These are audited with regard to their transactions, operational activities and accounts, conducting of regulatory/compliance audit, review of internal management and financial control, review of systems and procedures, *etc*.

Separate Audit Reports in respect of one autonomous body for the year 2014-15, five autonomous bodies for 2015-16 and four autonomous bodies for 2016-17 were yet to be placed before the State Legislature. The Separate Audit Report in respect of one autonomous body was not placed since 2006-07.

The status of entrustment of audit, rendering of accounts, issuing of Audit Reports and their placement before the State Legislature is indicated in **Appendix 3.3**.

3.4 Departmental Commercial Undertakings

The departmental undertakings of certain Government Departments performing activities of commercial and quasi-commercial nature are required to prepare proforma accounts in the prescribed format annually, showing the working results of financial operations, so that the Government can assess their working. The finalised accounts of departmentally managed commercial and quasi-commercial undertakings reflect their overall financial health and efficiency in conducting their business. In the absence of timely finalisation of accounts, the investment of the Government remains outside the scrutiny of Audit/State Legislature. Consequently, corrective measures, if any, required for ensuring accountability and improving efficiency cannot be taken in time. Besides, the delay in all likelihood also opens the system to the risk of fraud and leakage of public money.

The Heads of Departments in the Government are to ensure that the undertakings prepare and submit such accounts to the Accountant General for audit within a specified time-frame. Out of the nine undertakings, which are closed/transferred/converted into co-operative federations, proforma accounts in respect of two undertakings were due from 1969-70. The position of arrears in preparation of proforma accounts by the undertakings is given in **Appendix 3.4**.

In reply to the same issue being pointed out in earlier audit report, Finance Department stated (December 2013) that with the online computerisation of treasury and the system of drawal on treasuries by preferring bills, there appears to be no necessity for preparation of proforma accounts. The Administrative Departments of these undertakings will be instructed to examine the necessity or otherwise of maintaining of proforma accounts. The Karnataka Government Insurance Department will continue to render proforma accounts. Further development in this matter is awaited.

3.5 Misappropriations, losses, etc.

There were 29 cases of misappropriation, losses, etc., involving Government money amounting to ₹18.11 crore at the end of 2016-17, on which, final action was pending. The department-wise break up of pending cases and age-wise analysis is given in **Appendix 3.5** and the nature of these cases is given in **Appendix 3.6**. The particulars of the pending cases in each category of theft and misappropriation are given in **Table 3.2**.

Table 3.2: Profile of pending cases of misappropriations and theft

(₹ in crore)

Nature of the cases	Number of cases	Amount involved
Theft	04	0.05
Misappropriation	25	18.06
Total	**29**	**18.11**

Source: Offices of the AG (G&SSA) and AG (E&RSA)

Around 93 *per cent* of the amount involved pertained to Public Works, ports and Inland Water Transport Department (₹11.80 crore), Social Welfare Department (₹3.37 crore) and Home Department (₹1.68 crore).

3.6 Non-receipt of Stores and Stock Accounts

The annual accounts of Stores and Stock are required to be furnished by various departments to Audit by 15 June of the following year. The half yearly accounts of PWP and IWTD, Water Resources and Minor Irrigation Departments are due to be received by 15 December of the year and 15 June of the following year. Delay in receipt of stores and stock accounts is commented upon in successive Audit Reports.

The position of arrears relating to submission of stores and stock accounts by 11 departments involving 75 offices is indicated in **Appendix 3.7**.

3.7 Abstract Contingent Bills

Under Rule 36 of the Manual of Contingent Expenditure, 1958, the Controlling and Disbursing Officers are authorised to draw sums of money by preparing Abstract Contingent (AC) bills, by debiting service heads and are required to present Non-payment Detailed Contingent (NDC) bills (vouchers in support of final expenditure) to the AG(A&E) through treasuries before 15th of the month following the month to which the bill relates. Detailed bills aggregating to

₹84.81 crore, drawn on 3,272 AC bills, were pending at the end of March 2017, as detailed in **Table 3.3**. Controlling officers should also ensure that no amounts are drawn from the treasury unless required for immediate disbursement.

Table 3.3: Pending Abstract Contingent Bills

(₹ in crore)

Year	No. of pending AC Bills	Amount
Up to 2014-15	1,276	24.14
2015-16	396	18.62
2016-17	1,600	42.05
Total	**3,272**	**84.81**

Source: Finance Accounts

As compared to last year, the outstanding NDC bills (7,493 bills of ₹220.85 crore) was reduced due to the fact that the figures were adopted from the Treasury Network Management Centre (TNMC) as the responsibility of watching of NDC bills were rested with the Treasury as per the instructions contained in the Circular dated September 09, 2004.

Most of the outstanding NDC bills pertain to Major Head 2015 – Elections (115 bills amounting to ₹6.85 crore), Major Head 2055 – Police (72 bills amounting to ₹32.19 crore), 2406 - Forestry and Wildlife (349 bills amounting to ₹9.25 crore), 3475 – Other General Economic Services (101 bills amounting to ₹4.63 crore).

The withdrawal of money on an AC bill is accounted for against the functional Major Head in the Consolidated Fund. Unless the accounts are settled within the time allotted, the expenditure stands inflated. This impacts the fiscal indicators of the Government (Revenue surplus/fiscal deficit). Instructions were issued by the Finance Department to all Principal Secretaries/Secretaries to Government (August 2012) for settlement of accounts within the stipulated period, failing which action will be taken to stop the salary of the DDO concerned. However, it was observed in audit that the practice of drawal of salary by DDOs, who had substantial bills pending against them continued, indicating poor compliance with the instructions of the Finance Department.

PAC in its 5th Report (July 2015) took a serious note on this issue and stated that strict action should be taken for non-submission of NDC bills by the DDOs.

The Finance Department in its reply (October 2017) stated that due to relaxation given to DCs and Tahsildars during election to draw on AC bill irrespective of pending NDC bills, there may be outstanding DC bills in Revenue Department. It further stated that due to continuous instructions by FD to all the departments, the outstanding AC bills were coming down compared to previous year. It also stated that efforts to further reduce the numbers would be taken.

3.8 Personal Deposit Accounts

The Karnataka Financial Code provides for opening of Personal Deposit (PD) accounts with permission from Government in cases where the ordinary system of accounting is not suitable for transactions. PD accounts created by debit to the Consolidated Fund of the State should be closed at the end of the financial year. Administrators of the accounts should intimate the Treasury Officer the balance to be transferred to the Consolidated Fund. For continuation of PD accounts beyond the period of its currency, administrators are required to seek the permission of the Finance Department. Periodical reconciliation of PD accounts with treasury accounts is the responsibility of the administrators concerned.

3.8.1 Funds kept in PD Accounts

The transactions relating to PD accounts for the period 2012-13 to 2016-17 are detailed in **Table 3.4**.

Table 3.4: Funds in PD accounts

(₹ in crore)

Year	Opening Balance	Receipts/Deposits	Withdrawals	Closing balance
2012-13	1,478.25	3,582.23	2,974.30	2,086.18
2013-14	2,086.18	3,782.85	3,571.93	2,297.10
2014-15	2,297.10	3,915.81	3,784.62	2,428.29
2015-16	2,428.29	6,368.39	6,061.07	2,735.61
2016-17	2,735.61	5,516.51	5,310.01	2,942.12

Source: Finance Accounts

As the balances in the deposit account are showing an increasing trend over the years, action is required to follow the provisions of the code for write back/cleaning up of balances in respect of funds which have outlived their utility.

The net closing balance mainly related to the PD accounts as mentioned in **Table 3.5**.

Table 3.5: Closing balances in PD Accounts

(₹ in crore)

Sl. No.	Administrators	Amount
1	Personal Deposits - General	333.16
2	PD Accounts of Deputy Commissioners	5,797.32
3	PD Accounts of Director, Directorate of Minorities	260.29
4	PD Accounts of Director, Department of Scheduled Tribe	207.06

Source: DDR Ledger

Leaving significant balances in the Personal Deposit Accounts of the administrators is fraught with the risk of financial misappropriation and mismanagement.

3.8.2 Parking of funds in PD Accounts

During the year 2016-17, a PD account was opened under the head of account 8443-00-106-2-39 - Director, Directorate of Minority Welfare, Bengaluru, which was credited with an amount of ₹260.29 crore (March 2017). The amount credited related to Scholarship for Minorities and fee re-imbursement and incentive for Minority Students. The amount remained in the deposit account till April 2017 without utilisation.

The Department in its reply (October 2017) stated that the State had to wait for the finalisation of GOI Scholarships as the scholarships will be disbursed to those students who do not receive the GOI Scholarship and that the GOI provided the list only on 23 March 2017. It also stated that due to the merger of SBI and SBM, the procedure to disburse scholarship could not be taken up during April 2017 and disbursement process started from May 2017.

However, the fact remains that drawal of money in advance of requirement from the Consolidated Fund and depositing the same in Public Account inflated the expenditure on revenue account.

3.8.3 Reconciliation of Personal Deposit accounts

The purpose of PD accounts is to enable DDOs to incur expenditure pertaining to a scheme, for which funds are placed at their disposal, by transfer from the Consolidated Fund of the State. Administrators are required to close these accounts on the last working day of the year by crediting the unspent balances to the Consolidated Fund. Under the rules, Administrators of PD accounts are required to reconcile the balances of these accounts with the treasury officers (where the detailed accounts are maintained by the treasuries) and with the AG (A&E) (where the detailed accounts are maintained by the AG). Information on reconciliation of figures by the Administrators with the treasuries was not available, and none of the Administrators of the 64 PD accounts reconciled their accounts with the AG (A&E).

As per Article 286A of Karnataka Financial Code, the State Government is required to close all PD accounts remaining inoperative for more than three years. As brought out in Notes to Accounts of Finance Accounts 2017, 21 PD Accounts (with an outstanding credit balance of ₹4.75 crore in 10 PD Accounts and debit balance of ₹1.25 crore in nine PD Accounts and two PD accounts with nil balance) were inoperative (**Appendix 3.8**). Action may be taken by administrators to analyse the balance and retention of the account and duly reconcile the balance with the accounts office before embarking upon the process of closure of accounts by writing back the transactions to the Consolidated Fund of the State.

It was replied (October 2017) that out of 21 PD Accounts, 13 PD accounts were closed after getting certification from Treasury regarding the closing balances. However, as seen from the books of accounts office, the reconciliation in respect of these accounts have not been done and 21 PD accounts are outstanding as on date. The Finance Department in its reply (December 2017) stated that the action would be taken to close the in-operative PD accounts on getting reconciled figures from treasury.

3.9 Reconciliation of Receipts and Expenditure

To exercise effective budgetary control over revenue/expenditure and to ensure accuracy in accounts, all Controlling Officers are required to reconcile every month, the receipts and expenditure recorded in their books with the figures accounted for by the AG (A&E). Reconciliation of receipts was completed for a value of ₹1,32,901 crore (99.75 *per cent* of total receipts of ₹1,33,240.75 crore). Reconciliation of expenditure was completed for a value of ₹1,30,035 crore (81 *per cent* of total expenditure of ₹1,60,071 crore). No reconciliation was carried out in respect of receipts (₹99.84 crore) and disbursements (₹1,934.38 crore) under loans and advances. Necessary action for reconciliation in respect of receipts and expenditure under loans and advances is required to be taken.

PAC in its 5th Report (July 2015) instructed the Government to take strict action on implementation of circulars issued for reconciliation of Receipts and Expenditure.

The Finance Department replied (October 2017) that the observation is noted and instructions are being issued.

3.10 Comments on Accounts

3.10.1 Defective Budgeting resulting in excess expenditure under Demand No. 29 – Debt Servicing under Interest and Commitment Charges

The State Government avails external aids (Loans) through the Government of India for implementation of projects through different departments of Government and autonomous institutions. Such aid is passed on to the Government Departments on back-to-back basis[8] from the lender. The repayment of loan and payment of interest thereon is through the RBI books. These re-payments are initially in the books of the Controller of Aid Accounts and Audit, GOI, which are later on passed on to the State books through the banker (RBI). These external loans carry with them commitment charges, which is the fee levied on the total committed loan amount not drawn from time to time, the rate of which is as per the relevant loan/credit agreement. These payments are reimbursed by the State Governments.

As per Karnataka Budget Manual, 1975, and as per Article 204(3) of the Constitution, no money shall be withdrawn from the Consolidated Fund of the State except under appropriation made by law.

During the year 2016-17, no provision was made either in the original or supplementary estimates towards commitment charges. However, an expenditure of ₹5.35 crore was incurred during the year 2016-17 commencing from April 2017 onwards under the Major Head 2049-04-101-0-02-241(C/NP) in respect of External Loans to be released on back-to-back basis. The information relating to the amounts booked under the head was within the knowledge of the State Government (Finance Department) as the transactions carried out in the books of the RBI are made known to the Finance Department on a day-to-day basis by the Banker. Hence the FD could have taken action to make at least a token provision to cover the expenditure and informed the Legislature through the Supplementary Demand the nature of expenditure being accounted under the head. This issue was discussed even in the report of State Finances of earlier years.

[8] Back to back basis means that the assistance is passed on as per the loan conditions of the external agency and the fluctuation in the exchange rate is to be met by the concerned State.

In reply, the Department stated (June 2017) the provision for commitment charges was made in the Financial Year 2017-18 and shortfall if any, will be covered either by re-appropriation or supplementary estimates.

3.10.2 Irregular retention of scheme money

A GOI scheme, *viz*, Rastriya Swasthya Bhima Yojana (RSBY) was implemented with a view to provide health insurance cover to Below Poverty Line (BPL) workers in the unorganised sector and their families. In Karnataka, the scheme was being implemented by the Labour Department through Rastriya Swastya Bhima Yojana Society, Bengaluru till 2015-16. Consequent upon transfer of the scheme from Labour Department to Health and Family Welfare department with effect from 1 April 2016, the scheme was implemented by the H&FW department through Suvarna Arogya Suraksha Trust (SAST), a special purpose vehicle established under the Indian Trust Act, 1882.

At the time of transfer, the Rastriya Swastya Bhima Yojana Society, Bengaluru had ₹90.89 crore in their account, which was transferred to SAST during May 2016. Further, the Government of Karnataka released an amount of ₹106.96 crore for implementation of the scheme for the year 2016-17 for which, budget was made under the head of account 2210-80-800-0-27. The total expenditure for the year 2016-17 relating to the scheme was only ₹79.83 crore, which could have been met from out of the amount remaining unutilised of earlier years. Further, as on 31.03.2017, the closing balance under the scheme account was ₹121.28 crore (RSBY - ₹116.95 crore + RSBY Senior Citizen Scheme ₹4.33 crore).

Withdrawal of sums from the Consolidated Fund not required for immediate disbursement is not a prudent fiscal practice. In the instant case, the entire sum sanctioned during the year was withdrawn from the treasury just to avoid lapse of budget grants, which was not utilised. The sanctions issued by the department mentioned the measures to be followed before the release of further grants, which was not followed scrupulously. The action of the department in release of money resulted in overstatement of revenue expenditure, as also fiscal deficit.

In reply, the Executive Director, SAST, stated (November 2017) that though the amount of ₹90.37 crore was transferred by the Labour department during April 2016, the details of pending payment to insurance companies for the previous years were not provided during the transfer funds. It was also stated that, for the subsequent year 2017-18, though the provision of ₹183 crore was made, the Government released ₹91.81 crore only based on UC submitted with actual funds available with SAST. However, the fact remained that for the year 2016-17, the amount released was unnecessary as the trust already had an opening balance of ₹90.37 crore.

3.10.3 Avoidable payment of interest of ₹7 crore to National Thermal Power Corporation Limited (NTPC)

During the year 1990-91, M/s NTPC deposited an amount of ₹3.47 crore with M/s Karnataka Industrial Area Development Board (KIADB), for acquisition of 2982 acres of land for construction of power project near Mangaluru. However, 97.85 acres of land was only acquired for an amount of ₹1.65 crore and the remaining amount of ₹1.82 crore was continued to remain in Government books

(Udupi Treasury). The project was subsequently abandoned and M/s. NTPC had requested for refund of the balance amount along with interest (February 2007). The Government vide GO dated 26 December 2016 ordered the release of ₹8.81 crore inclusive of compounded interest for 20.5 years calculated at eight *per cent* per annum. A provision of ₹8.81 crore was made in the Supplementary Estimate – II installment for payment of the same and was paid to M/s. NTPC in January 2017.

Scrutiny of the above transaction revealed that the balance amount of ₹1.82 crore remained in the Udupi Treasury from 1990-91 till date and was not refunded to NTPC soon after the project was abandoned. Had the amount was refunded in time, the payment of interest to an extent of ₹7 crore[9] on the above principal amount could have been avoided.

Further the provision made in the budget for refund of ₹8.81 crore was also not correct as an amount of ₹1.82 crore was remained in the Udupi Treasury in the Public Account and was not adjusted to Consolidated Fund of the State.

In reply to the observation, the department stated (July 2017) that a letter was addressed to Deputy Commissioner, Udupi District to nominate a suitable authority (as per KFC Section 271 and 280) and directed to deposit the unspent amount to the Government Account.

3.10.4 Government money kept outside the Government Account for avoiding lapse of budget grants

As per Article 161 of the Karnataka Financial Code, while sanctioning the grants, the authorities are required to sanction only such amounts, which was to be utilized within the financial year. The authority signing and countersigning the grant-in-aid bills are required to ensure that the money was not drawn in advance of requirements. Further, the Rule 17 of the Manual of Contingent Expenditure prescribes that no money shall be drawn from the treasury unless it is required for immediate disbursement.

During the year 2016-17, Government of Karnataka released an amount of ₹115.10 crore under the object head 422/423 for purchase of laptops for SC/ST students as detailed in **Table 3.6**.

Table 3.6: Release of funds

(₹ in crore)

Sl. No.	Head of Account	GO No. & Date	Amount	Purpose
1	2202-03-103-2-01 2202-03-103-2-04 2202-03-103-2-09 2202-03-001-0-02	ED 4 HPC 2017 dated 21.03.2017	75.86	Purchase of laptops to SC/ST students
2	2202-03-001-0-02	ED 89 HPC 2016 dated 22.10.2016	39.24	Purchase of laptops to SC/ST students

[9] Calculated @ 8% compounded interest on ₹1.82 crore for 20.5 years (from 1996 onwards).

The above amounts were directed to be deposited in Bank account of the Karnataka State Higher Education Council, which was approved by the Finance Department vide its order dated FD 198 EXP-8/2017 dated 20.03.2017 and FD 199 EXP-8/2017 dated 20.3.2017. Finance Department also directed the department to use the same before the end of the first quarter of the year 2017-18. However, the funds were not utilised by the Council and held in the Bank Account (July 2017).

3.11 Transparency in Accounts

3.11.1 Erroneous provisions made under omnibus head – 911 in the Budget estimate/Supplementary estimates

a) As per the instructions contained in Paragraph 3.10 of the List of Major and Minor Heads, recoveries of overpayment made during the same financial year shall be recorded as reduction of expenditure under the concerned Service Head. Recoveries of overpayments pertaining to previous year(s) shall be recorded under distinct minor head '911 – Deduct – Recoveries of Overpayments' below the concerned Major/sub-Major Head without affecting the gross expenditure under the functional major/sub-major head. It is incorrect to make provision under the minor head '911' as the payments are to be made with reference to the service rendered as per relevant laws/rules in force.

Contrary to the above, it was noticed from the Budget/Supplementary estimates for the year 2016-17, that apart from fund transactions, for which, deduct entry (recoveries) were made in the budget, provisions relating to recoveries of overpayments pertaining to earlier years were made. Provision of ₹2,704 crore in the original budget and ₹615.48 crore in the Supplementary Estimate – II instalment were made across grants and functional major heads stating that it was the recovery of overpayment of previous years relating to Zilla Panchayats/Taluk Panchayats (**Appendix 3.9)**.

In reply, the Finance department stated (May 2017) that since the amount remained unspent under the ZP/TP Fund – II over the years, which resulted in increased outstanding liability of the State, the write back of these amounts was required and henceforth these unspent balances of the ZP/TP funds will be adjusted under the Minor Head '911' as brought out in GO dated 22 December 2016. The reply of the department is not satisfactory as the write-back transaction is not similar to recoveries of overpayments made under various functional major heads.

b) Misclassification under minor head '902'

The demands for grants placed before the Legislature are for gross amounts which include recoveries. The recovery transaction embrace such of those Fund transactions, for which budget is obtained for incurring the expenditure under the Consolidated Fund and later transferred to the Public Account through a deduct entry. For this purpose, budget is obtained under the Minor head '902 – Deduct amount met from (Name of the fund). However, it was noticed that budget provisions were made under the fund adjustment head (Minor head 902) for recovery of overpayments relating to the previous years of ZPs and TPs (eg. under Grants 17, 22 etc.) under which, no fund transactions existed. On being pointed out, the department issued a corrigendum on 31 March 2017 for changing the Minor head 902 to Minor head 911.

3.11.2 Provision/expenditure made under defunct object heads of account

Provisions/expenditure in Government Accounts are classified according to Sector/Sub-sector/Function/Sub-function/Programme/Detailed/Object head using 15 digit classifications. Expenditure classifications as per object head, last tier of classification, exhibits the object/nature of expenditure, required to be prepared by exercising high degree of accuracy/Acumen/competency. In order to simplify the classifications of expenditure, new object heads were formed during the year 2003-04, by merging certain object heads of account. The object head '050 – Office Expenses' was merged under the head '051 – General Expenses' and hence the object head '050-office expenses' ceases to be in operation.

However, it was noticed that during the year 2016-17, a provision of ₹0.60 crore under the head of account 2202-02-001-0-04-050(NP) – Office expenses and ₹5 crore under the head of account 2202-02-001-0-04-050(P) – Office expenses were made against which an expenditure of ₹0.49 crore and ₹4.57 crore was booked.

The Finance department replied (September 2017) that the object head, which are defunct like 050 – Office Expenses will not be enabled so that budget sections of FD cannot make provision under the head. It also stated that the Treasury will also be instructed not to incur expenditure under defunct head.

3.12 Important factors affecting accuracy of accounts

The accounts of the Government are kept on cash basis. Certain transactions that arise in Government Account, the receipts and payments of which, cannot at once be, taken to a final head of receipt or expenditure owing to lack of information as to the nature or for any other reasons, are to be booked temporarily under the suspense head. This head is cleared on receipt of relevant details/information. Debt, Deposit and Remittances (DDR) heads of account for such transactions where the Government, as a custodian of public money, receives and holds such money in trust.

The accuracy of the State Finance Accounts 2016-17 was adversely affected by factors like (i) large number of transactions under suspense heads awaiting final classification and (ii) increasing number and magnitude of adverse balances under DDR heads. On a general review of the transactions, the following were observed:

a) Outstanding balances under major suspense accounts

Certain intermediary/adjusting heads of accounts known as 'Suspense heads' are operated in Government accounts to reflect transactions of receipts and payments, which cannot be booked to a final head of account due to lack of information as to their nature or for other reasons. These heads of accounts are finally cleared by minus debit or minus credit when the amounts under them are booked to their respective final heads of accounts. If these amounts remain un-cleared, the balances under the suspense heads would accumulate and would not reflect Government's receipts and expenditure accurately. The balances under certain major suspense heads of accounts, as recorded in the ledger maintained by AG (A&E), are indicated in **Table 3.7**.

Table 3.7: Suspense Head (8658 – Suspense Accounts)

(₹ in crore)

Name of the Minor Head	2014-15		2015-16		2016-17	
	Dr.	**Cr.**	**Dr.**	**Cr.**	**Dr.**	**Cr.**
101-Pay and Accounts Office Suspense	67.40	0.70	86.90	0.68	118.86	0.45
Net	**Dr.66.70**		**Dr.86.22**		**Dr.118.41**	
102-Suspense Account (Civil)	17.93	7.35	24.29	34.42	17.22	60.74
Net	**Dr.10.58**		**Cr.10.13**		**Cr.43.52**	
110-Reserve Bank Suspense	15.44	56.20	20.20	57.56	41.02	148.41
Net	**Cr.40.76**		**Cr.37.36**		**Cr.107.39**	

Source: Finance Accounts

The Finance Accounts reflect the net balances under these heads. The outstanding balances are worked out by aggregating the outstanding debit and credit separately. The implications of the balances under these heads are discussed in the succeeding paragraphs:

❖ **Pay and Accounts Office (PAO) Suspense**

This head is intended for settlement of transactions between the Accountant General and the various separate Pay and Accounts Officers. The transactions initially recorded under this head in the books of the AG are cleared on receipt of the Cheque/Demand Drafts from the Pay and Accounts Officer and on the issue of Cheque/Demand Draft in respect of amounts received in the State Treasuries on behalf of the Pay and Accounts Officer. Outstanding debit balance under this head would mean that payments were made by the AG on behalf of a PAO, which were yet to be recovered. Outstanding credit balance would mean that payments have been received by the AG on behalf of a PAO, which were yet to be paid. The net debit balance under this head showed an increasing trend. On clearance/settlement of this, the cash balance of the State Government will increase. The transactions mainly related to National Highways, and payments made by State Government to Central Government Civil Pensioners.

❖ **Suspense Account (Civil)**

Transactions where full particulars of the classification are not available, or where the relevant vouchers/schedules in support thereof are not available or where there is some discrepancy between the figures reported in the Treasury Schedules of payment/cash accounts and those appearing in the supporting vouchers, schedules, etc., constitute the major portion of outstanding under this head.

Transactions taking place at State Treasuries on behalf of Railways, Defence and P&T are also initially classified under this head, pending settlement of claims by these authorities.

The net credit balance under this head increased by ₹33.39 crore during the year. However, in so far as accounts with Railways (₹3.19 crore) and accounts with Defence (₹0.59 crore) are concerned, the cash balance will increase on clearance. There is no impact on cash balance on the rest of the items on clearance.

❖ **Reserve Bank Suspense, Central Accounts Office**

This head is operated for recording inter-governmental transactions where monetary settlement between the cash balances of two Governments is done by sending advice to the Central Accounts Section of the Reserve Bank of India. This head is cleared by transferring the amount to the final head of account on receipt of intimation of the monetary settlement having been carried out by the RBI. The main transaction, which gets settled through this suspense head are grants/loans received from the Government of India and their repayments, discharge of securities and interest paid thereon by the Public Debt offices of RBI, and payments made by the Director General of Supplies and Disposals for materials supplied to Government Departments.

During 2016-17, the credit balance under this head was ₹107.39 crore, which was an increase of ₹70.03 crore over the previous year, indicating that corresponding clearances were not made.

b) Adverse Balances under DDR Heads

Adverse balances are negative balances appearing under those heads of accounts, where there should not be a negative balance. For example, against the accounting head of any loan or advance, a negative balance will indicate more repayment than the original amount advanced. As revealed by Finance Accounts for the year 2016-17, adverse balance of e- Public Debt amounting to ₹123.33 crore (Major Head 6003-Internal Debt- debit) was on account of credits of the direct release of loans by National Co-operative Development Corporation (NCDC) to loanee entities without routing these loans through the Consolidated Fund of the State, while repayments are made through the Consolidated Fund. In respect of the adverse balance of ₹23.66 crore - debit (Major Head 6004- Loans and Advances from Central Government) was on account of write-off of Central Loans on the recommendations of XIII FC (balances outstanding as per books of accounts as on 31 March 2010). The excess payments made during 2010-12 to various PAOs are to be adjusted against the dues of the Finance Ministry, Government of India. In respect of loans and advances, the adverse balance was ₹199.33 crore, which was on account of non-reconciliation/misclassification in accounts.

3.13 Conclusion

Non-payment Detailed Contingent (NDC) bills against Abstract Contingent (AC) bills were found wanting for a long period. Large sums of money were being retained in PD Accounts thereby going against the principle of legislative financial control. Non-submission of Utilisation Certificates by grantee institutions were noticed. There were unnecessary releases of scheme funds to the implementing agencies. There were errors in making provisions under omnibus heads. Suspense Accounts balances showed an increasing trend.

There were adverse balances under certain accounts in Consolidated Fund heads, which required remedial action for clearance.

3.14 Recommendations

- ***The Government should ensure adjustment of Abstract Contingent Bills within stipulated period;***
- ***The Government needs to adopt a stringent follow-up mechanism to ensure that the department adheres to the rules and regulations in submission of UCs;***
- ***Cleaning up of balances in the PD Accounts which outlived their utility needs to be examined and steps need to be taken for review of status of PD accounts and closure of inoperative ones, in consultation with the Administrators and Treasury;***
- ***Amount due from GOI due to excessive settlements to PAO's during 2010-12 consequent to write off of central loans, to be pursued with Finance Ministry, GOI for expeditious clearance;***
- ***Review of suspense heads needs to be done to bring the transactions to the final heads in the accounting year itself; and***
- ***Release of money from Consolidated Fund to the implementing agencies should be based on requirement of funds rather than releases made to avoid lapse of budget grants.***

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Countersigned

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The **Comptroller and Auditor General of India**

Appendices

Appendix 1.1

State Profile

(Reference: Page 1)

A	**General Data**		
Sl. No.	**Particulars**		**Figures**
1	Area		1,91,791 sq.km
2	Population		
	a.	As per 2001 Census	5.28 crore
	b.	As per 2011 Census	6.11 crore
3	a.	[1]Density of Population (2001 Census) (All India Density = **325 persons per Sq. Km**)	276 persons per sq.km
	b.	[1]Density of Population (2011 Census) (All India Density = **382 persons per Sq. Km**)	319 persons per sq.km
4	[2]Population below poverty line (All India Average= **21.9 %)**		20.9 *per cent*
5	a.	[3]Literacy (2001 Census) (All India Average = **64.8 %**)	66.60 *per cent*
	b.	[3]Literacy (2011 Census) (All India Average = **73 %**)	75.40 *per cent*
6	[4]Infant Mortality (per 1,000 live births) (All India Average = **37 per 1,000 live births**)		28 per 1,000 live births
7	[5]Life Expectancy at birth (All India Average = **68.3 years**)		69 years
8	[6]Gini Coefficient[1] (latest figures available for 2009-10 has been adopted)		
	a.	Rural (All India = **0.29**)	0.24
	b.	Urban (All India = **0.38**)	0.33
9	[7]Gross State Domestic Product (GSDP) 2016-17 at current price (in crore)		11,17,334
10	Per capita GSDP CAGR (2007-08 to 2016-17)	Karnataka	17.22
		General Category States[2]	13.20
11	GSDP CAGR (2007-08 to 2016-17)	Karnataka	19.38
		[5]General Category States	15.20
12	[8]Population Growth (2007-16)	Karnataka	9.50
		[6]General Category States	12.30

B	**Financial Data**				
Particulars		**Figures in *per cent***			
		2007-08 to 2015-16		**2015-16 to 2016-17**	
CAGR		**General Category States**	**Karnataka**	**General Category States**	**Karnataka**
a.	of Revenue Receipts.	14.58	14.17	11.52	12.12
b.	of Own Tax Revenue.	14.80	14.27	13.50	9.80
c.	of Non-Tax Revenue.	9.45	6.01	12.10	8.20
d.	of Total Expenditure.	15.84	14.52	15.31	17.06
e.	of Capital Expenditure.	14.53	10.80	17.91	40.78
f.	of Revenue Expenditure on Education.	16.86	13.47	9.86	7.26
g.	of Revenue Expenditure on Health.	18.43	16.49	14.92	22.53
h.	of Salary and Wages.	14.89	12.37	13.06	4.50
i.	of Pension.	17.17	16.83	10.63	0.39

Source: Financial data is based on Finance Accounts

[1] Gini Coefficient is a measure of inequality of income among the population. Value rate is from zero to one, closer to zero inequality is less; closer to one inequality is higher.

[2] States other than 11 States termed as Special Category States (Arunachal Pradesh, Assam, Himachal Pradesh, Jammu & Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura, and Uttarakhand).

The development indicators relating to the major infrastructures are as follows:

(i) Surfaced roads per 100 sq. km is **39.09 km.**
(ii) Unsurfaced roads per 100 sq. km is **0.56 km**.
(iii) Percentage of villages electrified is **99.97.**
(iv) Grossed cropped area is **122.47 hectares.**
(v) Number of Primary schools (as of 2016-17) is **62,194.**
(vi) Number of Primary health centers is **2,353.**
(vii) Beds per lakh population is **79.**

1. *Census Info India 2011 Final population Totals.*
2. *Economic Survey (GOI) 2016-17 (August 2017), Vol. II, Page A 154.*
3. *Economic Survey (GOI) 2016-17 (August 2017), Vol. II, Page A 149.*
4. *Economic Survey (GOI) 2016-17 (August 2017), Vol. II Page A 156.*
5. *Economic Survey (GOI) 2016-17 (August 2017), Vol. II Page A 146.*
6. *http://planningcommission.nic.in/data/datatable/data 2312/DatabookDec2014%20106.pdf.*
7. *GSDP estimate figures are as communicated by Ministry of Finance, Government of India letter dated 29 March 2016.*
8. *Population projections for India and States 2001-2026 (Revised December 2006) Report of the Technical Group on Population Projections Constituted by the National Commission on Population Table-14 (Projected Total Population by Sex as on 1 October 2001-2026).*

Note: All India average of General Category States is calculated on the basis of figures provided by 16 General Category States such as Andhra Pradesh including Telangana, Bihar, Chhattisgarh, Gujarat, Haryana, Jharkhand, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Odisha, Punjab, Rajasthan, Tamilnadu, Uttar Pradesh and West Bengal.

Appendix 1.2

Structure of Government Accounts

(Reference: Paragraph 1.1; Page 1)

The Accounts of the State Government are kept in three parts *viz*., Consolidated Fund, Contingency Fund and Public Account.

Part I: Consolidated Fund: All receipts and expenditure on Revenue and Capital Account, Public Debt and Loans and Advances form one Consolidated Fund entitled the Consolidated Fund of State established under Article 266 (1) of the Constitution of India.

Part II: Contingency Fund: Contingency Fund of the State established under Article 267 (2) of the Constitution is in the nature of an imprest placed at the disposal of the Governor to enable him to make advances to meet urgent unforeseen expenditure, pending authorisation by the Legislature. Fund is recouped by debiting the expenditure to the concerned functional major head in the Consolidated Fund of the State.

Part III: Public Account: Receipts and disbursements in respect of certain transactions such as small savings, provident funds, reserve funds, deposits, suspense, remittances etc., which do not form part of the Consolidated Fund, are kept in the Public Account set up under Article 266 (2) of the Constitution and are not subject to vote by the State Legislature.

Layout of Finance Accounts

Finance Accounts is prepared in two volumes with Volume-I presenting the summarised financial statements of Government and Volume-II presenting the detailed statements. The layout is detailed below. Further, Volume 2 contains details such as comparative expenditure on salaries and subsidies by major head, grants-in-aid and assistance given by the State Government, externally aided projects, expenditure on plan scheme, direct transfer of Central scheme funds to implementing agencies, summary of balances, financial results of irrigation schemes, commitments on incomplete public works contracts and maintenance expenditure, which are brought out in various appendices.

Statement number	Layout
1	Statement of Financial Position
2	Statement of Receipts and Disbursements
3	Statement of Receipts (Consolidated Fund)
4	Statement of Expenditure (Consolidated Fund)
5	Statement of Progressive Capital Expenditure
6	Statement of Borrowings and Other Liabilities
7	Statement of Loans and Advances given by the Government
8	Statement of Investments of the Government
9	Statement of Guarantees given by the Government
10	Statement of Grants-in-aid given by the Government
11	Statement of Voted and Charged Expenditure
12	Statement on Sources and Application of funds for expenditure other than on Revenue Account
13	Summary of Balances under Consolidated Fund, Contingency Fund and Public Account
14	Detailed Statement of Revenue and Capital Receipts by Minor Heads
15	Detailed Statement of Revenue Expenditure by Minor Heads
16	Detailed Statement of Capital Expenditure by Minor Heads and Subheads
17	Detailed Statement of Borrowings and other Liabilities
18	Detailed Statement on Loans and Advances given by the Government
19	Detailed Statement of Investments of the Government
20	Detailed Statement of Guarantees given by the Government
21	Detailed Statement of Contingency Fund and other Public Account Transactions
22	Detailed Statement on Investment of Earmarked Balances

Appendix 1.3

Abstract of Receipts and Disbursements

(Reference: Paragraph 1.1.1; Page 2)

(₹ in crore)

Receipts			Disbursements					
2015-16		**2016-17**	**2015-16**		**Non-Plan**	**Plan**	**Total**	**2016-17**
Part A: Abstract of Receipts and Disbursement for the year 2016-17								
				Section-A: Revenue				
1,18,817.31	**I. Revenue receipts**	**1,33,213.79**	**1,17,028.58**	**I. Revenue expenditure**↑↑	**83,958.99**	**47,961.76**		**1,31,920.75#**
75,550.18	Tax revenue↑↑	82,956.13*	**30,799.28**	**General Services**	**31,152.93**	**111.63**	**31,264.56**	
5,355.04	Non-tax revenue↑↑	5,794.53		**Social Services**				
23,983.34	State's share of Union Taxes & Duties	28,759.94	18,724.40	Education, Sports, Art and Culture	13,356.33	6,727.72	20,084.05	
5,547.34	Non Plan grants	7,045.21	5,009.74	Health and Family Welfare	2,653.38	3,485.84	6,139.22	
8,105.31	Grants for State Plan Schemes	8,101.62	7,374.03	Water Supply, Sanitation, Housing and Urban Development	596.78	9,892.10	10,488.88	
276.10	Grants for Central and Centrally Sponsored Schemes	556.36	86.91	Information and Broadcasting	73.60	60.45	134.05	
			5,562.27	Welfare of Scheduled Castes, Scheduled Tribes, Other Backward Classes and minorities	1,347.58	5,432.82	6,780.40	
			579.64	Labour and Labour Welfare	115.05	380.96	496.01	
			8,792.77	Social Welfare and Nutrition	6,363.79	3,844.97	10,208.76	
			177.32	Others	146.81	71.06	217.87	
			46,307.08	**Total Social Services**	**24,653.32**	**29,895.92**	**54,549.24**	
				Economic Services				
			11,148.68	Agriculture and Allied Activities	4,222.13	7,754.33	11,976.46	
			5,222.36	Rural Development	1,967.38	3,579.36	5,546.74	
			558.33	Special Areas Programmes	-	456.57	456.57	
			1,257.97	Irrigation and Flood Control	1,265.17	323.74	1,588.91	
			9,169.88	Energy	9,208.70	28.31	9,237.01	
			1,218.77	Industry and Minerals	384.72	928.88	1,313.60	
			3,551.73	Transport	1,950.95	2,893.23	4,844.18	
			88.05	Science, Technology and Environment	-	78.83	78.83	
			1,630.40	General Economic Services	4,841.40	537.67	5,379.07	
			33,846.17	**Total Economic Services**	**23,840.45**	**16,580.92**	**40,421.37**	

Receipts			Disbursements					
2015-16		**2016-17**	**2015-16**		**Non-Plan**	**Plan**	**Total**	**2016-17**
			6,076.05	**Grants-in-aid and Contribution**	**4,312.29**	**1,373.29**	**5,685.58**	
			1,788.73	**II Revenue surplus carried over to Sec.-B**				**1,293.04**
1,18,817.31		**1,33,213.79**	**1,18,817.31**	**Total**				**1,33,213.79**
Section B – Capital and others								
23,900.90	**II. Opening Cash Balance including Permanent Advances & Cash Balance Investments & Investments from earmarked funds**	**27,118.23**						
352.30	**III. Miscellaneous Capital receipts**[↑↑]	**26.96**	**20,713.03**	**III. Capital Outlay**[↑↑]	**466.08**	**27,684.35**		**28,150.43$**
			991.41	**General Services**	**33.42**	**1,026.97**	**1,060.39**	
				Social Services				
			717.96	Education, Sports, Art and Culture	9.52	1,098.94	1,108.46	
			819.71	Health and Family Welfare	-	743.66	743.66	
			1,639.75	Water Supply, Sanitation, Housing and Urban Development	204.85	2,353.04	2,557.89	
			4.57	Information and Broadcasting	-	18.51	18.51	
			2,014.36	Welfare of Scheduled Castes , Scheduled Tribes, Other Backward Classes and Minorities	(-)0.57	2,243.22	2,242.65	
			71.80	Social Welfare and Nutrition	-	130.15	130.15	
			45.76	Other Social Services	-	95.52	95.52	
			5,313.91	**Total Social Services**	**213.80**	**6,683.04**	**6,896.84**	
				Economic Services				
			182.73	Agriculture and Allied Activities	(-)4.39	505.81	501.42	
			6.63	Rural Development	3.15	46.10	49.25	
			900.00	Special Areas Programmes	-	889.83	889.83	
			6,955.14	Irrigation and Flood Control	195.22	8,439.68	8,634.90	
			49.38	Energy	0.09	861.29	861.38	
			589.93	Industry and Minerals	-	352.09	352.09	
			5,399.45	Transport	24.95	7,598.66	7,623.61	

Receipts			Disbursements					
2015-16		2016-17	2015-16		Non-Plan	Plan	Total	2016-17
			-	Science, Technology and Environment	-	0.19	0.19	
			324.45	General Economic Services	(-)0.16	1,280.69	1,280.53	
			14,407.71	**Total Economic Services**	**218.86**	**19,974.34**	**20,193.20**	
59.68	**IV. Recoveries of Loans and Advances**[↑↑]	**99.84**	**656.41**	**IV. Loans and Advances**[↑↑]				**1,934.38**
15.41	From Power Projects	9.73	28.19	For Power Projects	-	55.08	55.08	
7.37	From Government Servants	7.24	3.82	To Government Servants	3.31	0.35	3.66	
36.90	From Others	82.87	624.40	To Others	2.00	1,873.64	1,875.64	
21,072.33	**V. Public debt receipts**	**31,155.92**	**4,110.20**	**V. Repayment of Public Debt**				**7,420.24**
19,801.31	Internal debt other than Ways and Means Advances and Overdraft	29,237.99	3,160.67	Internal debt other than Ways and Means Advances & Overdraft	6,293.70	--	6,293.70	
---	Ways and Means Advances from Reserve Bank of India	---	---	Ways and Means Advances from Reserve Bank of India	--	--		
1,271.02	Loans and Advances from the Central Government	1,917.93	949.53	Repayment of Loans and Advances to Central Government	1,126.54	--	1,126.54	
---	**VI. Contingency Fund (Recoupment)**	---	---	**VI. Contingency Fund Disbursements**	---	---	---	---
1,60,518.76	**VII. Public Account Receipts**	**1,79,318.45**	**1,55,094.83**	**VII. Public Account Disbursements**				**1,67,153.81**
5,486.36	Small Savings and Provident Funds, etc.	5,805.48	3,400.68	Small Savings and Provident Funds, etc.			3,147.99	
4,590.52	Reserve Funds	7,545.43	2,509.46	Reserve Funds			1,532.70	
42,411.31	Deposits and Advances	47,614.16	42,127.79	Deposits and Advances			44,572.51	
1,08,001.52	Suspense and Miscellaneous	1,18,333.71	1,07,011.27	Suspense and Miscellaneous			1,17,842.56	
29.05	Remittances	19.67	45.63	Remittances			58.05	
1,788.73	**VIII. Revenue Surplus carried over from Sec.-A**	**1,293.04**	**27,118.23**	**VIII. Cash Balance at the end of 31-03-2017**				**34,353.58**
			0.01	Cash in Treasuries and Local Remittances			0.01	
			(-)74.90	Deposits with Reserve Bank			100.05	
			3.78	Departmental Cash Balances including Permanent Advances			3.83	

Receipts			Disbursements					
2015-16		**2016-17**	**2015-16**		**Non-Plan**	**Plan**	**Total**	**2016-17**
			16,917.13	Cash Balance Investment			23,977.48	
			10,272.21	Investment from Earmarked Funds			10,272.21	
2,07,692.70	**Total**	**2,39,012.44**	**2,07,692.70**	**Total**				**2,39,012.44**

 # Includes expenditure on interest payment in respect of off-budget borrowings etc., under various service heads (₹ 808 crore borrowed through Special Purpose Vehicles – General Services (₹ 4 crore), Social Services (₹ 110 crore) and Economic Services (₹ 694 crore).

$ Includes expenditure of ₹ 455.57 crore on account of off-budget borrowings.

**Includes ₹ 132.70 crore received from Ministry of Road Transport and Highways towards National Permit fee.*

↑↑*Non cash receipts and expenditure are as follows which are discussed in **paragraph 1.10.1** indicated against each.*

Book Adjustments	Amount (₹ in crore)
Tax Receipts	**1,516.45**
Non Tax Receipts	**93.13**
Misc. Capital Receipts	**-**
Loan Receipts	**9.97**
Revenue Expenditure	**526.76***
Capital Expenditure	**(-) 14.71**
Loan Expenditure	**21.23**

**₹ 1,086.27 crore has been deducted from Revenue Expenditure, as this amount is adjusted as part of ZP, TP unspent balances recovery.*

Appendix 1.4

Time series data on the State Government Finances

(Reference: Paragraphs 1.1.1, 1.3, 1.9.2 and 1.10.2; Pages 2,16,19,53,62)

(₹ in crore)

	2012-13	2013-14	2014-15	2015-16	2016-17
Part A: Receipts					
1. Revenue Receipts	**78,176**	**89,542**	**1,04,142**	**1,18,817**	**1,33,214**
(i) Tax Revenue [††]	**53,754(69)**	**62,603(70)**	**70,180(67)**	**75,550(64)**	**82,956(62)**
Taxes on Agricultural Income	22(-)	21(-)	20(-)	12(-)	1(-)
Taxes on Sales, Trade, etc.	28,414(53)	33,719(54)	38,286(55)	40,449(53)	46,105(56)
State Excise	11,070(21)	12,828(21)	13,801(20)	15,333(20)	16,484(20)
Taxes on Vehicles	3,830(7)	3,911(6)	4,541(7)	5,001(7)	5,594(7)
Stamps and Registration fees	5,225(10)	6,189(10)	7,026(10)	8,215(11)	7,806(9)
Land Revenue	205(-)	199(-)	186(-)	181(-)	209(-)
Taxes on Goods and Passengers	2,181(4)	2,626(4)	3,038(4)	3,125(4)	3,306(4)
Taxes and Duties on Electricity	929(2)	897(2)	1,041(1)	1,170(2)	1,451(2)
Other Taxes on Income and Expenditure	693(1)	793(1)	868(1)	840(1)	901(1)
Other Taxes and Duties on Commodities and Services	1,185(2)	1,420(2)	1,373(2)	1,224(2)	1,099(1)
(ii) Non Tax Revenue[††]	**3,966(5)**	**4,032(5)**	**4,688(5)**	**5,355(4)**	**5,795(4)**
(iii) State's share of Union taxes and duties	**12,647(16)**	**13,808(15)**	**14,654(14)**	**23,983(20)**	**28,760(22)**
(iv) Grants-in-aid from Government of India	**7,809(10)**	**9,099(10)**	**14,620(14)**	**13,929(12)**	**15,703(12)**
2. Miscellaneous Capital Receipts	**33**	**88**	**10**	**352**	**27**
3. Recoveries of Loans and Advances[††]	**158**	**109**	**84**	**60**	**100**
4.Total Revenue and Non-debt capital receipts (1+2+3)	**78,367**	**89,739**	**1,04,236**	**1,19,229**	**1,33,341**
5. Public Debt Receipts	**13,465**	**17,287**	**21,874**	**21,072**	**31,156**
Internal Debt (excluding Ways and Means Advances and Overdrafts)	12,116(90)	16,132(93)	20,509(94)	19,801(94)	29,238(94)
Net transactions under Ways and Means Advances and Overdrafts	---	---	---	---	-
Loans and Advances from Government of India	1,349(10)	1,155(7)	1,365(6)	1,271(6)	1,918(6)
6. Total Receipts in the Consolidated Fund (4+5)	**91,832**	**1,07,027**	**1,26,110**	**1,40,301**	**1,64,497**
7. Contingency Fund Receipts	**1**	---	---	---	-
8. Public Account Receipts	**1,07,549**	**1,21,842**	**1,40,229**	**1,60,519**	**1,79,318**
9. Total Receipts of the State (6+7+8)	**1,99,382**	**2,28,869**	**2,66,339**	**3,00,820**	**3,43,815**
Part B: Expenditure/Disbursements					
10. Revenue Expenditure[††]	**76,293**	**89,189**	**1,03,614**	**1,17,028**	**1,31,921**
Plan	**21,212(28)**	**26,970(30)**	**33,831(33)**	**40,009(34)**	**47,962(36)**
Non Plan	**55,081(72)**	**62,219(70)**	**69,783(67)**	**77,019(66)**	**83,959(64)**
General Services (including interest payments)	20,181(27)	24,954(28)	28,265(27)	30,799(26)	31,265(24)
Social Services	30,420(40)	32,622(36)	39,366(38)	46,307(40)	54,549(41)
Economic Services	21,674(28)	26,593(30)	29,971(29)	33,846(29)	40,421(31)
Grants-in-aid and contributions	4,018(5)	5,020(6)	6,012(6)	6,076(5)	5,686(4)
11. Capital Expenditure[††]	**15,479**	**16,947**	**19,622**	**20,713**	**28,150**
Plan	**15,157(98)**	**16,620(98)**	**19,345(99)**	**20,316(98)**	**27,684(98)**
Non Plan	**322(2)**	**327(2)**	**277(1)**	**397(2)**	**466(2)**
General Services	590(4)	501(3)	618(3)	991(5)	1,060(4)
Social Services	2,916(19)	3,053(18)	4,181(21)	5,314(26)	6,897(24)
Economic Services	11,973(77)	13,393(79)	14,823(76)	14,408(69)	20,193(72)

	2012-13	2013-14	2014-15	2015-16	2016-17
12. Disbursements of Loans and Advances[††]	**1,102**	**695**	**576**	**657**	**1,934**
Plan	**1,084**	**669**	**564**	**558**	**1,929**
Non Plan	**18**	**26**	**12**	**99**	**5**
General Services	---	---	---	---	-
Social Services	815	428	370	327	1,674
Economic Services	269	239	193	239	254
Miscellaneous Loans	18	28	13	91	6
13. Total Expenditure (10+11+12)	**92,874**	**1,06,831**	**1,23,812**	**1,38,398**	**1,62,005**
14. Repayment of Public Debt	**3,727**	**3,817**	**4,812**	**4,110**	**7,420**
Internal Debt (excluding Ways and Means Advances and Overdrafts)	3,030(81)	3,123(82)	4,033(84)	3,161(77)	6,294(85)
Net transactions under Ways and Means Advances and Overdraft	---	---	---	---	---
Loans and Advances from Government of India	697(19)	694(18)	779(16)	949(23)	1,126(15)
15. Appropriation to Contingency Fund	---	---	---	---	---
16. Total disbursement out of Consolidated Fund (13+14+15)	**96,601**	**1,10,648**	**1,28,624**	**1,42,508**	**1,69,425**
17. Contingency Fund disbursements	---	---	---	---	---
18. Public Account disbursements	**1,01,878**	**1,12,972**	**1,29,574**	**1,55,095**	**1,67,154**
19.Total disbursement by the State (16+17+18)	**1,98,479**	**2,23,620**	**2,58,198**	**2,97,603**	**3,36,579**
Part C: Deficits					
20. Revenue Deficit (-)/ Revenue Surplus(+) (1-10)	**1,883**	**353**	**528**	**1,789**	**1,293**
21. Fiscal Deficit (-)/Fiscal Surplus (+) (4-13)	**14,507**	**17,092**	**19,576**	**19,169**	**28,664**
22. Primary Deficit (21-23)	**7,053**	**9,065**	**9,772**	**7,826**	**15,814**
Primary Surplus (23-21)	---	---	---	----	
Part D: Other data					
23. Interest Payments (included in revenue expenditure)	**7,454**	**8,027**	**9,804**	**11,343**	**12,850#**
24. Financial Assistance to local bodies etc.	**27,178**	**32,611**	**38,747**	**40,021**	**44,499**
25. Ways and Means Advances/ Overdraft availed (days)					
Ways and Means Advances availed (days)	---	---	---	---	---
Overdraft availed (days)	---	---	---	---	---
26. Interest on Ways and Means Advances/Overdraft	---	---	---	---	---
27. Gross State Domestic Product (GSDP)	**6,91,700**	**8,17,886**	**9,21,788**	**10,27,068**	**11,17,334**
28. Outstanding Fiscal Liabilities (inclusive of off-budget borrowings)	**1,19,273**	**1,38,261**	**1,64,279**	**1,83,322**	**2,21,319**
29. Outstanding guarantees (year-end) (including interest)	**6,688**	**7,791**	**11,033**	**13,324**	**15,392**
30. Maximum amount guaranteed (year-end)	**14,306**	**16,145**	**16,869**	**18,358**	**21,115**
31. Number of incomplete projects	**348**	**326**	**362**	**346**	**341**
32. Capital blocked in incomplete projects	**773**	**645**	**1,144**	**1,495**	**2,027**
Part E: Fiscal Health indicators					
I Resource Mobilization					
Own Tax Revenue/GSDP	7.8	7.65	7.61	7.36	7.42

	2012-13	2013-14	2014-15	2015-16	2016-17
Own Non-Tax Revenue/GSDP	0.57	0.49	0.51	0.52	0.52
Central Transfers/GSDP	2.96	2.8	3.18	3.69	3.98
Non-tax revenue to Revenue Receipts	5.07	4.50	4.50	4.51	4.35
II Expenditure Management					
Total Expenditure/GSDP	13.43	13.06	13.43	13.47	14.50
Total Expenditure/Revenue Receipts	118.80	119.31	118.89	116.48	121.61
Revenue Expenditure/Total Expenditure	82.15	83.49	83.69	84.56	81.43
Expenditure on Social Services/Total Expenditure	36.77	33.80	35.47	37.54	38.96
Expenditure on Economic Services/Total Expenditure	36.52	37.65	36.33	35.04	37.57
Capital Expenditure/Total Expenditure	17.85	16.51	16.31	15.44	18.57
Capital Expenditure on Social and Economic Services/Total Expenditure	17.20	16.02	15.80	14.66	17.91
III Management of Fiscal Imbalances					
Revenue Deficit (surplus)/GSDP	0.27	0.04	0.06	0.17	0.11
Fiscal Deficit/GSDP	2.1	2.09	2.12	1.87	2.57
Primary Deficit (surplus)/GSDP	1.02	1.11	1.06	0.76	1.41
Revenue Deficit/Fiscal Deficit	---	---	---	---	---
Primary Revenue Balance/GSDP	1.35	1.02	1.12	1.28	1.26
IV Management of Fiscal Liabilities					
Fiscal Liabilities (inclusive of off-budget borrowings)/GSDP	17.24	16.9	17.82	17.85	19.81
Fiscal Liabilities/RR	152.57	154.41	157.75	154.29	166.13
V Other Fiscal Health Indicators					
Return on Investment (₹in crore)	56.29	55.49	74.84	69.40	82.50
Balance from Current Revenue (₹in crore)	16,741	21,364	23,374	34,487	40,597
Financial Assets/Liabilities	1.12	1.11	1.09	1.09	1.08

Figures in brackets represent percentages (rounded) to total of each sub-heading

 # includes expenditure on interest payment in respect of off-budget borrowings etc. under various service heads (₹817 crore borrowed through Special Purpose Vehicles – General Services (₹4 crore), Social Services (₹109 crore) and Economic Services (₹704 crore).

↑↑ *Non cash receipts and expenditure are as follows which are discussed in* ***paragraph 1.3.1.1*** *indicated against each.*

Book Adjustments	Amount (₹ in crore)
Tax Receipts	**1,516.45**
Non Tax Receipts	**93.13**
Misc. Capital Receipts	**-**
Loan Receipts	**9.97**
Revenue Expenditure	**526.76***
Capital Expenditure	**(-) 14.71**
Loan Expenditure	**21.23**

**₹1,086.27 crore has been deducted from Revenue Expenditure, as this amount is adjusted as part of ZP, TP unspent balances recovery.*

Appendix 1.5

Implicit Subsidies

(Reference: Paragraph 1.6.3; Page 42)

(₹ in crore)

Sl. No.	Head of Account	Scheme Description	2012-13	2013-14	2014-15	2015-16	2016-17
1	2202-01-109-0-03	Vidya Vikasa Scheme	78.72	82.28	96.74	230.11	407.06
2	2202-02-107-0-05	Bicycles to VIII standard students	155.73	171.90	177.21	189.66	0.00
3	2216-02-101-0-07	Vajpayee Urban Housing Scheme	85.00	108.25	100.00	100.00	100.00
4	2216-02-102-0-02	Housing for weaker section	40.00	25.00	10.00	15.00	11.00
5	2216-03-102-0-01	House sites for Landless	33.90	18.75	10.00	5.00	0.00
6	2216-03-104-0-01	Ashraya	1.98	229.22	647.13	1,668.24	1,251.55
7	2216-80-103-0-21, 2216-80-800-0-04	Indira Awas Yojana	218.10	50.00	428.00	0.00	0.00**
8	2235-02-102-0-25	Bhagya Lakshmi	755.40	353.42	339.87	473.35	338.40
9	2401-00-103-0-15	Supply of seeds and other inputs (Agricultural inputs and Quality Control)	101.89	279.58	535.02	554.66	677.57
10	2401-00-105-0-27	Subsidy for Fertilizer Buffer stock	7.50	0.00	0.00	0.00	0.00
11	2401-00-108-1-15	Micro Irrigation	53.80	98.21	69.30	200.89	326.56
12	2401-00-108-2-30	Drip Irrigation*	79.97	93.48	245.40	171.96	36.97
13	2401-00-111-0-02	New Agricultural Promotion Scheme	82.00	0.00	0.00	0.00	0.00
14	2405-00-103-0-20	Matsya Ashraya	9.00	12.00	11.43	0.00	26.28
15	2425-00-107-2-45	Interest subvention for Loans to SHG	4.00	2.50	0.00	0.00	0.00
16	2425-00-108-0-57	Yashaswini	35.00	45.00	71.95	109.56	170.43
17	2851-00-103-0-62	Weavers package	52.40	99.23	70.69	99.93	114.54
18	2851-00-103-0-69	Weavers Package- KHDC	20.00	19.87	9.95	30.01	24.00
19	2852-80-103-0-59	Refund of sales tax to Eligible industries	25.00	0.00	0.00	0.00	89.41
20	3475-00-107-0-20	Minimum Floor Price Scheme	10.00	1.00	150.00	64.23	140.00
Total			**1,849.39**	**1,689.69**	**2,972.69**	**3,912.60**	**3,713.77**

Source: Consolidated Abstract of major heads

**Nomenclature changed to National Mission on Sustainable Agriculture from 2015-16 onwards.*

***During 2016-17, ₹962.99 crore was released as financial assistance under HOA 2216-80-198-6-02-300 (P) to RGRHCL.*

Appendix 1.6

Financial position of departmentally managed Commercial/ Quasi Commercial Under takings
(Reference: Paragraph 1.8.4; Page 49)

(₹ in crore)

Undertaking	Year up to which proforma accounts finalized	Mean capital	Total loss
Government Central Workshop, Madikeri	2008-09*	0.07	0.14
Government Silk Filature, Kollegal	2014-15	1.92	1.30
Government Silk Filature, Mambally	2015-16	2.38	1.47
Government Silk Twisting and Weaving Factory, Mudigundam	2014-15	1.91	0.69
Government Silk Filature, Chamarajanagar	2014-15	1.89	1.15
Government Silk Filature, Santhemarahally	2015-16	1.47	1.34
Total		**9.64**	**6.09**

Source: Finance Accounts

**The workshop was closed vide G.O. No. CI 02 IPD 2007 Bengaluru dated 28.09.2011. Proforma Accounts up to the date of closure is in arrears (July 2016).*

Appendix 1.7

Detailed Loan Accounts Maintained by Accountant General (A&E)
(Reference: Paragraph 1.8.5; Page 50)

(₹ in crore)

Sl. No.	Head of Account/Institutions	Arrears as on 31-03-2017	
		Principal	Interest
1	6215-01-190-2-86: Bangalore Water Supply and Sewerage Board	3,713.98	1,972.66
2	6215-01-190-1-00: Karnataka Urban Water Supply and Drainage Board	211.35	556.37
3	6216-02-201-1-00: Karnataka Housing Board	23.61	88.02
4	6217-60-191-1-03: Bangalore Development Authority (for repayment of HUDCO Loans)	17.17	29.39
5	6220-01-190-1-00: Karnataka State Film Industries Development Corporation	0.41	1.68
6	6401-00-113-2-00: Karnataka Agro Proteins Limited	0.70	3.48
7	6401-00-103-2-00: Karnataka State Seeds Corporation Limited	2.88	5.20
8	6401-00-103-3-00: Karnataka State Co-operative Oil Seeds Growers Federation	0.75	7.03
9	6851-00-200-0-00: Leather Industries Development Corporation	1.26	3.88
10	6852-02-190-3-00: Dandeli Steel and Ferro Alloys Limited	0.31	1.27
11	6853-02-190-1-00: Hutti Gold Mines Company Limited	0.30	1.61
12	6858-01-190-3-00: Karnataka Implements and Machinery Company	1.10	4.83
13	6858-02-190-1-00: Electro Mobile India Limited	0.61	2.54
14	6858-02-190-0-01: Chamundi Machine Tools	0.18	0.28
15	6858-01-190-2-00: New Government Electric Factory	67.47	174.28
16	6859-01-190-0-01: Karnataka Telecommunication Limited	1.65	5.88
17	6860-04-190-2-01: Mysore Sugar Company	20.00	15.43
18	6860-60-212-1-00: Karnataka Soaps and Detergents Limited	2.25	14.84
19	6860-60-600-3-00: Mysore Tobacco Company Limited	1.34	11.94
20	6885-01-190-3-00: Karnataka State Finance Corporation	0.40	0.62
21	7452-80-190-1-00: Karnataka State Tourism Development Corporation	1.01	3.22
Total		**4,068.73**	**2,904.45**

Source: Finance Accounts

Appendix 1.8

Summarised Financial position of Government of Karnataka as on 31 March 2017
(Reference: Paragraph 1.9.1; Page 51)

(₹ in crore)

As on 31.03.2016		**Liabilities**		**As on 31.03.2017**
1,09,544.77		**Internal Debt**		**1,32,489.05**
	84,332.84	Market Loans bearing interest	1,08,358.80	
	0.70	Market Loans not bearing interest	0.70	
	210.94	Loans from Life Insurance Corporation of India	174.70	
	3,270.93	Loans from other Institutions	3,798.14	
	21,729.36	Loans from RBI - Special Securities issued to National Small Savings Fund of the Central Government	20,156.71	
13,002.21		**Loans and Advances from Central Government**		**13,793.61**
	0.07	Pre 1984-85 Loans	0.07	
	56.27	Non-Plan Loans	50.77	
	12,969.53	Loans for State Plan Schemes	13,766.43	
	(-)5.41	Loans for Central Plan Schemes	(-)5.41	
	(-)18.25	Loans for Centrally Sponsored Plan Schemes	(-)18.25	
80.00		**Contingency Fund**		**80.00**
22,262.14		**Small Savings, Provident Funds, etc.**		**24,919.63**
20,643.37		**Reserve Funds**		**26,656.09**
20,442.80		**Deposits**		**23,484.46**
13,765.44		**Suspense and Miscellaneous balances**		**14,256.59**
1,99,740.73		**Total**		**2,35,679.43**
		Assets		
1,76,753.17		**Gross Capital Outlay on Fixed Assets**		**2,04,879.76**
	61,355.88	Investments in shares of Companies, Corporations etc.	63,115.06	
	1,15,397.29	Other Capital Outlay	1,41,764.70	
13,812.95		**Loans and Advances**		**15,647.49**
	1,451.97	Loans for Power Projects	1,497.32	
	12,280.21	Other Development Loans	14,142.85	
	80.77	Loans to Government Servants and Miscellaneous Loans	7.32	
537.01		**Remittances**		**575.39**
7.37		**Other Advances**		**7.37**
27,118.23		**Cash**		**34,353.58**
	---	Cash in treasuries	---	
	3.78	Departmental Cash Balance including Permanent Advances	3.83	
	(-)74.90	Deposits with Reserve Bank of India	100.05	
	0.01	Remittances in Transit	0.01	
	16,917.13	Cash Balance Investments	23,977.48	
	10,272.21	Investment from earmarked funds	10,272.21	
(-)18,488.00		**Surplus on Government Accounts**		**(-)19,784.16**
	(-)16,349.05	Accumulated Surplus	(-)18,488.00	
	(-)1,788.73	Deduct Revenue Surplus	(-)1,293.04	
	0.37	Deduct Other adjustments	--	
	(-)350.59	Deduct Capital Receipts	(-)3.12*	
1,99,740.73		**Total**		**2,35,679.43**

*****_The amount excludes ₹ 23.84 crore being the refund of investment in respect of co-operatives._

Appendix 2.1
Cases of incurring expenditure, which are not covered by the Budget, but released by FD as additionalities

(Reference: Paragraph 2.2.6; Page 77)

(₹ in crore)

Sl. No.	Grant No./Nomenclature	No. of cases	Amount
1	1-Agriculture and Horticulture	17	431.47
2	2-Animal Husbandry and Fisheries	29	86.79
3	3-Finance	4	9.93
4	4-Department of Personnel and Administrative Reforms	9	27.72
5	5-Home and Transport	15	85.18
6	7-Rural Development and Panchayat Raj	10	687.20
7	8-Forest, Ecology and Environment	10	43.19
8	9-Co-operation	5	126.57
9	10-Social Welfare	35	98.47
10	11-Women and Child Development	6	15.89
11	12-Information, Tourism and Youth Services	3	5.40
12	13-Food and Civil Supplies	3	3.47
13	14-Revenue	19	745.82
14	15-Information Technology	2	8.00
15	17-Education	15	211.89
16	18-Commerce and Industries	8	58.53
17	19-Urban Development	8	456.36
18	20-Public Works	3	1,384.62
19	21-Water Resources	3	173.77
20	22-Health and Family Welfare	55	228.88
21	23-Labour	4	12.25
22	24-Energy	4	1,108.11
23	25-Kannada and Culture	5	10.00
24	27-Law	7	10.64
25	28-Parliamentary Affairs and Legislation	12	24.88
26	29-Debt Servicing	2	2.08
Total		**293**	**6,057.11**

Source: Appropriation Accounts

Appendix 2.2

Major Heads of Account under which excess expenditure was above ₹25 crore

(Reference: Paragraph 2.3; Page 78)

(₹ in crore)

Sl. No.	Grant No.	Major Head	Area	Total Provision	Re-appropriation	Total	Expenditure	Excess
1	01	2851	Village and Small Industries	0.00	0.00	0.00	37.12	37.12
		797	Transfer to Reserve Fund/ Deposit Account					
		01	Transfer of Market Fees and License fee to Karnataka Silkworm seed cocoon and Silk yarn Development and Price Stabilisation Fund					
2	01	4401	Capital outlay on Crop Husbandry	20.23	0.00	20.23	206.25	186.02
		800	Other Expenditure					
		1	Agriculture University					
3	03	2071	Pension and other Retirement Benefits	834.58	0.00	834.58	1,015.36	180.78
		01	Civil					
		102	Commuted Value of Pension					
		3	Other Payments					
4		117	Government Contribution for Defined Contribution Pension Scheme	400.00	0.00	400.00	460.95	60.95
		01	State's matching contribution to Pension scheme					
5	05	5055	Capital outlay on Road Transport	10.01	0.00	10.01	60.70	50.69
		190	Investments in Public Sector and other undertakings					
		3	Bangalore Metropolitan Transport Corporation					
6	07	2515	Other Rural Development Programmes	318.42	0.00	318.42	380.78	62.36
		196	Assistance to Zilla Parishads/ District Level Panchayat					
		1	Zilla Panchayats					
7		3054	Roads and Bridges	1,706.30	0.00	1,706.30	1,832.87	126.57
		04	District and other Roads					

Sl. No.	Grant No.	Major Head	Area	Total Provision	Re-appropriation	Total	Expenditure	Excess
		337	Road works					
		1	Rural Road works					
8	14	2245	Relief on account of Natural calamities	0.00	0.00	0.00	983.23	983.23
		01	Drought					
		102	Drinking water supply					
9		2245	Relief on account of Natural Calamities	0.00	0.00	0.00	695.49	695.49
		01	Drought					
		800	Other Expenditure					
		1	Other Miscellaneous items of Relief Expenditure					
10		2245	Relief on account of Natural Calamities	0.00	0.00	0.00	96.00	96.00
		02	Floods, Cyclones etc.					
		110	Assistance for repairs and restoration of damaged water supply, drainage and sewerage works					
		01	Flood relief- repairs of flood damages and rescue					
11		2245	Relief on account of Natural calamities	1,056.98	0.00	1,056.98	2,292.50	1,235.52
		05	State Disaster Response Fund					
		101	Transfer to Reserve Fund and Deposit accounts-State Disaster Response Fund					
		05	National Disaster Response Fund					
12	16	2216	Housing	1,226.55	0.00	1,226.55	1,251.55	25.00
		03	Rural Housing					
		104	Housing Co-operatives					
		01	Ashraya Basava Vasathi					
13	17	2202	General Education	1,696.39	2.64	1,699.03	1,736.19	37.16
		02	Secondary Education					
		196	Assistance to Zilla Parishads/ District Level Panchayat					
		1	Zilla Panchayats					

Sl. No.	Grant No.	Major Head	Area	Total Provision	Re-appropriation	Total	Expenditure	Excess
14		2202	General Education	2,051.80	2.56	2,054.36	2,082.71	28.35
		02	Secondary Education					
		197	Assistance to Block Panchayats/ Intermediate Level Panchayats					
		1	Taluk Panchayats					
15	20	3054	Roads and Bridges	171.85	0.00	171.85	489.63	317.78
		80	General					
		797	Transfer to/from Reserve Fund/Deposit Accounts					
		02	Transfer of Grants from Central Road Fund to Deposit Head Subvention					
16	22	2210	Medical and Public Health	628.60	(-)5.38	623.22	663.87	40.65
		01	Urban Health Services-Allopathy					
		110	Hospital and Dispensaries					
		1	Hospitals attached to Teaching Institutions					
17	29	6004	Loans and Advances from Central Government	300.00	0.00	300.00	464.15	164.15
		02	Loans for State/ Union Territory Plan Scheme					
		101	Block loan					
		03	Additional Plan Assistance (Back to Back external Loans)					
Total				**10,421.71**	**0.18**	**10.421.53**	**14,749.35**	**4,327.82**

Source: Appropriation Accounts

Appendix 2.3

Details of misclassification under the object head '059 – Other Expenses'

(Reference: Paragraph 2.6; Page 88)

(₹ in crore)

Sl. No.	Major head of account under which provision/expenditure booked under Object Head 059	Correct object head to which provision/ Expenditure should have been accounted	Nature of Expenditure	Amount
1	2401, 2425, 2851, 2852 and 3452	106- Subsidies	Subsidy for providing new crop insurance, tourism subsidy, hotel subsidy, power subsidy, interest subsidy and waiver on default loans	325.87
2	2052, 2211, 2225, 2251, 2401 and 3451	015- Subsidiary Expenses	Remuneration to Asha and Anganawadi workers, payment to contract labourers training to farmers for sharing knowledge and innovative ideas/techniques and advertisement charges.	155.41
3	2225	102- GIA Asset Creation 103- GIA General	Grants-in-aid to Karnataka Wakf Institutions for construction of compound wall, grants to KRIES and Dr. B.R.Ambedkar Development Corporation Limited.	684.20
4		117- Scholarship and Incentives	Scholarships to students of Backward Classes.	100.29
Total				**1,265.77**

Source: Offices of AG(G&SSA) and AG(E&RSA)

Appendix 2.4

Major Head of accounts under which provision of ₹25 crore and above remained unspent
(Reference: Paragraph 2.7.1; Page 90)

(₹ in crore)

Sl. No	Grant No	Head of Account	Nomenclature	Unspent Provision
1	01	2401-00-102-0-08	National Food Security Mission	25.73
2		2401-00-108-1-15	Chief Minister's Sookshma Neeravari Yojane	59.54
3		2401-00-108-2	Horticulture Department	229.84
4		2401-00-800-1	Agriculture Department	280.30
5	03	2054-00-095-0-01	Director of Treasuries	40.40
6		2070-00-800-0-11	Filling up of Vacant Posts	1,575.00
7		2071-01-101-3	State Government Pensions	853.55
8		2071-01-115-1	General Services	37.96
9		2071-01-115-2	Social Services	28.55
10		2515-00-198-1	Grama Panchayat	325.00
11		3475-00-797-01	Transfer of cess to the Infrastructure Initiative Fund	149.71
12		7610-00-201-0-03	HBA to others	29.92
13	04	3451-00-090-2	Information Technology Secretariat	50.71
14	07	2501-01-198-6	Village Panchayat-CSS/CPS	222.05
15		2515-00-197-1	Taluk Panchayat	202.65
16		2515-00-198-6	Grama Panchayat	203.10
17		4702-00-101-1	Water Tanks – Construction of New Tanks, Pick up etc	31.87
18		5054-03-337-071	Prime Minister Grameena Sadak Yojana	758.69
19		5054-03-337-0-74	Road Works in Rural areas-NABARD	30.60
20	08	2406-01-797-0-01	Transfer of Forest Development Tax to Karnataka Forest Development Fund	*146.28*
21	09	5475-00-102-2	Compensation to Jahgirs	36.85
22	10	2225-03-102-3	Welfare of Minorities	50.00
23		4225-01-190-0-01	Dr.B.R.Ambedkar Development Corporation Limited	44.10
24		4225-01-800-0-22	Loan waiver to Dr. Ambedkar Development Corporation	106.00
25		4225-02-794-0-01	Various Development schemes for Scheduled Tribes	30.00
26		4225-03-277-7	Capital Reserve to Zilla Panchayat	35.00
27	11	2235-02-103-0-61	Indira Gandhi Mathruthva Sahayoga Yojana	34.49
28		4235-02-102-0-01	Construction of Anganwadi Buildings	45.35
29	13	2408-01-102-0-01	Annabhagya for BPL beneficiaries towards subsidies for food grains	183.95
30	14	2235-60-102-1	Old age Pension Scheme	141.52
31		2245-05-101-0-06	States additional contribution to SDRF	200.00
32		2506-00-101-5	Other Schemes	25.01
33	16	2216-02-190-0-01	Infrastructure facilities to new layout by Rajiv Gandhi Rural Housing Corporation Limited	25.00
34	17	2202-01-109-0-04	Central Plan Schemes of Incentive Grant for Promotion of Elementary Education of Girls	77.91
35		2202-01-115-0-01	State initiative under Sarva Shiksha Abhiyana Society	191.30
36		2202-02-001-0-09	Unspent SCSP/TSP amount as per SCSP-TSP Act, 2013	37.36
37		2202-02-109-0-21	Rashtriya Madhyamika Shikshana Abhiyana (RMSA)	50.26
38		2202-80-003-0-05	Computer Literacy Awareness in Secondary Schools	71.49
39		2203-00-001-0-02	Quality improvement of Technical Education	27.20
40		4202-01-203-1	Buildings	97.60
41	18	4860-04-004-0-01	Development of roads in sugar factory areas	40.71
42	19	2217-05-800-0-08	Housing for all - Urban	36.02
43		2217-05-800-0-09	Support for BWSSB STP Project	53.32
44		2217-80-800-0-35	Swachh Bharat	76.99

Sl. No	Grant No	Head of Account	Nomenclature	Unspent Provision
45		3604-00-191-2	Other Devolutions	125.62
46		3604-00-191-5	National Urban Livelihood Mission/Swarna Jayanthi Shahri Rojgar Yojana	34.58
47		3604-00-191-6	Rajiv Awas Yojana	35.22
48		3604-00-193-2	Other Devolutions	26.00
49		4215-02-190-0-03	Karnataka Urban Water Supply modernisation project-EAP	50.00
50		4217-01-800-0-02	Capital support to special infrastructure project of Bengaluru	1,079.00
51		4217-60-800-0-04	Bengaluru Sub Urban Rail system	76.00
52		6215-01-190-2	Bangalore Water Supply and Sewerage Board	124.18
53	20	2059-80-053-4	Repairs, maintenance and minor alteration to various Departmental Buildings	42.69
54		2059-80-800-0-06	Administration of Sand Mining	80.55
55		4059-80-001-0-02	Unspent SCSP-TSP amount as per the SCSP-TSP Act, 2013	151.77
56		5051-02-201-0-04	Construction of Wharf Jetties and other facilities	41.06
57		5054-03-337-0-86	Karnataka State Highway Improvement Project (KSHIP)- EAP II(ADB)-EAP	99.04
58	21	2702-01-101-0-02	Maintenance and Repairs	29.96
59		2701-80-190-0-02	Assistance to Karnataka Neeravari Nigama Limited	*53.99*
60		4701-73-800-0-01	Upper Krishna Project- AIBP	116.28
61		4701-80-190-3	Krishna Bhagaya Jala Nigama Limited	600.00
62		4702-00-101-1	Water tanks – Construction of New Tanks pick-ups etc.	53.78
63		4702-00-101-0-10	Unspent SCSP-TSP amount as per SCSP-TSP Act, 2013	30.85
64		4702-00-101-3	Lift Irrigation Schemes	76.43
65		4702-00-789	Special Component Plan	198.61
66		4702-00-796	Tribal Area Sub-Plan	81.09
67		4705-00-800-0-01	CADA-SDP	73.31
68	22	2210-03-800-0-18	National Health Mission (NHM)	472.30
69		2210-06-101-7	Other Diseases	55.00
70		2210-80-800-0-27	Rashtriya Swasthya Bhimaa Yojana	31.12
71	23	2230-02-001-0-01	Director of Employment and Training	39.63
72	26	2575-60-265-0-03	Article 371J-Hyderabad Karnataka Region Development programme (HKRDP)	150.00
73		4575-60-800-0-02		100.00
74	29	2048-00-101-4	Consolidated Sinking Fund	*535.00*
75		2049-01-101-3	Interest on current loans	*484.90*
76		2049-03-108-1	State Government Insurance Fund	*81.60*
77		2049-04-101-0-02	Back to Back External Loans	*73.96*
Total				**12,302.40**

Source: Appropriation Accounts

Appendix 2.5

Unnecessary Supplementary Provision

(Reference: Paragraph 2.7.5; Page 95)

(₹ in crore)

Sl. No	Grant No./ Nomenclature	Head of Account	Original	Supple-mentary	Total	Expen-diture	Unspent Provision
1	01-Agriculture and Horticulture	2401-00-102-0-08-106 Subsides	123.25	15.48	138.73	119.70	19.03
2		2401-00-108-2-30-059 Other Expenses	212.85	11.02	223.87	0.00	223.87
3		2401-00-119-4-06-059 Other Expenses	93.57	15.32	108.89	85.46	23.43
4		4401-00-800-2-00-059 Other Expenses	2.00	6.54	8.54	0.00	8.54
5	03-Finance	2040-00-101-0-10-100 Financial Assistance/ Relief	0.00	7.64	7.64	0.00	7.64
6		2054-00-001-0-01-125 Modernisation	46.00	3.86	49.86	9.98	39.88
7		3475-00-800-0-02-104 Contribution	0.00	67.19	67.19	0.00	67.19
8	05-Home and Transport	2055-00-115-0-00-125 Modernisation	68.59	50.02	118.61	64.99	53.62
9	06-Infrastructure Development	5465-01-190-1-05-211 Investment	50.00	50.00	100.00	14.69	85.31
10	10-Social Welfare	2225-01-190-2-09-106 Subsidies	15.00	25.00	40.00	15.00	25.00
11	13-Food and Civil Supplies	3456-00-103-0-01-106 Subsidies	0.00	16.84	16.84	0.00	16.84
12	14-Revenue	2053-00-094-7-06-051 General Expenses	15.08	5.40	20.48	14.28	6.20
13		2245-80-102-0-01-059 Other Expenses	490.00	1,303.13	1,793.13	0.16	1,792.97
14		2245-80-102-0-03-059 Other Expenses	10.00	11.25	21.25	0.27	20.98
15		2506-00-101-5-10-125 Modernisation	0.00	24.60	24.60	0.00	24.60
16	16-Housing	2216-80-198-6-02-300 Lumpsum – ZP	1,147.00	75.00	1,222.00	962.99	259.01
17	18-Commerce and Industries	4860-04-190-1-00-211 Investment	6.44	25.00	31.44	6.44	25.00
18	19- Urban Development	6215-01-190-2-86-395 Loans to PSUs and Local Bodies	342.30	80.75	423.05	306.57	116.48
19	20-Public Works	5054-04-337-0-01-422 Scheduled Caste Sub-Plan	621.85	103.01	724.86	537.28	187.58
20		5054-04-337-0-01-423 Tribal Sub Plan	365.64	48.76	414.40	341.81	72.59
21	21-Water Resources	4702-00-101-3-01-139 Major Works	373.73	6.50	380.23	314.91	65.32
22	22-Health and Family Welfare	2210-03-800-18-059 Other Expenses	984.53	49.85	1034.38	490.67	543.71
23		2210-80-800-0-27-059 Other Expenses	94.48	13.60	108.08	84.46	23.62

Sl. No	Grant No./ Nomenclature	Head of Account	Original	Supple-mentary	Total	Expen-diture	Unspent Provision
24	24-Energy	6801-00-205-1-80-394 Loans	76.06	20.14	96.20	55.08	41.12
25	25-Kannada and Culture	2205-00-101-0-07-103 Grants-in-aid-General	1.23	5.17	6.40	1.23	5.17
26	27-Law	2014-00-105-0-01-053 Purchase of furniture and fixtures for office	1.82	6.33	8.15	0.97	7.18
Total			**5,141.42**	**2,047.40**	**7,188.82**	**3426.94**	**3,761.88**

Source: Grant Register

Appendix 2.6

Excessive Supplementary Provision

(Reference: Paragraph 2.7.6; Page 95)

(₹ in crore)

Sl. No.	Grant No./ Nomenclature	Head of Account	Original	Supple-mentary	Total	Expenditure	Unspent Provision
1	01-Agriculture and Horticulture	2401-00-108-1-15-422 Schedule Caste Sub Plan	38.66	3.85	42.51	40.93	1.58
2	02-Animal Husbandry and Fisheries	2405-00-101-0-58-106 Subsidies	0.00	13.54	13.54	4.04	9.50
3	04-Department of Personnel and Administrative Reforms	2052-00-092-0-16-051 General Expenses	0.00	4.00	4.00	1.13	2.87
4		2052-00-092-0-16-059 Other Expenses	0.00	3.15	3.15	1.35	1.80
5	08 - Forest, Ecology and Environment	2406-01-102-2-38-139 Major Works	0.00	4.10	4.10	2.17	1.93
6	09-Co-operation	3475-00-107-0-02-051 General Expenses	19.46	9.12	28.58	24.31	4.27
7	14-Revenue	2029-00-101-1-01-059 Other Expenses	107.14	14.85	121.99	114.65	7.34
8		2053-00-093-1-07-059 Other Expenses	0.00	1.54	1.54	0.49	1.05
9		2235-60-102-1-04-059 Other Expenses	2.50	32.08	34.58	20.93	13.65
10		4515-00-103-1-01-100 Financial Assistance/ Relief	0.20	16.44	16.64	3.17	13.47
11	17-Education	4202-01-202-1-05-436 NABARD Works	78.11	40.00	118.11	94.89	23.22
12	20-Public Works	5054-04-337-0-02-436 NABARD Works	289.92	50.00	339.92	314.80	25.12
13	22-Health and Family Welfare	2210-06-112-0-02-051 General Expenses	9.81	8.15	17.96	13.03	4.93
14	28-Parliamentary Affairs and Legislation	2011-02-101-0-11-059 Other Expenses	17.55	3.00	20.55	18.76	1.79
Total			**563.35**	**203.82**	**767.17**	**654.65**	**112.52**

Source: Grant Registers

Appendix 2.7
Inadequate Supplementary Provision
(Reference: Paragraph 2.7.7; Page 95)

(₹ in crore)

Sl. No.	Grant No./ Nomenclature	Head of Account	Provision			Expen-diture	Excess uncove-red
			Original	Supple-mentary	Total		
1	01-Agriculture and Horticulture	2401-00-102-0-27-106 Subsidies	134.40	187.35	321.75	322.95	1.20
2		4401-00-800-1-08-436 NABARD Works	0.00	0.01	0.01	193.53	193.52
3		4401-00-800-2-00-436 NABARD Works	0.00	0.01	0.01	4.54	4.53
4	07-Rural Development and Panchayat Raj	2215-01-198-6-01-300 Lumpsum – Zilla Panchayat	610.00	293.27	903.27	911.58	8.31
5	18-Commerce and Industries	6860-04-190-2-01-394 Loans	0.00	12.00	12.00	27.00	15.00
6	20- Public Works	5054-03-337-0-17-154 Improvements	350.00	146.35	496.35	561.71	65.36
7		5054-03-337-0-84-172 Roads	325.23	203.78	529.01	567.71	38.70
8	21-Water Resources	4702-00-101-5-01-139 Major Works	154.59	72.33	226.92	250.88	23.96
9	22-Health and Family Welfare	2210-03-800-0-18-422 Schedule Caste Sub Plan	279.12	109.21	388.33	472.11	83.78
10		2210-06-112-0-03-051 General Expenses	8.03	26.08	34.11	50.79	16.68
11	27-Law	2014-00-105-0-01-051 General Expenses	8.77	5.00	13.77	15.75	1.98
Total			**1,870.14**	**1,055.39**	**2,925.53**	**3,378.55**	**453.02**

Source: Grant Registers

Appendix 2.8

Unnecessary/Excessive/Insufficient Re-appropriation

(Reference: Paragraph 2.7.10; Page 96)

(₹ in crore)

Sl. No.	Grant No.	Head of Account	Provision (Original + Supplementary)	Re-appropriation (-)	Total	Expenditure	Excess (+)/ Unspent Provision (-)
1	01-Agriculture and Horticulture	2401-00-119-4-06-059 Other Expenses	108.89	9.76	99.13	85.46	13.67
2	02-Animal Husbandry and Fisheries	4405-00-104-0-02-386 Construction	19.18	1.98	17.20	8.87	8.33
3	03-Finance	2039-00-001-0-01-015 Subsidiary Expenses	11.47	1.00	10.47	5.21	5.26
4		2039-00-001-0-01-051 General Expenses	6.70	0.91	5.79	3.30	2.49
5	04-Department of Personnel and Administrative Reforms	2052-00-090-0-01-059 Other Expenses	9.76	2.28	7.48	5.09	2.39
6	05-Home and Transport	2070-00-108-1-01-180 Machinery and Equipment	31.14	5.65	25.49	4.20	21.29
7	06-Infrastructure Development	5465-01-190-1-20-211 Investment	21.00	6.50	14.50	9.50	5.00
8	07-Rural Development and Panchayat Raj	4702-00-101-1-14-436 NABARD works	40.50	20.46	20.04	1.66	18.38
9	08-Forest, Ecology and Environment	2406-01-001-2-01-011 Dearness Allowance	54.45	3.89	50.56	47.39	3.17
10		2406-01-102-1-03-139 Major Works	300.00	2.75	297.25	281.27	15.98
11	09-Co-operation	2425-00-107-2-41-423 Tribal Sub Plan	48.44	5.06	43.38	32.98	10.40
12	10-Social Welfare	2225-03-102-3-10-103 GIA- General	50.00	38.81	11.19	0.00	11.19
13		2225-03-277-2-58-051 General Expenses	13.00	3.00	10.00	3.75	6.25
14	12-Information, Tourism and Youth Services	5452-01-800-0-14-132 Capital Expenses	100.00	11.87	88.13	38.01	50.12
15	13-Food and Civil Supplies	2408-01-102-0-01-106 Subsidies	1,354.85	90.00	1,264.85	1,170.90	93.95
16		2408-01-102-0-07-106 Subsidies	22.61	0.50	22.11	9.04	13.07
17	17-Education	2202-01-196-6-01-300 Lumpsum-ZP	161.02	14.06	146.96	4.07	142.89
18		2202-02-109-0-13-002 Pay officers	452.69	73.82	378.87	363.53	15.34
19		2202-03-103-2-06-101 GIA Salaries	661.66	155.00	506.66	500.91	5.75
20		2202-03-104-1-01-101 GIA Salaries	852.68	2.34	850.34	839.16	11.18
21		2202-80-003-0-05-059 Other Expenses	59.50	1.73	57.77	9.19	48.58
22	19-Urban Development	3604-00-191-1-51-240 Debt Servicing	446.22	2.93	443.29	437.27	6.02
23	20-Public Works	2059-80-800-0-06-051 General Expenses	120.00	11.47	108.53	39.45	69.08

24		3051-02-102-0-02-200 Maintenance Expenditure	12.87	0.50	12.37	0.83	11.54
25		5051-02-201-0-04-059 Other Expenses	43.66	31.04	12.62	2.59	10.03
26		5054-03-337-0-86 KSHIP-EAP II(ADB)-EAP	664.03	39.00	625.03	564.99	60.04
27		5054-04-337-0-01-133 Special Development Plan	245.00	24.14	220.86	209.93	10.93
28	28-Parlimentary Affairs and Legislation	2011-02-102-0-05-041 Travel Expenses	13.55	0.43	13.12	10.58	2.54
Total			**5,924.87**	**(-) 560.88**	**5,363.99**	**4,689.12**	**(-) 674.87**
Sl. No.	**Grant No.**	**Head of Account**	**Provision (Original + Supplementary)**	**Re-appropriation (+)**	**Total**	**Expenditure**	**Excess (+) / Unspent Provision (-)**
1	5-Home and Transport	2055-00-108-0-01-014 Other Allowance	100.62	5.13	105.75	147.56	41.81
2	17-Education	2202-01-197-1-01-421 Yadgir	116.67	1.32	117.99	119.68	1.69
3		2202-01-197-1-01-453 Chikkaballapur	171.24	0.89	172.13	173.95	1.82
4		2202-02-109-0-13-003 Pay-Staff	21.29	73.56	94.85	102.60	7.75
5		2202-02-197-1-01-413 Belagavi	124.95	0.06	125.01	130.38	5.37
6		2202-02-197-1-01-407 Mysuru	106.41	0.06	106.47	108.97	2.50
7		2202-02-197-1-01-406 Tumakuru	104.20	0.20	104.40	108.79	4.39
8		2202-02-197-1-01-417 Kalaburagi	110.67	0.07	110.74	113.77	3.03
9		2202-02-197-1-01-419 Bidar	73.09	0.31	73.40	75.92	2.52
Total			**929.14**	**(+)81.60**	**1,010.74**	**1,081.62**	**(+)70.88**
Sl. No.	**Grant No.**	**Head of Account**	**Provision (Original + Supplementary)**	**Re-appropriation (+)**	**Total**	**Expenditure**	**Excess (+)/ Unspent Provision (-)**
1	01-Agriculture and Horticulture	2401-00-102-0-28-059 Other Expenses	21.51	25.00	46.51	44.04	2.47
2		2401-00-103-0-15-106 Subsidies	351.92	50.00	401.92	398.34	3.58
3		2401-00-110-0-07-059 Other Expenses	754.07	31.75	785.82	778.97	6.85
4	04-Department of Personnel and Administrative Reforms	2052-00-092-0-16-059 Other Expenses	3.15	2.28	5.43	1.35	4.08
5		2052-00-092-0-16-002 Pay Officers	3.00	1.28	4.28	1.82	2.46
6	05-Home and Transport	2055-00-109-1-01-051 General Expenses	56.81	3.27	60.08	58.13	1.95
7	07-Rural Development and Panchayat Raj	4702-00-101-1-14-132 Capital Expenses	1.82	20.46	22.28	17.37	4.91
8		4702-00-101-1-14-423 Tribal Sub Plan	0.01	2.50	2.51	0.30	2.21
9	08-Forest, Ecology and Environment	2406-02-110-0-01-014 Other Allowance	3.63	4.94	8.57	6.37	2.20
10		2406-02-110-0-49-139 Major Works	12.00	0.50	12.50	7.50	5.00

11	13-Food and Civil Supplies	2408-01-102-0-06-106 Subsidies	558.37	90.00	648.37	620.06	28.31
12	17-Education	2202-01-109-0-03-221 Material and Supplies	217.00	0.71	217.71	187.62	30.09
13		2202-03-103-2-01-002 Pay officers	231.93	126.39	358.32	318.18	40.14
14		2202-80-800-0-47-059 Other Expenses	0.01	15.00	15.01	11.46	3.55
15		2202-80-800-0-49-059 Other Expenses	9.97	6.17	16.14	13.59	2.55
16		2203-00-104-0-01-101 GIA Salaries	352.52	28.00	380.52	376.39	4.13
17	18- Commerce and Industries	4851-00-102-0-09-132 Capital Expenses	20.58	2.98	23.56	20.56	3.00
18	20-Public Works	2059-80-053-4-00-200 Maintenance Expenses	344.85	6.47	351.32	302.16	49.16
19		2216-01-700-3-01-200 Maintenance Expenses	162.80	5.00	167.80	152.46	15.34
20		4059-80-051-0-29-386 Construction	105.00	4.00	109.00	105.67	3.33
21		5054-03-337-0-17-154 Improvement	496.35	70.00	566.35	561.71	4.64
22	22- Health and Family Welfare	2210-06-107-0-08-071 Building Expenses	3.00	0.50	3.50	1.50	2.00
Total			**3,710.30**	**(+)497.20**	**4,207.50**	**3,985.55**	**(-)221.95**

Sl. No.	**Grant No.**	**Head of Account**	**Provision (Original + Supplementary)**	**Re-appropriation (-)**	**Total**	**Expenditure**	**Excess (+)/ Unspent Provision (-)**
1	01-Agriculture and Horticulture	2401-00-103-0-15-103 GIA General	60.00	7.78	52.22	57.22	5.00
2	05-Home and Transport	2055-00-109-1-01-021 Reimbursement of Medical Expenses	28.79	14.00	14.79	18.83	4.04
3		4055-00-207-0-04-386 Construction	29.35	10.00	19.35	31.99	12.64
Total			**118.14**	**(-)31.78**	**86.36**	**108.04**	**(+)21.68**

Source: Grant Registers

Appendix 2.9

Cases of Defective Re-Appropriation Orders
(Reference: Paragraph 2.7.11; Page 96)

(₹ in crore)

Sl. No.	Grant No.	Government Order No.	Date	Amount	Issuing Authority	Reasons for rejection
1	02	AHF 204 FDP	06-02-2017	5.97	Under Secretary to Government, Animal Husbandry and Veterinary Services	Results in New Services
2	04	RCK-6/ACCTS-Re-app/2016-17	16-01-2017	0.10	Resident Commissioner, Karnataka Bhavan, New Delhi	Form.22A not self-balanced
3		Ci Aa SuEi 75 SeLo Eu 2015	18-01-2017	0.10	Under Secretary to Government, DPAR (Vigilance), Bengaluru	
4		Ci Aa SuEi 74 Ei As Su 2016	22-02-2017	0.50	Under Secretary to Government, DPAR, (Accounts-2)	
5		Ci Aa Suci 30 Seto Ao 2017	09-03-2017	0.20	Under Secretary to Government, DPAR, (Services-7)	
6		Ci Aa SuEi 74 Ei As Su 2017	10-03-2017	0.02	Under Secretary to Government, DPAR, (AR-Training)	
7		Ci As Suci 02 Chu Hosnam 2016	18-03-2017	0.50	Assistant Chief Electoral Officer & Ex-Officio Under Secretary to Government, DPAR (Elections)	
8		FD 478 BRS 2016	22-03-2017	0.59	Under Secretary to Government, Finance Department (FR & BCC)	Insufficient Balance
9	05	FD 44 BRS 2016	16-09-2016	0.12	Under Secretary to Government, Finance Department	Re-appropriation between Revenue and Capital Heads
10		FD 145 BRS 2016	11-01-2017	50.69		
11		FD 399 BRS 2016	10-03-2017	22.36		
12	07	RDP/05/GraSwayo	05-04-2016	0.25	Chief, Grama Swaraj Project, RD&PR Department	Form.22A not self-balanced
13		RDP 31 Gra Swa Yo 2016	16-09-2016	0.06	Director (Panchayat Raj-1), RDPR Department	
14		FD 154 BRS 2016	16-01-2017	100.00	Under Secretary to Government, Finance Department (FR & BCC)	Original Budget differs
15		FD 219 BRS 2016	03-02-2017	281.25		Re-appropriation between Revenue and Capital Heads
16		FD 240 BRS 2016	17-02-2017	8.31		

Sl. No.	Grant No.	Government Order No.	Date	Amount	Issuing Authority	Reasons for rejection
17	08	FD 115 BRS 2016	28-12-2016	14.50	Under Secretary to Government, Finance Department	Re-appropriation from Plan to Non Plan
18	09	SAE 30 ALS 2017	28-02-2017	0.10	Under Secretary to Government, Co-operation Department	Form.22A not self-Balanced
19	10	SWD 63 SPA 2017	14-02-2017	0.20	Under Secretary-2 to Government, Social Welfare Department	Form 22A not attached and not in prescribed form
20		SWD 20 SAD 2017	23-02-2017	0.10		Form 22A not attached
21		BCW 172 BMS 2017	09-03-2017	0.50	Under Secretary to Government, Welfare of Backward Classes	Form.22A not self-balanced
22		HIVAKA 121 BET 2017	22-03-2017	0.02		
23	12	KSP 30 VPC 2016	09-08-2016	0.30	Under Secretary to Government, Kannada & Culture and Information Department	
24	14	FD 402 BRS 2016	10-03-2017	51.09	Under Secretary to Government, Finance Department (FR & BCC)	Results in New Services
25		RD 9 MST 2017	20-03-2017	0.02	Under Secretary to Government, Revenue Department (Land Reforms Cell), M.S. Building	Form 22A not self-balanced and Budget Provision not tallied
26	17	FD 29 BRS 2016	29-07-2016	30.00	Under Secretary to Government, Finance Department (FR & BCC)	Results in New Services
27		ED 16 MPE 2016 (PI)	13-01-2017	0.15	Deputy Secretary to Government, Education Department, M.S Building	Original budget provision not tallies
28		ED 33 Yoyoka 2017	10-02-2017	0.31		Insufficient Balance
29		FD 392 BRS 2016	10-03-2017	94.77	Under Secretary to Government, Finance Department (FR & BCC)	
30		FD 424 BRS 2016	15-03-2017	75.77		Re-appropriation between plan and non-plan, Concurrence from planning department not obtained
31		FD 469 BRS 2016	20-03-2017	120.71		
32		ED 12 ESW 2017	22-03-2017	0.18	Deputy Secretary to Government, Education Department, M.S Building	Form.22A not self-balanced
33	18	FD 464 BRS 2016	20-03-2017	8.94	Under Secretary to Government, Finance Department (FR & BCC)	

Sl. No.	Grant No.	Government Order No.	Date	Amount	Issuing Authority	Reasons for rejection
34		DSK IAP 61 2016-17	07-01-2017	0.05	Commissioner for Sugarcane cum Director of Sugar	Form 22A not attached
35	20	CNH/EST/16-17/	25-02-2017	0.05	Chief Engineer, National Highways, Bengaluru	Form.22A not self-balanced
36				0.01		
37	22	AKK 55 CGM 2017	24-03-2017	0.45	Under Secretary to Government, Health & Family Welfare Services	
38		FD 504 BRS 2016	27-03-2017	18.00	Under Secretary to Government, Finance Department	Re-appropriation for ₹3.31 crore not received
39		FD 285 D26 2016	17-02-2017	19.50	Under Secretary to Government, Finance Department (Exp-4)	Form.22A not self-balanced
40		FD 427 D Exp/2017	31-03-2017	0.06		Re-appropriation from non-plan to plan
41	25	DRC-31015/I/2017/DKC-Accts-2	17-01-2017	0.05	Director, Kannada and Culture Department, JC Road, Bengaluru-2	Sanction order not enclosed
42			24-01-2017	0.05		Sanction order not enclosed and Form.22A not self-balanced
43			31-01-2017	0.02		
44			17-02-2017	0.02		Form.22A not self-balanced
45	26	PD 40 SPA 2015	27-08-2016	0.09	Under Secretary to Government, Planning Department	Budget provision does not tally
46			28-11-2016	0.10		
47	27	OONo.124/AG/Est/ST/2016-17	18-02-2017	0.04	Advocate General, Bengaluru	Form 22A not in prescribed form
48		Maat ta Aoa 148 Aaadalitha 2015	03-03-2017	0.02	Secretary, Karnataka State Human Rights Commission, Bengaluru	Form.22A not self-balanced
49	28	KVP/x-I/66/16	14-12-2016	0.49	Deputy Secretary to Government, Karnataka Legislative Council	
Total				**907.68**		

Source: Office of the AG(A&E)

Appendix 2.10

Statement of various grants/appropriation in which unspent provision occurred but no part of which was surrendered.

(Reference: Paragraph 2.7.12; Page 97)

(₹ in crore)

Sl. No.	Grant No.	Section	Unspent Provision
1	**01**	**Agriculture and Horticulture**	
		Revenue-Charged	*0.04*
2	**03**	**Finance**	
		Revenue-Charged	*0.30*
3	**06**	**Infrastructure Development**	
		Revenue-Voted	11.98
		Capital-Voted	5.12
4	**07**	**Rural Development and Panchayat Raj**	
		Revenue-Voted	303.88
		Capital-Voted	842.92
5	**09**	**Co-operation**	
		Capital-Voted	48.42
6	**10**	**Social Welfare**	
		Revenue-Charged	*0.11*
		Capital-Voted	239.19
		Capital-Charged	*2.48*
7	**11**	**Women and Child Development**	
		Revenue-Voted	186.52
		Capital-Voted	49.91
8	**12**	**Information, Tourism and Youth Services**	
		Revenue-Voted	34.15
		Capital-Voted	93.28
9	**14**	**Revenue**	
		Capital-Voted	13.74
		Capital-Charged	*4.46*
10	**15**	**Information Technology**	
		Revenue-Voted	0.80
11	**16**	**Housing**	
		Revenue-Voted	259.51
12	**18**	**Commence and Industries**	
		Revenue-Voted	37.43
13	**19**	**Urban Development**	
		Revenue-Voted	673.14
		Revenue-Charged	*0.12*
		Capital-Voted	1,338.68
		Capital-Charged	*0.39*
14	**21**	**Water Resources**	
		Revenue-Charged	*31.98*
15	**24**	**Energy**	
		Revenue-Voted	3.13
		Capital-Voted	41.12

Sl. No.	Grant No.	Section	Unspent Provision
16	**25**	**Kannada and Culture**	
		Revenue-Voted	35.62
		Capital-Voted	2.34
17	**26**	**Planning, Statistics, Science and Technology**	
		Capital-Voted	125.66
18	**28**	**Parliamentary Affairs and Legislation**	
		Revenue-Charged	*0.71*
Total			**4,387.13**

Source: Appropriation Accounts

Appendix 2.11

Surrender of Unspent Provision

(Reference: Paragraph 2.7.12; Page 97)

(₹ in crore)

Sl. No.	Grant/Section		Amount of unspent provision	Amount surrendered	Amount not surrendered
	01	**Agriculture and Horticulture**			
1		Revenue-Voted	653.97	125.95	528.02
2		*Revenue-Charged*	*0.04*	*0.00*	*0.04*
3		Capital-Voted	0.00	0.26	0.00
	02	**Animal Husbandry and Fisheries**			
4		Revenue-Voted	50.03	21.23	28.80
5		*Revenue-Charged*	*0.01*	*0.01*	*0.00*
6		Capital-Voted	14.04	9.68	4.36
	03	**Finance**			
7		Revenue-Voted	3,028.48	155.98	2,872.50
8		*Revenue-Charged*	*0.30*	*0.00*	*0.30*
9		Capital –Voted	37.97	7.04	30.93
	04	**Department of Personnel and Administrative Reforms**			
10		Revenue-Voted	143.15	127.35	15.80
11		*Revenue-Charged*	*23.05*	*17.17*	*5.88*
12		Capital-Voted	6.97	1.58	5.39
	05	**Home and Transport**			
13		Revenue- Voted	13.16	135.18	0.00
14		*Revenue-Charged*	*0.37*	*0.37*	*0.00*
15		Capital-Voted	0.00	16.34	0.00
	06	**Infrastructure Development**			
16		Revenue-Voted	11.98	0.00	11.98
17		Capital-Voted	5.12	0.00	5.12
	07	**Rural Development and Panchayat Raj**			
18		Revenue-Voted	303.88	0.00	303.88
19		Capital-Voted	842.92	0.00	842.92
	08	**Forest, Ecology and Environment**			
20		Revenue - Voted	32.09	50.85	0.00
21		*Revenue-Charged*	*146.34*	*146.32*	*0.02*
22		Capital-Voted	0.57	0.57	0.00
	09	**Co-operation**			
23		Revenue-Voted	32.61	14.02	18.59
24		Capital-Voted	48.42	0.00	48.42
	10	**Social Welfare**			
25		Revenue-Voted	172.51	0.14	172.37
26		*Revenue-Charged*	*0.11*	*0.00*	*0.11*
27		Capital-Voted	239.19	0.00	239.19
28		*Capital-Charged*	*2.48*	*0.00*	*2.48*
	11	**Women and Child Development**			
29		Revenue-Voted	186.52	0.00	186.52
30		Capital-Voted	49.91	0.00	49.91
	12	**Information, Tourism and Youth Services**			
31		Revenue-Voted	34.15	0.00	34.15

32		Capital-Voted	93.28	0.00	93.28
	13	**Food and Civil Supplies**			
33		Revenue-Voted	170.53	133.71	36.82
34		*Revenue-Charged*	*0.02*	*0.02*	*0.00*
35		Capital-Voted	0.01	0.01	0.00
	14	**Revenue**			
36		Revenue-Voted	0.00	9.76	0.00
37		Capital-Voted	13.74	0.00	13.74
38		*Capital-Charged*	*4.46*	*0.00*	*4.46*
	15	**Information Technology**			
39		Revenue-Voted	0.80	0.00	0.80
	16	**Housing**			
40		Revenue-Voted	259.51	0.00	259.51
41		*Revenue-Charged*	0.67	0.67	0.00
	17	**Education**			
42		Revenue-Voted	867.32	209.11	658.21
43		Capital-Voted	107.70	10.87	96.83
	18	**Commerce and Industries**			
44		Revenue-Voted	37.43	0.00	37.43
45		Capital-Voted	54.42	40.70	13.72
	19	**Urban Development**			
46		Revenue-Voted	673.14	0.00	673.14
47		*Revenue-Charged*	*0.12*	*0.00*	*0.12*
48		Capital-Voted	1,338.68	0.00	1,338.68
49		*Capital-Charged*	*0.39*	*0.00*	*0.39*
	20	**Public Works**			
50		Revenue-Voted	0.00	239.20	0.00
51		*Revenue-Charged*	*10.74*	*10.74*	*0.00*
52		Capital-Voted	532.90	370.50	162.40
53		*Capital-Charged*	*14.08*	*14.08*	*0.00*
	21	**Water Resources**			
54		Revenue-Voted	119.16	55.06	64.10
55		*Revenue-Charged*	*31.98*	*0.00*	*31.98*
56		Capital-Voted	1,252.97	381.99	870.98
	22	**Health and Family Welfare**			
57		Revenue-Voted	605.01	76.39	528.62
58		Capital-Voted	28.90	0.44	28.46
	23	**Labour**			
59		Revenue-Voted	111.37	72.65	38.72
60		Capital-Voted	24.59	0.13	24.46
	24	**Energy**			
61		Revenue-Voted	3.13	0.00	3.13
62		Capital-Voted	41.12	0.00	41.12
	25	**Kannada and Culture**			
63		Revenue-Voted	35.62	0.00	35.62
64		Capital-Voted	2.34	0.00	2.34
	26	**Planning, Statistics, Science and Technology**			
65		Revenue-Voted	169.66	11.09	158.57
66		Capital-Voted	125.66	0.00	125.66
	27	**Law**			
67		Revenue-Voted	72.89	32.67	40.22
	28	**Parliamentary Affairs and Legislation**			

68		Revenue-Voted	24.82	0.40	24.42
69		*Revenue-Charged*	*0.71*	*0.00*	*0.71*
	29	***Debt Servicing***			
70		*Revenue-Charged*	*1,182.51*	*4.02*	*1,178.49*
71		*Capital-Charged*	*0.00*	*0.01*	*0.00*
Total			**14,092.72**	**2,504.26**	**11,994.81**

Source: Appropriation Accounts

Appendix 2.12

Cases where funds were surrendered in excess of ₹ five crore on 30 and 31 March 2017

(Reference: Paragraph 2.7.12; Page 97)

(₹ in crore)

Sl. No.	Grant No./Nomenclature		No. of cases	Total Provision	Amount surrendered	Percentage to total provision
1	01	Agriculture and Horticulture	4	579.74	81.58	14
2	02	Animal Husbandry and Fisheries	2	32.72	17.83	54
3	03	Finance	3	127.52	110.23	86
4	04	Department of Personnel and Administrative Reforms	2	72.54	56.29	78
5	05	Home and Transport	4	142.44	76.28	54
6	08	Forest, Ecology and Environment	3	381.22	159.45	42
7	13	Food and Civil Supplies	3	1,935.83	117.07	6
8	14	Revenue	1	21.25	9.73	46
9	17	Education	5	545.43	40.05	7
10	18	Commerce and Industries	1	50.00	40.70	81
11	20	Public Works	16	3,767.94	595.03	16
12	21	Water Resources	8	648.37	384.86	59
13	22	Health and Family Welfare	3	1,164.51	37.42	3
14	23	Labour	5	226.90	56.98	25
15	27	Law	1	15.67	5.86	37
Total			**61**	**9,712.08**	**1,789.36**	**18**

Source: Office of the AG(A&E)

Appendix 2.13

Results of substantial surrenders made during the year

(Reference: Paragraph 2.7.13; Page 97)

(₹ in crore)

Sl. No.	Grant No.	Name of the Section (Head of Account)	Provision	Amount surrendered	Percentage of surrender	Remarks
1	01	2401-00-102-0-28-103 GIA - General	28.90	25.00	86	No specific reasons furnished
2		2401-00-103-0-15-059 Other Expenses	173.81	121.38	70	
3		2401-00-109-0-21-106 Subsidies	10.50	5.21	50	
4	02	2405-00-101-0-58-106 Subsidies	13.54	9.50	70	Due to late receipt of scheduled guidelines
5		2405-00-109-0-01-102 GIA - Asset Creation	5.63	5.63	100	Due to non-approval for construction of Oceanarium in Pilikula Nisargadhama
6		4405-00-104-0-02-386 Construction	19.18	10.31	54	Due to non-receipt of Central Fund
7	03	2054-00-095-0-01-125 Modernisation	49.86	39.88	80	Installation of CC Cameras to strong rooms in Treasury Department proved unnecessary.
8		3475-00-800-0-02-104 Contribution	67.19	67.19	100	No specific reasons furnished
9	05	2041-00-102-0-03-059 Other Expenses	5.00	3.15	63	
10		2055-00-113-0-01-106 Subsidies	53.72	35.81	67	
11		2235-60-200-1-99-251 Pension and Other Retirement Benefits	8.94	6.33	71	
12	06	5465-01-190-1-05-211 Investment	100.00	85.31	85	
13	07	2515-00-101-0-24-059 Others Expenses	11.25	10.50	93	Due to lack/want of sufficient time for purchase of Computer parts from Gemportal
14		4702-00-101-1-14-436 NABARD Works	40.50	20.46	51	As sufficient funds were available after keeping aside the required funds for NABARD Works.
15		4702-00-101-1-14-437 NABARD –SCSP	7.00	7.00	100	No specific reasons furnished
16	08	2406-01-101-2-81-139 Major Works	1.00	0.80	80	
17		2406-01-196-1-01-300 Lumpsum-ZP	5.14	5.14	100	
18	09	2425-00-004-0-01-125 Modernisation	5.00	5.00	100	
19	10	2225-03-102-3-10-103 Grants-in-Aid General	50.00	38.81	78	
20	12	4220-60-101-0-02-386 Construction	6.00	4.67	78	
21	14	2053-00-800-0-12-422, 423 SCSP/TSP	7.47	7.47	100	
22	17	2202-01-053-0-02-059 Other Expenses	5.00	4.00	80	

Sl. No.	Grant No.	Name of the Section (Head of Account)	Provision	Amount surrendered	Percentage of surrender	Remarks
23		2202-01-101-0-08-059 Other Expenses	9.00	8.87	99	As funds could not be spent to High Schools and PU Colleges under this
24		2202-01-106-0-02-059 Other Expenses	15.00	15.00	100	
25		2202-02-109-0-15-133 Special Development Plan	18.00	18.00	100	Due to implementation of the scheme in 2016-17 by utilizing funds released to SSA Society during the earlier years.
26		2202-02-109-0-15-422, 423 SCSP/TSP	6.48	6.48	100	
27		2202-80-003-0-05-059 Other Expenses	59.50	46.38	78	No specific reasons furnished
28		2202-80-003-0-05-422 SCSP	17.00	12.75	75	Due to Fund provided through supplementary under Capital Heads
29	18	4860-04-004-0-01-172 Roads	50.00	40.70	81	No specific reasons furnished
30	19	3604-00-191-1-25-200 Maintenance Expenditure	29.42	22.07	75	
31		3604-00-193-3-51-032 Grant for creation of capital assets	13.68	9.23	67	Due to delay in issue of Nagarothana-3 Projects guidelines.
32	20	2059-80-800-0-06-051 General Expenses	120.00	80.55	67	Due to delay in calling of tenders for Sand mining
33		5051-02-201-0-04-059 Other Expenses	43.66	31.04	71	Due to non-completion of works in Karwar Harbour, Break Water construction and other works, was appropriated to other heads
34		5054-03-337-0-17-160 Renewals	100.00	79.04	79	No specific reasons furnished
35	21	4701-80-190-4-00-436 NABARD Works	100.00	62.91	63	
36	22	2210-05-105-1-13-117 Scholarship and Incentives	6.00	3.20	53	
37		4210-01-110-1-16-139 Major Works	10.00	10.00	100	
38	23	2230-03-101-0-35-059 Other Expenses	10.90	6.56	60	
39		2230-03-101-0-35-133 Special Development Plan	8.00	8.00	100	
40	27	2014-00-105-0-01-053 Purchase of Furniture and Fixture for office	8.15	7.19	88	
41		2014-00-114-0-01-059 Other Expenses	5.68	3.37	59	Due to economy measures.
		Total	**1,305.10**	**989.89**		

Source: Appropriation Accounts/Grant Register

Appendix 2.14

Rush of Expenditure – Grant No. 11

(Reference: Paragraph 2.9.1.10; Page 103**)**

(₹ in crore)

Sl. No.	Head of Account and Nomenclature	Total expenditure during the year	Expenditure during the last quarter		Expenditure during March	
			Amount	%	Amount	%
1	2235-02-102-0-04 ICDS (CSS)	38.69	37.46	97	29.08	75
2	2235-02-102-0-24 Prevention of Trafficking of women and children	0.44	0.33	75	0.32	73
3	2235-02-102-0-28 Karnataka State Commission for protection of Child Rights	2.39	1.61	67	1.16	49
4	2235-02-102-0-31 Balavikasa Academy, Dharwad	4.75	4.75	100	2.38	50
5	2235-02-102-0-41 Beti Bachao, Beti Padhao	0.38	0.38	100	0.37	97
6	2235-02-102-0-42 One Stop Center in Udupi	0.63	0.63	100	0.63	100
7	2235-02-103-0-46 Rajiv Gandhi Scheme for empowerment of Adolescent Girls (SABALA)	0.74	0.74	100	0.74	100
8	2235-02-103-0-64 Swadhar Gruha	7.79	7.79	100	7.79	100
9	2235-02-103-0-62 Working Women's Hostel	0.12	0.12	100	0.12	100
10	2235-60-103-0-01 New Pension System for Anganwadi Workers	14.95	7.29	49	7.29	49
11	2235-02-103-0-61 Indira Gandhi Mathruthva Sahayoga Yojane	1.51	1.39	92	1.39	92
12	4235-02-102-0-01 Construction of Anganwadi buildings	31.67	17.18	54	12.83	41
13	4235-02-102-0-06 Construction of Anganwadi buildings (ICDS-MNREGA)	24.95	24.95	100	22.19	89
14	4235-02-103-1-02 Construction of marketing outlets for Stree Shakthi products at taluk level	1.50	1.48	99	0.90	60
15	4235-02-102-0-02 Construction of Anganwadi Buildings (SDP)	4.53	4.44	98	1.93	43
16	4235-02-103-1-04 Construction of Training Institute for SHGs & Clusters	1.00	0.95	95	0.75	75
17	4235-02-102-1-03 Upgradation of Anganwadi buildings	19.97	19.97	100	17.00	85

Source: Grant Register

Appendix 2.15

Excess payment of Family Pension

(Reference: Paragraph 2.10; Page 108)

Sl. No.	Name of the Treasury	No. of cases	Amount in ₹	Period
1	Bengaluru (Rural)	3	3,92,415	22-06-2011 to 31-03-2016
2	Ballari	3	4,56,077	29-05-2009 to 31-10-2016
3	Udupi	1	95,865	23-05-2015 to 31-10-2016
4	Karwar	12	14,55,629	28-02-2011 to 30-09-2016
5	Hubballi	2	2,80,218	12-05-2013 to 31-07-2016
6	Chamarajanagar	7	3,88,251	19-12-2013 to 31-08-2016
7	Bidar	9	4,64,549	13-04-2015 to 30-09-2016
8	Mangaluru	4	6,14,151	04-11-2011 to 31-10-2016
9	Mysuru	3	2,64,822	23-04-2015 to 31-12-2016
10	Tumakuru	2	2,34,128	30-10-2014 to 30-09-2016
11	Haveri	6	2,29,668	25-04-2015 to 31-03-2016
12	Davanagere	3	2,68,514	10-05-2013 to 31-03-2016
13	Kalaburagi	3	5,09,242	01-07-2007 to 31-03-2016
14	Gadag	5	2,16,240	19-08-2015 to 31-05-2016
15	Bagalkote	5	2,16,421	01-04-2012 to 30-06-2016
16	Mandya	6	1,29,602	02-06-2015 to 29-02-2016
17	Shivamogga	10	8,59,624	31-03-2010 to 31-03-2016
18	Chitradurga	4	11,11,137	19-06-2008 to 30-04-2016
19	Chikkaballapura	8	46,316	20-08-2015 to 29-02-2016
20	Belagavi	11	14,08,129	02-05-2012 to 31-03-2016
21	Madikeri	2	1,01,995	12-04-2015 to 31-12-2016
22	Hassan	1	53,208	29-05-2015 to 31-10-2016
23	Dharwad	5	4,20,614	09-10-2013 to 30-11-2016
24	Bengaluru (Urban)	1	1,01,548	07-05-2015 to 31-08-2016
25	Chikkamagaluru	2	3,22,676	19-12-2011 to 31-12-2016
26	Kolar	5	10,05,580	19-04-2007 to 31-03-2016
27	Pension Payment Treasury	11	13,62,181	31-08-2012 to 31-07-2016
28	Raichuru	6	2,08,395	30-04-2015 to 31-05-2016
29	Ramanagara	3	2,72,322	13-04-2015 to 30-09-2016
30	Vijayapura	4	2,97,584	16-07-2015 to 31-08-2016
31	Yadgir	1	59,474	23-11-2015 to 30-11-2016
32	Koppal	3	1,45,785	14-05-2015 to 30-04-2016
		151	**1,39,92,360**	

Source: Office of AG(A&E)

Appendix 2.16

Repeated excess payment of Family Pension

(Reference: Paragraph 2.10; Page 109)

(Amount in ₹)

Sl. No.	Name of the Treasury	CEP POINTED IN 2016-17		Excess payment during earlier year	Recovery during 2015-16	Overall Excess Payment including cases which appeared in earlier Audit Reports	
		No. of cases	Amount			Total Amount	Period
1	Ballari	2	1,37,148	1,42,267	0	2,79,415	13-01-2015 to 31-10-2016
2	Udupi	7	3,65,368	5,54,232	2,41,007	6,78,593	06-11-2013 to 31-08-2016
3	Karwar	5	2,95,077	4,30,772	2,60,104	4,65,745	12-04-2012 to 30-09-2016
4	Chamarajanagar	2	60,482	26,563	10,258	76,787	01-10-2014 to 31-08-2016
5	Bidar	4	3,49,101	4,61,261	0	8,10,362	23-09-2013 to 30-09-2016
6	Mangaluru	6	4,80,191	4,67,815	0	9,48,006	13-06-2014 to 31-10-2016
7	Mysuru	2	36,000	1,22,152	0	1,58,152	10-12-2007 to 31-12-2016
8	Haveri	3	1,46,744	1,58,297	0	3,05,041	10-11-2011 to 31-03-2016
9	Kalaburagi	2	77,150	1,42,729	0	2,19,879	16-10-2013 to 31-03-2016
10	Gadag	2	1,21,322	73,037	0	1,94,359	15-12-2013 to 30-06-2016
11	Bagalakote	3	2,48,342	1,66,623	0	4,14,965	21-08-2014 to 30-04-2016
12	Shivamogga	1	1,16,931	15,345	12,000	1,20,276	21-12-2013 to 31-03-2016
13	Belagavi	11	9,82,883	3,85,590	0	13,68,473	26-12-2007 to 31-03-2016
14	Madikeri	2	1,27,151	2,19,153	0	3,46,304	01-12-2012 to 31-12-2016
15	Hassan	5	2,36,943	9,72,174	0	12,09,117	26-04-2013 to 31-10-2016
16	Chikkamagaluru	3	1,76,477	6,34,596	0	8,11,073	22-09-2012 to 30-09-2016
17	Kolar	4	5,21,257	2,07,705	0	7,28,962	07-01-2007 to 31-03-2016
18	Pension Payment Treasury	11	7,65,041	16,88,501	0	24,53,542	05-10-2006 to 31-07-2016
19	Raichuru	2	1,67,012	2,04,457	0	3,71,469	14-05-2011 to 31-05-2016
20	Yadgir	1	40,209	20,500	48,797	11,912	06-07-2015 to 30-11-2016
21	Koppal	1	65,382	2,84,983	0	3,50,365	01-01-2013 to 31-12-2015
		79	**55,16,211**	**73,78,752**	**5,72,166**	**1,23,22,797**	

Source: Office of the AG(A&E)

Appendix 2.17

Avoidable Loss of interest

(Reference: Paragraph 2.10; Page 109)

(Amount in ₹)

Sl. No.	Name of the Treasury	EP Amount	CEP Amount	Total	Pointed out during	No. of months up to March 2017	Interest @ 4%
1	Bengaluru (Rural)	3,92,415	0	3,92,415	10-08-2016	8	10,464
2	Ballari	4,56,077	2,79,415	7,35,492	27-02-2017	1	2,452
3	Udupi	95,865	6,78,593	7,74,458	02-01-2017	3	7,745
4	Karwar	14,55,629	4,65,745	19,21,374	01-02-2017	2	12,809
5	Hubballi	2,80,218	0	2,80,218	28-10-2016	5	4670
6	Chamarajanagar	3,88,251	76,787	4,65,038	27-12-2016	3	4650
7	Bidar	4,64,549	8,10,362	12,74,911	02-01-2017	3	12,749
8	Mangaluru	6,14,151	9,48,006	15,62,157	17-01-2017	2	10,414
9	Mysuru	2,64,822	1,58,152	4,22,974	16-03-2017	0	0
10	Tumakuru	2,34,128	0	2,34,128	16-01-2017	2	1,561
11	Haveri	2,29,668	3,05,041	5,34,709	23-09-2016	6	10,694
12	Davanagere	2,68,514	0	2,68,514	10-08-2016	8	7,160
13	Kalaburagi	5,09,242	2,19,879	7,29,121	20-09-2016	6	14,582
14	Gadag	2,16,240	1,94,359	4,10,599	24-08-2016	7	9,581
15	Bagalakote	2,16,421	4,14,965	6,31,386	20-09-2016	6	12,628
16	Mandya	1,29,602	0	1,29,602	08-06-2016	10	4,320
17	Shivamogga	8,59,624	1,20,276	9,79,900	27-06-2016	9	29,397
18	Chitradurga	11,11,137	0	11,11,137	01-07-2016	9	33,334
19	Chikkaballapura	46,316	0	46,316	01-07-2016	9	1,389
20	Belagavi	14,08,129	13,68,473	27,76,602	12-07-2016	9	83,298
21	Madikeri	1,01,995	3,46,304	4,48,299	24-03-2017	0	0
22	Hassan	53,208	12,09,117	12,62,325	04-04-2017	0	0
23	Dharwad	4,20,614	0	4,20,614	01-02-2017	2	2,804
24	Bangaluru (Urban)	1,01,548	0	1,01,548	06-12-2016	4	1,354
25	Chikkamagaluru	3,22,676	8,11,073	11,33,749	10-02-2017	2	7,558
26	Kolar	10,05,580	7,28,962	17,34,542	01-07-2016	9	52,036
27	Pension Payment Treasury	13,62,181	24,53,542	38,15,723	22-11-2016	4	50,876
28	Raichuru	2,08,395	3,71,469	5,79,864	20-09-2016	6	11,597
29	Ramanagara	2,72,322	0	2,72,322	23-01-2017	2	1,815
30	Vijayapura	2,97,584	0	2,97,584	02-03-2017	1	992
31	Yadgir	59,474	11,912	71,386	02-03-2017	1	238
32	Koppal	1,45,785	3,50,365	4,96,150	09-08-2016	8	13,231
	Total	**1,39,92,360**	**1,23,22,797**	**2,63,15,157**			**4,16,398**

Source: Office of the AG(A&E)

Appendix 3.1

Major Head and department-wise details of outstanding UCs separately for each year
(Reference: Paragraph 3.1; Page 113)

(₹ in crore)

Sl. No.	Head of Account	Nomenclature	Year in which GIA released	Number of UCs Outstanding	Amount
1	2204	Sports and Youth Services	1989-90	5	0.01
			1998-99	2	0.95
				7	**0.96**
2	2210	Medical and Public Health	2013-14	10	48.33
			2014-15	59	371.54
			2015-16	46	237.40
				115	**657.27**
3	2217	Urban Development	2013-14	1	23.61
			2015-16	1	2.48
				2	**26.09**
4	2220	Information and Publicity	2007-08	3	0.30
			2008-09	1	0.05
			2010-11	6	1.98
			2011-12	5	2.18
			2012-13	5	2.58
			2013-14	6	3.35
				26	**10.44**
5	2245	Relief on account of Natural Calamites	2001-02	3	1.41
				3	**1.41**
6	2851	Village and Small Industries	2006-07	1	0.19
				1	**0.19**
7	3451	Secretariat-Economic Services	2012-13	1	5.00
			2013-14	3	6.25
				4	**11.25**
8	3475	Other General Economic Services	1997-98	1	9.79
			1998-99	2	3.71
			2001-02	5	1.20
			2002-03	7	1.63
				15	**16.33**
Total				**173**	**723.94**

Source: Office of the AG(A&E)

Appendix 3.2

Non-receipt of information pertaining to institution substantially financed by the Government

(Reference: Paragraph 3.2; Page 114)

Sl. No.	Department	No. of Institutions	Years for which information not received
1	Education	384	1994-95 to 2016-17
2	Medical Education	19	2013-14 to 2016-17
3	Commerce and Industries	8	2003-04 to 2016-17
4	Health and Family Welfare	2	2015-16 to 2016-17
5	Information, Tourism and Youth Services	4	1999-00 to 2016-17
6	Social Welfare	4	2014-15 to 2016-17
7	Labour	1	2014-15 to 2016-17
8	Minority Welfare	2	2013-14 to 2016-17
9	Animal Husbandry and Veterinary Service and Fisheries	3	2003-04 to 2016-17
10	Department of Parliamentary Affairs and Legislation	1	2014-15 to 2016-17
11	Endowments	3	2012-13 to 2016-17
12	IT, BT, Science and Technology	5	2014-15 to 2016-17
13	Co-operation	1	1994-95 to 2016-17
14	Kannada and Culture Department	1	2016-17

Source: Office of the AG(G&SSA) and AG(E&RSA)

Appendix 3.3

Status of submission of accounts of Autonomous Bodies and placement of Audit Reports before the State Legislature

(Reference: Paragraph 3.3; Page 114)

Sl. No.	Name of the Autonomous Body	Section under which Audited	Period of Entrustment	Year up to which accounts rendered	Year up to which audit report issued	Placement of audit report before the Legislature
1	Karnataka State Khadi and Village Industries Board, Bengaluru	19(3)	2012-13 to 2016-17	2015-16	2015-16	2014-15 Dt:25-11-2016
2	Karnataka Industrial Area Development Board, Bengaluru	19(3)	2014-15 to 2018-19	2015-16	2015-16	2014-15 Dt:25-11-2016
3	Karnataka Slum Development Board, Bengaluru	19(3)	2012-13 to 2016-17	2016-17	2015-16	2015-16 Dt:14-11-2017
4	Bangalore Water Supply and Sewerage Board, Bengaluru	19(3)	2012-13 to 2016-17	2015-16	2014-15	2014-15 Dt:12-06-2017
5	Karnataka Housing Board, Bengaluru	19(3)	2016-17 to 2020-21	2016-17	2015-16	2015-16 Dt:14-11-2017
6	Karnataka State Legal Services Authority, Bengaluru and 30 District Legal Services Authorities	19(2)	As per Act	2016-17	2015-16	2014-15 Dt:25-11-2016
7	Karnataka Bio-Diversity Board, Bengaluru	20(1)	2014-15 to 2018-19	2015-16	2015-16	2014-15 Dt:25-11-2016
8	Karnataka Urban Water Supply and Drainage Board, Bengaluru	19(3)	2015-16 to 2019-20	2016-17	2015-16	2015-16 Dt:14-11-2017
9	Bangalore Development Authority, Bengaluru	19(3)	2015-16 to 2019-20	2015-16	2014-15	2013-14 Dt:14-11-2017
10	Karnataka State Human Rights Commission, Bengaluru	19(2)	As per Act	2016-17	2015-16	2015-16 Dt:14-11-2017
11	Karnataka Building and other Construction Workers Welfare Board, Bengaluru	19(2)	As per Act	2014-15	2013-14	Not placed

Source: Offices of AG(G&SSA) and AG(E&RSA)

Appendix 3.4

Position of arrears in finalisation of Proforma Accounts by the departmentally managed Commercial and Quasi-Commercial Undertakings

(Reference: Paragraph 3.4; Page 115)

(₹ in crore)

Sl. No.	Undertakings	Accounts Finalised up to	Investment as per the Last Accounts Finalised	Remarks
1	Chamarajendra Technical Institute, Mysuru	1984-85	-	Proforma Accounts due from 1985-86
2	Government Saw Mills, Joida	1968-69	-	Proforma Accounts due from 1969-70. Undertakings closed w.e.f 27-4-1971
3	Dasara Exhibition Committee, Mysuru	1980-81	-	Proforma Accounts due from 1981-82 to 1995-96
4	Bangalore Diary, Bengaluru	1973-74	-	Proforma Accounts for the period from 1-4-75 to 30-11-75 were furnished. The undertaking was transferred to Karnataka Dairy Development Corporation (KDDC) with effect from 1st December 1975
5	Government Milk Supply Scheme, Hubballi-Dharwad	1980-81	-	Proforma Accounts due from 1981-82 to 1984-85 (31-01-1985). Transferred to Karnataka Dairy Development Corporation (KDDC)
6	Government Milk Supply Scheme. Mysuru	1968-69	-	Proforma Accounts due from 1969-70 to 30-11-1975. Transferred to Karnataka Dairy Development Corporation w.e.f 01-12-1975
7	Government Milk Supply Scheme, Belagavi	1976-77	-	Proforma Accounts due from 1977-78 to 1984-85. Transferred to Karnataka Dairy Development Corporation w.e.f. 31-01-1985
8	Government Milk Supply Scheme, Kalaburagi	1982-83	-	Proforma Accounts due from 1983-84 to 1984-85 (up to 31-01-1985). Transferred to KDDC
9	Government Milk Supply Scheme, Bhadravathi	1982-83	-	Proforma Accounts due from 1983-84 to 1984-85 (up to 14-02-1985). Transferred to KDDC
10	Government Milk Supply Scheme, Mangaluru	1982-83	-	

Sl. No.	Undertakings	Accounts Finalised up to	Investment as per the Last Accounts Finalised	Remarks
11	Government Milk Supply Scheme, Kudige	1972-73	-	Proforma Accounts due from 1973-74 to 1974-75 (Up to 30-11-1975). Transferred to KDDC.
12	Vaccine Institute, Belagavi	1992-93	-	Proforma Accounts due from 1993-94
13	Government Silk Filature, Kollegal	2014-15	1.92	Information not available
14	Government Silk Filature, Mambally	2015-16	2.38	
15	Government Silk Twisting and Weaving Factory, Mudigundam	2014-15	1.91	
16	Government Silk Filature, Chamarajanagar	2014-15	1.89	
17	Government Silk Filature, Santhemarahalli	2015-16	1.47	
18	Government Central Workshop, Madikeri	2008-09	0.07	Proforma Accounts due from 2009-10
19	Karnataka Government Insurance Department, Bengaluru	-	No Capital Account	Information not available

Source: Finance Accounts

Appendix 3.5

Department-wise/duration-wise breakup of the cases of theft and misappropriation
(Reference: Paragraph 3.5; Page 115**)**

(₹ In lakh)

Department	<5years		<15 years		<20 years		<25 years		>25 years		Total	
	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.	No.	Amt.
Medical Education	0	0	0	0	0	0	2	1.98	1	0.29	3	2.27
Forest, Environment and Ecology	1	6.25	0	0	0	0	0	0	0	0	1	6.25
Health and Family Welfare	0	0	0	0	0	0	0	0	10	1.60	10	1.60
Home	1	79.04	0	0	2	22.90	1	66.05	0	0	4	167.99
Labour	0	0	0	0	0	0	1	3.10	1	0.89	2	3.99
Law and Parliamentary Affairs	1	20.00	0	0	0	0	0	0	0	0	1	20.00
PWP & IWTD	2	1,180.08	0	0	0	0	0	0	0	0	2	1,180.08
Social Welfare	1	325.28	1	9.48		0	0	0	1	2.69	3	337.45
Department of Personnel and Administrative Reforms	1	2.76	0	0	0	0	0	0	0	0	1	2.76
Revenue	1	87.44	0	0	0	0	0	0	0	0	1	87.44
Agriculture and Horticulture	1	1.47	0	0	0	0	0	0	0	0	1	1.47
Total	**9**	**1,702.32**	**1**	**9.48**	**2**	**22.90**	**4**	**71.13**	**13**	**5.47**	**29**	**1,811.30**

Source: Information compiled by Offices of AG(G&SSA) and AG(E&RSA)

Appendix 3.6

Department-wise/Category-wise details of theft and misappropriation cases

(Reference: Paragraph: 3.5; Page 115)

(₹ in lakhs)

Department	Theft		Misappropriation/Loss of Government Money		Total	
	No. of cases	Amount	No. of cases	Amount	No. of cases	Amount
Medical Education	0	0	3	2.27	3	2.27
Forest, Environment and Ecology	0	0	1	6.25	1	6.25
Health and Family Welfare	2	0.02	8	1.58	10	1.60
Home	1	2.50	3	165.49	4	167.99
Labour	1	3.10	1	0.89	2	3.99
Law and Parliamentary Affairs	0	0	1	20.00	1	20.00
PWP & IWTD	0	0	2	1,180.08	2	1,180.08
Social Welfare	0	0	3	337.45	3	337.45
Department of Personnel and Administrative Reforms	0	0	1	2.76	1	2.76
Revenue	0	0	1	87.44	1	87.44
Agriculture and Horticulture	0	0	1	1.47	1	1.47
Total	**4**	**5.62**	**25**	**1,805.68**	**29**	**1,811.30**

Source: Information compiled by offices of AG(G&SSA) and AG(E&RSA)

Appendix 3.7

Department-wise details of non-submission of stores and stock accounts

(Reference: Paragraph 3.6; Page 115)

Sl. No.	Department	Officer responsible for furnishing accounts	Period for which accounts are due
Annual Accounts			
1	Agriculture	Director of Agriculture	2016-17
2	Printing and Stationery	Director of Printing and Stationery	
3	Information and Publicity	Director of Information and Publicity	
4	Animal Husbandry and Veterinary Services	Commissioner of Animal Husbandry and Veterinary Services	2015-16 and 2016-17
5	Home	Director General and Inspector General of Police	2016-17
6		Director General and Inspector General of Prisons	
7	Health	Director Health and Family Welfare Services	2008-09 to 2016-17
8		Karnataka State Drugs Logistics and Warehousing Society (Govt. Medical Stores)	2014-15 to 2016-17
9		Indian System of Medicine and Homeopathy	2011-12 to 2016-17
10		Director of Medical Education	2008-09 to 2016-17
11	Commerce and Industries	Director	2013-14 to 2016-17
12	Forest	CF, WP & FS Mysuru	2016-17
13		CF, WP & FS, Shivamogga	
14		CF,BRT, Chamarajanagara	
15		DCF, Davanagere	2015-17
16		DCF, Bhadravathi	2014-17
17		DCF, Mangaluru	2016-17
18		DCF(WL), Kudremukh, Karkala	
19		DCF, Kundapura	
20		DCF, Chitradurga	
21		DCF(WL), Shivamogga	2014-17
22		DCF, Shivamogga	2016-17
23		DCF, Mysuru	
24		DCF, Mandya	2015-17
25		DCF, Hunsuru	2016-17
26		DCF (WL), Mysuru	2015-17
27		DCF, FMS,Bengaluru	2014-17
28		DCF,FMS, Hassan	

Sl. No.	Department	Officer responsible for furnishing accounts	Period for which accounts are due
29		DCF, FMS, Madikeri	
30		DCF, FMS, Mysuru	
31		DCF, FMS, Shivamogga	2014-17
32		ACF Utilization, Bengaluru	
33		DCF(T) Chickmagaluru	
34		DCF(T), Koppa	
35		DCF, Urban, Bengaluru	
36		DCF, Rural, Bengaluru	
37		DCF(T) Kolar	
38		DCF (T) Chickballapur	
39		DCF(T) Ramanagara	
40		DCF, FTATI, Bengaluru	
41		DCF(T), Madikeri	
42		DCF Wildlife Dvn, Madikeri	
43		DCF(T) Virajpete	
44		DCF(T), Mangaluru	
45		DCF Hassan	
46		CF Hassan	
47		CF Bhadra (WL)BRT, Chikmagaluru	2016-17
48		DCF, Tumakuru	2014-17
		Half yearly Accounts	
1	Public Works, Port & Inland Water Transport Department	EE, PWP&IWTD, Shivamogga	March 2017
2		EE, PWP&IWTD, Chitradurga	
3		EE, PWP&IWTD, Davanagere	March 2014 to March 2017
4		EE, PWP&IWTD, Spl Dvn, Shivamogga	March 2015 to 2017
5		EE, PWP&IWTD, No.1 Building Dvn Bengaluru	March 2017
6		EE, ESI, Buidling dvn, Bengaluru	
7		EE, PWP&IWTD, Spl Dvn, R&B Bengaluru	March 2015 to March 2017
8		EE, PWP&IWTD, Bengaluru	March 2017
9		EE, PWP&IWTD, Ramanagara	March 2015 to March 2017
10		EE, PWP&IWTD, Kolar	
11		EE, PWP&IWTD, Chickballapur	
12		EE, PWP&IWTD Chamarajanagar	March 2017
13		EE, PWP&IWTD Mandya	March 2014 to March 2017
14		EE, PWP&IWTD, Mysuru	
15		EE, PWP&IWTD, Hunsuru	
16		EE, PWP&IWTD, Udupi	March 2016 to March 2017
17		EE, PWP&IWTD, Madikeri	September 2014 to March 2017
18		EE, PWP&IWTD, Mangaluru	March 2014 to March 2017

Sl. No.	Department	Officer responsible for furnishing accounts	Period for which accounts are due
19		EE, PWD&IWTD Electrical Dvn, Bengaluru	September 2016 to March 2017
20		EE, PWP&IWTD, Hassan	March 2014 to March 2017
21		EE, PWP&IWTD, QA, Bengaluru	March 2015 to March 2017
22		EE, PWP&IWTD, QA, Hassan	
23	National Highways	EE, NH Spl. Dvn, Bengaluru	September 2014 to March 2017
24		EE, NH Dvn, Chitradurga	September 2016 to March 2017
25		EE, NH Dvn, Bengaluru	March 2015 to March 2017
26		EE, NH Dvn, Mangaluru	March 2016 to March 2017
27	Sericulture	EE, No.1, Sericulture Division, Bengaluru	

Source: Information complied by offices of AG(G&SSA) and AG(E&RSA)

Appendix 3.8

Balances remaining under Inoperative PD Accounts

(Reference: Paragraph 3.8.3; Page 118)

(Amount in ₹)

Sl. No.	Administrator/Nomenclature	Balance as per the books of AG(A&E)	Remarks
Credit Balance			
1	Religious Endowment Deposits	1,29,11,689.10	1994-95 onwards
2	Cash Order Deposits	10,228.81	Prior to 2000
3	Sugar Surcharge	7,14,048.55	Prior to 1993-94
4	PWD Officer	10,01,430.00	Information not available
5	Special DC, DRDS, Mandya	4,49,156.07	1994-95 onwards
6	Industries and Commerce	40,66,006.37	1995-96 onwards
7	Deputy Commissioner, Dharwar	5,95,047.31	Information not available
8	Ram Kumar Jalal Memorial Fund	195.00	1994-95 onwards
9	Ration Shop Deposit	49,936.00	
10	Special Land Acquisition Officer, SCR Project	2,76,96,190.00	Information not available
Total		**4,74,93,927.21**	
Debit Balances			
1	Harijan Development Welfare Fund	5,18,350.71	Information not available
2	Maharaja College of Education	570.00	2008-09 onwards
3	SKC Protection Board	1,91,908.00	Information not available
4	Chief Minister's Drought Relief Fund	82,45,390.20	Prior to 2000
5	Asha Kiran	26,350.00	1994-95 onwards
6	Deposits of Private Estate under Commercial Organization	75.00	Prior to 2000
7	Gram Panchayat Deposits	34,00,890.55	1994-95 onwards
8	Joint Labour Commissioner, Mysuru	26,059.44	Prior to 2000
9	Deposits of District Consumer Forum	1,24,360.00	Information not available
Total		**1,25,33,953.90**	
Nil Closing Balance			
1	Deputy Registrar, Bidar	0	Nil
2	Asst. Registrar of Co-operative Societies		

Source: Office of the AG(A&E)

Appendix 3.9

Recovery under minor head 902/911 -Deduct recovery of Overpayments of PRI

(Reference: Paragraph 3.11.1; Page 122)

(₹ in crore)

Head of Account	Original Budget Estimate	Supplementary Estimate II
2401	0	8.57
2402	0	13.67
2403	0	15.61
2059	0	28.44
2215	0	1.43
2501	0	0.45
2515	259.72	36.09
3054	167.00	13.42
2406	0	1.99
2425	0	0.05
3475	0	0.18
2225	230.93	77.83
2235	0	18.37
2204	0	1.02
2202	1,705.35	301.16
2851	0	19.69
2702	0	3.97
2210	341.00	51.16
2211	0	15.58
2230	0	2.62
2205	0	0.19
3425	0	0.15
3451	0	3.84
Total	**2,704.00**	**615.48**

Source: Budget documents

Glossary

Basis of calculation

Buoyancy of a parameter	Rate of Growth of the parameter/GSDP Growth Rate
Buoyancy of a parameter (X) With respect to another parameter (Y)	Rate of Growth of parameter (X)/ Rate of Growth of parameter (Y)
Rate of Growth (ROG)	[(Current year Amount/Previous year Amount)-1]*100
Development expenditure	Social services + economic services
Average interest rate of Outstanding Debt	[Interest payments/(opening balance of Public debt + closing balance of Public Debt/2)]
Interest received as *per cent* to Loans Outstanding	Interest received [(Opening balance + Closing balance of Loans and Advances)/2*100]
Revenue Deficit	Revenue Receipt – Revenue Expenditure
Fiscal Deficit	Revenue Expenditure + Capital Expenditure + Net Loans and Advances – Revenue Receipts – Miscellaneous Capital Receipts
Primary Deficit	Fiscal Deficit – Interest payments
Balance from Current Revenue (BCR)	Revenue Receipts *minus* all Plan Grants and Non-Plan Revenue Expenditure excluding expenditure recorded under the major head 2048 – Appropriation for reduction of avoidance of debt.

Abbreviations

Sl. No.	Abbreviation	Full Form
1	AC Bill	Abstract Contingent Bill
2	AG (A&E)	Accountant General (Accounts and Entitlement)
3	BMRCL	Bangalore Metro Rail Corporation Limited
4	BPL	Below Poverty Line
5	C&AG	Comptroller and Auditor General
6	CAGR	Compounded Annual Growth Rate
7	CMRRD	Chief Minister's Rural Road Development Fund
8	CPPC	Centralised Pension Processing Centers
9	CRA	Central Record keeping Agency
10	CSF	Consolidated Sinking Fund
11	CSS	Centrally Sponsored Schemes
12	DC	Deputy Commissioner
13	DCPS	Defined Contribution Pension Scheme
14	DDOs	Drawing and Disbursing Officers
15	DDR	Debt, Deposit and Remittances
16	DE	Development Expenditure
17	DPC	Duties, Powers and Conditions of Service
18	EAP	Externally Assisted Project
19	EFC	Eleventh Finance Commission
20	ERC	Expenditure Reforms Commission
21	ESCOMs	Electricity Supply Companies
22	FD	Finance Department
23	FMRC	Fiscal Management Review Committee
24	FRBM	Fiscal Responsibility and Budget Management
25	GCUs	Government Commercial Undertakings
26	GDP	Gross Domestic Product
27	GIC	General Insurance Corporation
28	GOI	Government of India
29	GOK	Government of Karnataka
30	GOs	Government Orders
31	GP	Gram Panchayat
32	GSDP	Gross State Domestic Product
33	GST	Goods and Service Tax
34	HOA	Head of Account
35	HUDCO	Housing and Urban Development Corporation Limited
36	IAY	Indira Aawas Yojana
37	IDD	Infrastructure Development Department
38	IFA	Internal Financial Advisor
39	IGAS	Indian Government Accounting Standard
40	IIF	Infrastructure Initiative Fund
41	IML	Indian Made Liquor
42	KBJNL	Krishna Bhagya Jala Nigam Limited
43	KBM	Karnataka Budget Manual

44	KFC	Karnataka Financial Code
45	KFRA	Karnataka Fiscal Responsibility Act
46	KNNL	Karnataka Neeravari Nigama Limited
47	KPTCL	Karnataka Power Transmission Corporation Limited
48	KRDCL	Karnataka Road Development Corporation Limited
49	KRIDCL	Karnataka Rural Infrastructure Development Corporation Limited
50	LIC	Life Insurance Corporation
51	LMMH	List of Major and Minor Heads
52	MTFP	Medium Term Fiscal Plan
53	NABARD	National Bank for Agriculture and Rural Development
54	NCDC	National Co-operative Development Corporation
55	NDC	Non-Payment Detailed Contingent Bill
56	NGOs	Non – Government Organisations
57	NPIC	New Pension Implementation Cell
58	NPS	New Pension Scheme
59	NRDWP	National Rural Drinking Water Programme
60	NSDL	National Securities Depository Limited
61	NSSF	National Small Savings Fund
62	NTR	Non-Tax Revenue
63	OBB	Off-Budget Borrowings
64	PAC	Public Accounts Committee
65	PAO	Pay and Accounts Office
66	PD	Personal Deposit
67	PDS	Public Distribution System
68	PF	Provident Fund
69	PFC	Power Finance Corporation
70	PFRDA	Pension Fund Regulatory Development Authority
71	PPP	Public Private Partnership
72	PRAN	Permanent Retirement Account Number
73	PRIs	Panchayat Raj Institutions
74	PSUs	Public Sector Undertakings
75	PWP&IWTD	Public Works, Ports & Inland Water Transport Department
76	RBI	Reserve Bank of India
77	RDPR	Rural Development and Panchayat Raj
78	REC	Rural Electrification Corporation
79	RGRHCL	Rajiv Gandhi Rural Housing Corporation Limited
80	RIDF	Rural Infrastructure Development Fund
81	RR	Revenue Receipts
82	RSBY	Rastriya Swasthya Bhima Yojana
83	SCSP	Special Component Sub Plan
84	SDRF	State Disaster Response Fund
85	SPVs	Special Purpose Vehicles
86	SUTF	State Urban Transport Fund
87	TBs	Treasury Bills
88	TE	Total Expenditure
89	TFC	Twelfth Finance Commission
90	TNMC	Treasury Network Management Centre
91	TP	Taluk Panchayat

92	TSP	Tribal Sub Plan
93	UC	Utilisation Certificate
94	UDD	Urban Development Department
95	ULB	Urban Local Bodies
96	VAT	Value Added Tax
97	XIII FC	Thirteenth Finance Commission
98	XIV FC	Fourteenth Finance Commission
99	ZP	Zilla Panchayat