

**India: Resilient Kerala
Program for Results (PforR)
Financial Year 2021-26**

Integrated Fiduciary Systems Assessment Report (IFSA)

April 19, 2021



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SECTION 1: CONCLUSIONS

1.1 Reasonable Assurance:

1. **The Integrated Fiduciary System Assessment (IFSA) of the Government of Kerala's systems, as applicable to the PforR Program, concludes that the present systems together with proposed mitigation measures will meet the requirements of the Bank's Policy for PforR financing dated November 10, 2017 and would be adequate for achievement of the Program objectives.** The IFSA focused on determining whether the systems provide reasonable assurance that Financing proceeds will be used for the intended purpose with due attention to the principles of economy, efficiency, effectiveness, transparency, and accountability. The salient features of the Program are: The Program uses the GoK own procurement and financial management systems; the Program seeks to strengthen some of these systems; and the value of expenditure and the number of contracts under the Program are relatively small when compared to the scale of the GoK program and other operations of the participating departments.

2. **The IFSA covered FM, Procurement, and Fraud & Anti-Corruption (F&C) aspects.** The IFSA was conducted in accordance with the principles governing PforR Programs as set out in the World Bank's internal guidelines. As part of Program preparation, the World Bank carried out the IFSA of the Rebuild Kerala Initiative (RKI) and the six Participating Departments (PD), namely Department of Finance (DoF), Local Self-Government Department (LSGD), Department of Health and Family Welfare (DoHFW), Water Resources Department (WRD), Department of Agriculture (DoA) and Public Works Department (PWD). Considering that there will be negligible procurement by DoF and LSGD, procurement assessment covered DoHFW, WRD, DoA, and PWD, and a brief assessment of the apex level RKI. Further, the assessment of Program fiduciary systems integrates findings in three areas:

- The **financial management systems** were assessed to determine the degree to which the relevant planning, budgeting, accounting, internal controls, funds flow, financial reporting and auditing arrangements provide a reasonable assurance on the appropriate use of program funds and safeguarding of its assets;
- The **procurement systems** were assessed to determine the degree to which the planning, bidding, evaluation, contract award and contract administration arrangements and practices provide a reasonable assurance that the program will achieve intended results through its procurement processes and procedures; and
- The program was also assessed in how its **governance systems** handle the risks of fraud and corruption, including the use of complaint mechanisms, and how such risks are managed and mitigated in light of the government's commitments under the Guidelines on Preventing and Combating Fraud and Corruption in PforR Financing (Anti-Corruption Guidelines or ACGs).

The team has adopted a framework approach because of multiplicity of implementing agencies, not all of which may be fully identified at this stage, to arrive at the conclusion of IFSA. The fiduciary systems of the Program were assessed based on the counterpart consultations; data and information shared by GoK; procurement performance related information, state specific documents available on various GoK websites in the public domain, audit reports of the C&AG that are available in the public domain; implementation experience of an existing WB financed Program (Kerala State Transport Project, Kerala- Local Govt. and Service Delivery, Kerala Rural Water and Sanitation Project (Jalanidhi) and Central and State level PFM knowledge. Assessment has reviewed the prevailing Acts/ Rules and associated notifications/ circulars and analyzed the historical performance of implementing entities. Assessment has also analyzed the prevailing anti-corruption arrangements in the state to ascertain their adequacy. It may be noted that on account of CoVid-19 pandemic travel restriction, no physical

visits were made to the State of Kerala as part of conducting the IFSA.

1.2 Risk Assessment

3. **The fiduciary risks are considered ‘Substantial’.** The IFSA reviewed the existence and adequacy of existing rules, policies, and procedures and the extent of their implementation in gaining assurance that the Program objectives shall be met. The IFSA identifies the key fiduciary risks that may affect the program development outcomes and outlines measures to mitigate those risks before or during the program implementation. The risk mitigation actions have been included in the PAP as appropriate or will be Disbursement Linked Indicators. Residual risks will be addressed during Program implementation. The key identified risks are as follows:

- a) **Additional budget heads for new category of activities:** The Program expenditure framework includes certain activities like surveys, performance incentive grant, standalone system establishment consultancies, new and incremental for achievement of the Program results. For these expenditures the respective Department does not have an existing functional head, hence a new budget heads may be needed for incurring these expenditures. Since the expenditure under these heads are expected by end of first year of the Program effectiveness, RKI in consultation with respective PDs will finalize the budget and fund flow procedure for these new category of Program incremental activities. The activities are identified in Annexure 3 of this report.
- b) **Evaluation guidelines for the Program Performance Incentive Grants to LSGIs:** The Program expenditure boundary primarily comprises of technical capacity building initiatives and incremental performance incentive grants. These grants will be disbursed to 316 Local Self-Government Institutions (LSGIs i.e. Urban Local Bodies and Panchayat Raj Institutions) in Pamba Basin on achievement of specific results forming part of DLI-4 and 5. Further, since the incentive grant is a new initiative and specifically flow as part of the Program, there is an emerging risk of lack of established standards for incentive grant eligibility. Therefore, to mitigate this risk, ‘LSGI-Comprehensive Evaluation Guidelines’ will be prepared to clearly define the evaluation criteria. From fiduciary standpoint, the evaluation criteria will include requirement of (i) no financial audit pendency; and (ii) audit report with no ‘disclaimed’ or ‘adverse’ audits opinion.
- c) **Strengthen internal audit function to conduct the audit of the Program:** Internal audit (IA) framework established by Gok does not appear to be commensurate with the size of operations, nature of business and IA is conducted with substantial delays. In addition, the function is short of skilled staff and uses antiquated audit techniques not conducive for audit in a highly automated environment. In this view, as the Program mitigation measure it has been agreed that a separate internal audit will be conducted for the expenditure forming part of the Program framework. The audit will be conducted by the central IA housed in Department of Finance in collaboration with the respective IA wings in the six Program participating Departments as per the agreed ToR with the Bank.
- d) **Inadequate Complaint Management:** GoK and consequently the assessed departments do not have a formal robust complaint management system which is essential for transparency in public procurement but depend on complaints received directly by the procuring entity or its administrative department. It would be desirable to set up procurement related complaints system including timelines for (a) submission of complaints and appeals, (b) issuance of decisions by the institution in charge of the review, (c) public disclosure, and (d) decision by an independent appeals body.
- e) **Debarment Provisions:** The assessment noted that while provisions related to blacklisting/suspension of bidders/contractors/suppliers are available at different places (tender documents,

Kerala PWD Manual, Stores Purchase Manual, multiple GOs etc.), these are not readily accessible at one place for ease of reference and application. Further, list of such firms and individuals is not available on a website for reference by procuring agencies to avoid contracting of debarred firm(s). This is not only an important area of public procurement, but is also susceptible to F&C. GoK may consider comprehensively specifying the suspension/ debarment process including handling of cases of allegations of fraud and corruption. List of debarred firms and individuals be also made readily accessible to procuring officials as well as bidders/ contractors/ suppliers for consistent application.

- f) **Transparency:** to enhance transparency, assessment has recommended (a) preparation and publication of procurement plans that would include contract packaging, method and timing of procurement keeping weather conditions in view, and contract completion; (b) general guidance in the POM on procurement process for goods and services for consistent application; (c) audit of sample of contracts by auditors; and (d) disclosure policy covering procurement information like procurement plans, contract award, contract performance, complaints redressal, audit reports, appeals and their disposal etc. None of the four departments currently disclose the above information except the disclosure of contract award information for tenders processed through e-portal.

1.3 Procurement exclusions

4. The Program is not expected to procure any large contracts valued at or above the Operational Procurement Review Committee (OPRC) thresholds (US\$75 million for works, US\$50 million for goods and non-consulting services, and US\$20 million for consultant services), which are based on a “**Substantial**” risk rating. This conclusion is drawn based on analysis of procurement data of the four agencies assessed for procurement. The Program is not expected to include any large-value contracts based on the inherent definition of the Program boundaries. The implementing units shall report to the World Bank if any large contracts appear throughout project implementation. In addition, the World Bank team will analyze and monitor the Program performance of fiduciary systems and contract management reports to identify any large-value contracts that may appear throughout the Program implementation.

SECTION 2: SCOPE

2.1 Program Boundary and Framework

5. **The scope of the IFSA is limited to the boundary of Resilient Kerala PforR Program (The Program).** The total cost of the Program is estimated at US\$ 530 million, of which the IBRD Financing is US\$125 million (at an exchange rate of 1USD = INR 73). The cost of the Government Reform Program for FY 2021-2026 is estimated at US\$ 1.7 billion. The government reform program converges with the broad umbrella of GoK’s ongoing Rebuild Kerala Development Program (RKDP) RKDP, the overarching program launched by GoK, following 2018 floods to enhance resilience to disasters and climate change.

6. **The Program Development Objective (PDO)** of Resilient Kerala PforR (the Program) is to enhance the State Government of Kerala’s (GOK) resilience against the impacts of climate change, natural disasters and disease outbreaks. To achieve this PDO, an integrated approach is used, leveraging synergies across the Results Areas, is given below. The Disbursement of US\$125 million by the WB to GoI will be linked to achievement of Disbursement Linked Indicators (DLI).

Table 1: RAs, DLIs Allocation

DLI	IBRD	AiIB	AFD1	Total External Financing	Fund Recipient
RA 1: Strengthening transversal systems for resilience					
DLI 1: Fiscal sustainability of GoK to cope with disease outbreaks and natural disasters is strengthened	4.69	4.69	15.00	24.38	DoF
DLI 2: Disaster-related adaptive safety net system of GoK is strengthened	10.00	0.00	15.00	25.00	DoF
DLI 3: Disaster risk financing and insurance capacity of GoK and vulnerable households in Kerala are improved	10.00	0.00	25.00	35.00	DoF
DLI 4: Urban local bodies developed and sanctioned risk-informed urban master plans and priority action plans	7.50	7.50	15.00	30.00	LSGD
DLI 5: Climate risk information integrated into local body DRM plans	17.50	17.50	30.00	65.00	LSGD
RA 2: Embedding resilience in key economic sectors					
DLI 6: Capacity to track and respond to zoonotic disease outbreaks of human importance in a timely manner	15.00	15.00	5.00	35.00	DoHFW
DLI 7: Integrated river basin management plan is developed for Pamba Basin and implementation commenced.	10.00	10.00	15.00	35.00	WRD
DLI 8: Farmer producer organizations have increased access to new and organized markets	15.00	25.00	0.00	40.00	DoA
DLI 9: CRN is rehabilitated and/or maintained to meet resilient service standards in the Pamba Basin	35.00	45.00	0.00	80.00	PWD
Front-End-Fee (FEF) to be paid pursuant to Section 2.03 of the Legal Agreement in accordance with Section 2.05 (b) of the General Conditions	0.31	0.31	0.00	0.62	
Total	125.00	125.00	120.00	370.00	

7. The proposed Resilient Kerala PforR (the Program) aims to support and incentivize GoK in a transformational shift to build long-term fiscal and institutional resilience to climate change, natural disaster and disease outbreaks. Table 2 shows the overall Program expenditure composition by economic classification of expenditures with estimated yearly expenditure.

Table 2: Program Expenditure Framework for FY 2021-26 by Economic Classification and Annual Projections

Economic Classification	Government Program	PforR Program 'Big P'					Total Big 'P'
		FY2021-22	FY 2022-23	Fy 2023-24	FY 2024-25	FY 2025-26	
(in Million USD)							
Transversal system	92	10	16	18	17	12	71
Resilient institutions	1,269	34	43	48	54	49	228
One Health Approach	122	22	24	23	23	23	114
Resilient infrastructure	209	21	36	32	12	5	107

¹ The proposed AFD co-financing of €100 million is subject to approval by the Department of Economic Affairs (DEA).

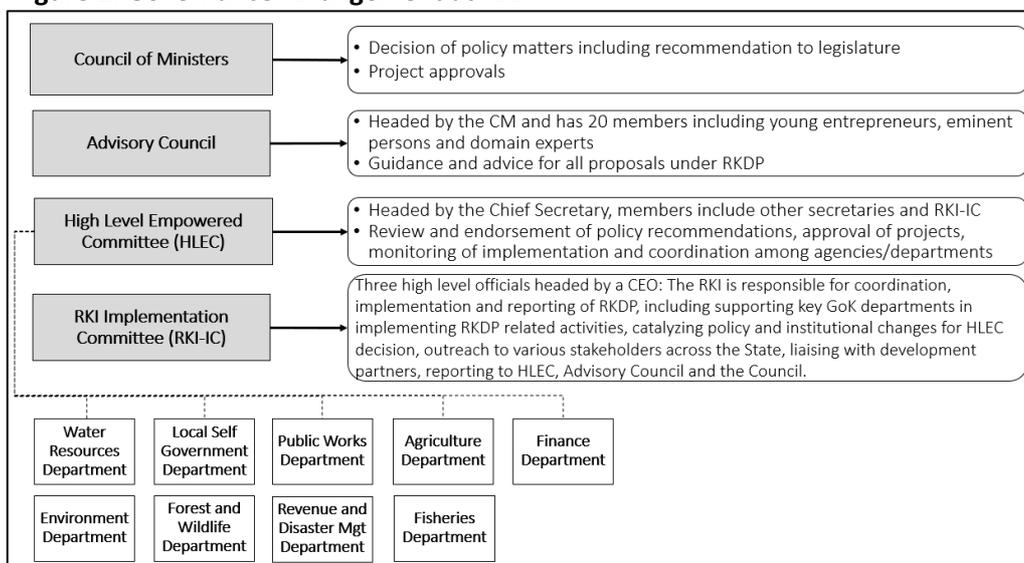
Program Management	10	2	2	2	2	2	10
Total	1,702	89	120	123	107	91	530

2.2 Institutional Framework for Program Implementation

8. **Institutional arrangements for program activities will follow the existing schema for implementing GoK's constituent functions and is reliant on the use of country systems.** At the apex level, the Rebuild Kerala Initiative (RKI)² will serve as the Program Management Unit (PMU). It shall be responsible for management, coordination, monitoring and evaluation of the Program and management and monitoring of procurement activities. Consistent with this role, the RKI will collaborate with and coordinate across departments, including Department of Finance (DoF), Department of Health and Family Welfare (DoHFW), Water Resources Department (WRD), Department of Agriculture (DoA) and Public Works Department (PWD), Local Self-Government Department (LSGD) including Local Self-Government Institutions (LSGIs) and district/ sub-district administrations under these departments in the Program area. Some technical agencies (non-fund handling agencies) such as Department of Revenue (DoR), Kerala State Disaster Management Agency (KSDMA) and the Kerala Institute of Local Administration (KILA) are also envisaged to support the Program implementation.

9. **Governance arrangement at the RKI, program management Unit are assessed to be adequate for supporting the Program activities.** The RKI is headed by a Chief Executive Officer (CEO) not less than the rank of a Principal Secretary. The present CEO of RKI is also the Additional Chief Secretary, DoF. The RKI's functioning is overseen by a High-Level Empowered Committee (HLEC), headed by the Chief Secretary, which acts as the Program Steering Committee (PSC). The HLEC reports to the Council of Ministers, thus ensuring highest level political and policy oversight. The Project Management Team (PMT) and the Project Management Support Services (PMSS) will be part of a PMU in the RKI, which will be responsible for coordinating and managing the proposed Program. A PMT has been supporting the RKI for over a year now. A firm, with experts in project financing, technical review, M&E, safeguards, and fiduciary management, has been contracted to provide PMSS.

Figure 1: Governance Arrangement at RKI



² As per G.O. (P) No.16/2018/P&EA dated 09/11/2018, the entire rebuilding process of post-flood Kerala comes under the framework of Rebuild Kerala Initiative (RKI) which is formed as a Secretariat under Planning & Economic Affairs Department, GoK.

10. **The RKI and the six Program participating departments** will be responsible for the entire PFM cycle of planning, budgeting, budget execution, procurement and contract management, accounting/payments and auditing for their respective interventions. All these functions across the identified Program expenditure framework shall be monitored through the project life. The participating sector departments shall be the Program Implementing Units (PIUs) and shall be responsible for the fiduciary functions including the procurement requirements.

11. **The Government program boundary is derived based on ongoing associated institutional transformations, incremental initiatives and leveraging influence of the Program's result achievements.** Government program is derived by identifying the cost of ongoing activities and initiatives which are essential for achievement of the program results across the six participating departments. Further, the boundary includes cost of ongoing activities which will potentially be impacted by the achievement of program results in terms of enhanced service delivery. Further, the Program expenditure framework is derived based on current baseline and associated estimations for interventions. The expenditure program is based on departmental level work plans designed to achieve the DLIs and the overall results. The expenditure proposed for individual activities is commensurate with their scale and complexity and facilitates efficient execution. The Program cost primarily comprises of associated incremental cost and the essential activity support cost included in the government program. Key aspects of the Program expenditure framework for the six participating departments are as follows:

- Department of Health & Family Welfare (DoHFW): The Program expenditure boundary is limited to expenditures contributing to promotion and enhancement of One Health platform at local level. This primarily includes a subset of activities essential for enhancing 'Prevention and Control of Diseases', 'Public Health Laboratories' and 'Public Health Education and Training'.
- Local Self-Government Department (LSGD): The Program expenditure boundary primarily comprises of technical capacity building initiatives and incremental performance incentive grants. These grants will be disbursed to 316 Local Self-Government Institutions (LSGIs i.e. Urban Local Bodies and Panchayat Raj Institutions) in Pamba Basin on achievement of specific results forming part of DLI-4 and 5. Hence, the performance grant to LGs is provided for the purpose of incentivizing them to align their overall yearly plans to the objectives of mainstreaming disaster and climate risk. The qualifying criteria for the LGs to receive these grants is 30% Co-Benefits in year 3 and 50% in year 5. Therefore, its embedded in the mandate that overall budget of the LGs including the performance grants is used to further improve on their Co-Benefit score. LSGI have established system of functioning and have a well-defined fiduciary framework. *As part of the IFSA a detailed fiduciary system assessment was carried out and is detailed in Annexure A of this report.* Expenditure framework (Big 'P'), estimates 'Nil' procurement under LSGD. However, if there are some small procurements under these grants, they will not be monitored. Further, since the incentive grant is a new initiative and specifically flow as part of the Program, there is an emerging risk of lack of established standards for incentive grant eligibility. Therefore, to mitigate this risk, 'LSGI-Comprehensive Evaluation Guidelines' will be prepared to clearly define the evaluation criteria. From fiduciary standpoint, the evaluation criteria will include requirement of (i) no financial audit pendency; and (ii) audit report with no 'disclaimed' or 'adverse' audits opinion (PAP Actions).
- Department of Agriculture (DoA): The program focuses on cost of supporting promotion and strengthening of Farmer Producer Organization (FPOs), Agro Ecological Zones (AEZ) relevant farming and systems strengthening and includes newly launched Krishi Padasala scheme focused on farmer capacity building and the Punarjani scheme centered on post-COVID economic recovery in agriculture sector. The Program expenditure framework primarily includes expenditures towards agriculture transformation support in the Pamba basin, covering four Districts (16 AEU, associated FPOs and 264 Krishi Bhavans) and its associated offices.
- Public Works Department (PWD): The Program boundary comprises of expenditures towards enhancement of center of excellence, building critical road network (like Sabrimala) and

- supporting special repairs in Pamba region including post flood project support.
- Department of Finance (DoF): The Program boundary includes expenditures towards promotion, enhancement and establishment of system like unified beneficiary database, debt management system, disaster risk financing, identified departmental modernization and capacity building.
- Water Resource Department: The Program expenditure primarily focuses on departmental modernization and capacity building.

12. **Program Expenditure Framework composition**³: The Program expenditure framework primarily include expenditure towards: modernization of specific departmental function, capital expenditure support, enhancing financing access, performance incentive grant, IT hardware and software development, training and capacity building, and essential salary and operational costs for an implementing agencies. It also includes minor and/or high priority investments to demonstrate integrated multi-sector resilience in Pamba Basin. Further, for establishing sustainable resilient approach in GoK, the Program recognizes the importance of strengthening human resource capacity, who ultimately becomes the champions of these reforms in long run. Given the critical importance to building capacity, the Program expenditure framework includes salary cost of key departmental human resource which represents 23% of the Program cost. Table 3 below presents the consolidated expenditure framework.

Table 3: Expenditure framework by nature of Program expenditure

³ Refer Annexure 3 to IFSA for detailed list of GoK's budget heads included in the Program expenditure framework.

Economic Classification	DLI	Implementing agency	Nature of Expenditure and Expenditure Components	Government Program	PforR Program 'Big P'
Transversal system		Dept. of Finance	Consultancies, IT hardware, software development, training , salaries and operational costs	92	71
	DLI 1: Fiscal sustainability of GOK to cope with disease outbreaks and natural disasters is strengthened		Modernization And Training Of Staff	1	1
	DLI 2: Disaster-related adaptive safety net system of GOK is strengthened		Salary &Wages	24	19
	DLI 3: Disaster risk financing and insurance capacity of GoK and vulnerable households in the State are improved		Management of Debt	31	16
Resilient institutions		Local Self Govt. Department including 319 LSGIs in Pampa Basin.	Creation of Capita assets, Performance grants and salary & wages	748	145
	DLI 4: ULBs developed and sanctioned risk-informed Urban Master Plans and Priority Action Plans		Funds For Development Expenditure - 5Th SFC Recommendations - Grants For The Creation Of Capital Assets	576	-
	DLI 5: Local Governments have integrated disaster and climate risk in investment planning		Engineering Wing For Local Self Government Institutions (staff cost to support Pampa Region)	56	56
			Performance Incentive Grant	116	86
		Water Resource Dept.	Consultancies, IT hardware, software development, training and maintenance cost	79	43
	DLI 7: Integrated River Basin Management Plan is developed and implemented for Pampa Basin		Minor irrigation program: Green Kerala	15	-
			Modernization Of The Department And E-Governance, Design Wing and Hydro Information System	28	5
			Consultancies for evaluation and modernization support	36	36
		Dept. of Agriculture	Consultancies, minor infrastructure support, Financing access, IT hardware, software development, training and capacity building and operational costs	441	41
			Crop Development Programs (Rice Development, Vegetable promotion, Pulses and Tubers, Coconut Development, Spices Development). PforR Program:	320	-
	DLI 8: Farmer Producer Organizations (FPOs) have increased access to new and organized markets		Soil Health Management, Productivity Improvement and Augmenting production of planting materials through departmental farms.	60	16
			Agro Service Centers and Service Delivery strengthening	3	3
	Krishi Padasala- Approach to promote AEU based cultivation.		4	4	
	Office Automation and IT infrastructure		20	4	
	Value Addition program support to FPOs in post-COVID assistance and economic recovery		34	14	
One Health Approach	DLI 6: Capacity to track and respond to zoonotic disease outbreaks of human importance are conducted in a timely manner through the enhanced One Health platform at the local level	Dept. of Health & Family Welfare.	Consultancies, infrastructure support, Financing access, IT hardware, software development, training & capacity building, salary and operational costs	122	113
			Prevention and Control of Diseases	73	73
			Public Health Training	30	21
			Public Health Laboratories	19	19
Resilient infrastructure	DLI 9: Core Road Network (CRN) is rehabilitated and/or maintained meeting resilient standards in Pampa Basin with sustainable asset management practices established.	Public Works Dept.	Construction and maintenance, consultancies, IT hardware, software development, training and capacity building and operational costs	209	107
			Modernization of KHRI (Centre for Excellence)	20	9
			Sabarimala Roads Project : Capital expenditure	31	31
			Special Repairs to Communications (OPBRC)	30	30
			Post Flood Projects Under The Rebuild Kerala Initiative	128	37
Program Management		RKI (Dept. of Planning)	Consultancies, IT hardware, software development, training	10	10
			Program management and other consultancies support	10	10
			Total	1,702	530

2.3 Procurement Profile of the Program

13. The details of the procurement profile are as follows:

- (i) **Procurement Expenditure Profile:** Broad outline of the **Program** Expenditure ('Big P') related to procurement is given in the Table below along with the corresponding IBRD and AIIB funding.

Table 4: Procurement Expenditure Profile (values in US\$ Million)

Procurement Break up	Implementing Agencies							Total
	DoF	LSGD	DoHFW	WRD	DoA	PWD	RKI	
	71	145	114	42	41	107	10	530
Consultancy	36	Nil	0.37	2.72	22.82	4.5		

Goods	0.62	Nil	9.70	2.72	4.20	4.5		
Works		Nil		36.44		97.05		
Total	36.62 ⁴	Nil	10.07	41.88	27.02	106.05		
IBRD	45	42.5	10	5	20	2.5	0.0	125
AIIB	0	25	20	10	0	70	0	125

IBRD: 125 m, AIIB: 125 m, GoK 280 m

Based on the activities identified in the Program scope, the main procurable items include (a) Goods: machinery, equipment, materials & supplies for Health; IT hardware, software and office equipment required by participating departments, provisions for Centre of Excellence at KHRI; (b) Works: contracting and upgrading of core road network, special repairs to Communications (OPBRC), system establishment and incremental program support for WRD, post flood Projects under the Rebuild Kerala Initiative; and (c) Consultants: for modernization of Finance department and training of staff, support to Social Registry and Disaster Risk, training support for Institute of Health and Family Welfare, modernization of WRD, consultancy/capacity building for WRD, support for Centre of Excellence at KHRI and other program activities.

- (ii) **Procurement arrangements:** RKI at the apex level will serve as the PMU and will be responsible for management, coordination and monitoring & evaluation of the Program. The six participating departments shall be the Program implementing agencies and shall fulfill the procurement requirements. Considering that there will be negligible procurement [table above refers] in the Program at the level of DoF and LSGD, assessment has been carried out of the other four departments namely Agriculture, Health (KMSCL)⁵, PWD, and WRD. A brief assessment has also been carried out of RKI consistent with its role of coordination across departments including management and monitoring of procurement activities.
- (iii) **Procurement capacity assessment:** An assessment of the implementing agencies procurement systems, regulatory aspects, and operational practices was carried out as part of IFSA. This assessment was mostly carried out remotely in view of the current COVID-19 pandemic, based on telephonic discussions with the operational staff, and data that could only be collected partly through a local consultant.
- (iv) The assessment noted that procurement framework across all the four implementing departments is similar, but the practice of the applicable rules and regulations may slightly vary across them. Procurement is mainly governed by Kerala Financial Codes, Kerala PWD Manual, Kerala Stores Purchase Manual, State delegation of financial powers, GOs issued from time to time, and Kerala Government Servants Conduct Rules. However, in case of DoHFW, Kerala state delegation of financial powers applies to it, but not to KMSCL as brought out in the next paragraph.
- (v) DoHFW procurements are handled by the Kerala Medical Services Corporation Limited (KMSCL) which is fully owned by the State Government; applies GoK regulations including Kerala Stores Purchase Manual; has its own SBDs, delegation of powers, and blacklisting procedure; is overseen like the other state government departments by State Vigilance and Anti-Corruption Bureau; and its employees are also governed by Kerala Government Servants Conduct Rules etc.
- (vi) All the four implementing agencies use NIC portal for e-procurement, their own standard bid documents, Government e-Marketplace (GeM) portal of central government, and government of

⁴ Procurement for DoF shall be done by RKI supported by its Project Management Support Services (PMSS) Consultant

⁵ All procurements for MoHFW are handled by KMSCL. Accordingly, KMSCL has been assessed for MoHFW procurements

Kerala e-governance IT procurement portal (CPRCS). The assessment further noted that procurement under the Program is of relatively small values compared to the government procurements otherwise carried out by the four departments. The procurement staff strength in all four agencies is considered adequate, and their procurement systems found to have processes and procedures for effective implementation of the Program.

(vii) **RKI assessment:** Main role of RKI, as the Program PMU, is envisaged to be that of coordination across departments including management and monitoring of procurement activities. For procurements per say, RKI shall be supported by its Project Management Support Services (PMSS) Consultant. RKI do not have a procurement specialist available with them, and even in the PMSS Consultancy, there is provision of only a part time procurement expert. With the role now being assigned to RKI, it would be necessary that RKI has a full-time procurement specialist for management and monitoring of procurement activities and application of Anti-Corruption Guidelines under the Program.

2.4 Public Financial Management (PFM) Framework in GoK

14. **Government of Kerala has a progressive Public Financial Management (PFM) framework and the formal mechanisms and rules for financial accountability are generally sound.** The oversight role of Legislature deriving from the Constitution is well established, with sound procedures for presenting and approving the budget and presenting the annual accounts and reports before the Legislature. The annual budget, including demand for grants and detailed budget estimates are available in the public domain. Like all states in India, department-wise budgets are prepared in formats following a standard functional classification. Progress and expenditure information are made available on the website of the State Accountant General on a monthly basis. Further, systems and rules are in place for controlling and reporting on receipts and expenditures, with Drawing & Disbursing Officers in spending agencies submitting payment requests and the Treasuries authorizing and electronically effecting payments. The Comptroller and Auditor General of India (C&AG), Audit Wing, whose independence is guaranteed by the Constitution, carries out the external audit with a broad mandate, covering financial, compliance and performance audits. The Audit Wing compiles the monthly and annual accounts of the State; prepares audited financial statements and reports on financial liabilities and assets, notably on borrowings, guarantees, investments, loans and advances; and makes them public within 10-15 months after the close of the financial year.

15. Kerala also has a core Integrated Financial Management and Management Information System (IFMIS), supporting budget formulation, budget execution, payments and account preparation and the development of links to other internal and external systems such as HRMS (Human Resource Management System), WAMIS (works departments modules), Reserve Bank of India's e-kuber, commercial banks and GoI's Public Financial Management System (PFMS). This has helped to introduce system-based budgetary and financial controls and improve timeliness of financial information for budget utilization, accounting and quarterly cash management controls. The State established the Vigilance & Anti-Corruption Bureau of Kerala in 1964, to address issues of corruption, fraud and unethical behavior. Further, all tenders are published in newspapers and websites for transparency and equal opportunity. Kerala follows the "Arbitration and Conciliation Act, 1996" and all arbitration is conducted in accordance with this Act. In addition, the Kerala State Mediation and Conciliation Centre, an initiative of the High Court of Kerala, provides for Mediation as an Alternative Dispute Resolution mechanism.

16. On budget transparency front, while initiatives have been taken toward budget transparency, the GoK is yet to adopt a formal framework or policy for the same. The State has developed online systems for departmental budget preparation; however, budget preparation remains an administrative

process with limited decentralized participative planning. Further, no concrete efforts are underway towards citizen awareness and engagement in budgetary processes.

17. PFM and accountability systems, processes and practices in Kerala are evolving with need for enhancements in certain areas. The GoK's PFM systems face some challenges, many of which are common to other Indian states. For instance: (i) budget credibility is undermined by adjustments in the budget during the year through supplementary grants and accommodation of deficiencies in revenue projections, and budgetary processes have not sufficiently internalized medium-term fiscal planning and performance management due to lack of effective structure for commitment control ; (ii) gaps between revenue receipts and revenue expenditure have been widening continuously, along with constant increase in the share of committed expenditure in revenue expenditure ; (iii) growing expenditures on grant-in-aid institutions; (iv) gaps in Debt and Cash management system; (v) expenditure overruns and off-budget expenditures, reflecting gaps in internal mechanisms and controls for effective budget execution; (vi) issues with public investment management and lack of adequate project appraisal system; and (vii) low net yield under non-tax revenue.

18. Building a more resilient Kerala needs more efficient PFM systems and better performing public sector institutions that will boost the returns on public spending by tightening the chain from inputs to outputs. Going forward, the PFM system could greatly benefit from initiatives to:

- Strengthen macro-fiscal function to support enhanced planning and budget credibility;
- Expand budgeting techniques and strengthen decentralized participative planning and budget preparation,
- Improve the allocative efficiency of public investments through a more stringent cross-sector vetting and prioritization process for high impact, affordable and ready projects, based on formal and transparent criteria and reviews;
- Strengthen administration of non-cash revenue;
- Strengthen cash and debt management;
- Evolve State policy on commitment control along with procedures/ guidelines;
- Enhance institutional capacity of the Department of Finance (DoF) in the area of PFM and public procurement;
- Strengthen performance of public institutions through pilot reviews and capacity building initiatives;
- Enhance IFMIS-Kerala with greater focus on data analytics, business process re-engineering, system security, data storage facilities and Open Data Portal making key basic data accessible in open, public and analysis-ready format.
- Improve the regulatory framework and institutional arrangements for public procurement through revised PWD code, standard bidding documents for works, goods and services and standard procurement manuals for goods, works and consultancy tailored to the state context.

SECTION 3: PROGRAM FIDUCIARY PERFORMANCE AND SIGNIFICANT FIDUCIARY RISKS

3.1 Use of Country Systems

19. Program financial management arrangements will use GoK's systems for funds flow, payments, accounting, and auditing. Expenditure will be incurred and managed within the state budget and payment systems which are functioning efficiently and are subject to audit. The State Financial Code,

State Treasury Manual and State Budget Manuals followed by GoK. The overarching framework of FM systems across the participating departments are similar however, the practice of the applicable rules and regulations may slightly vary across the departments. Implementation of the fiduciary systems proposed for Kerala PforR Program following the existing country systems and effective implementation of the mitigating measures will provide reasonable assurance that the overall fiduciary framework is adequate to support the management and to achieve the desired results.

20. **Procurement in the Program** is based on the extent Kerala state procurement systems mainly governed by Kerala Financial Codes, Kerala PWD Manual, Kerala Stores Purchase Manual, State delegation of financial powers, GOs issued from time to time, and Kerala Government Servants Conduct Rules. They also largely apply to KMSCL that handles all procurements for DoHFW.

3.2 Budgeting and Planning

Country System Framework

21. **The framework for planning and budgeting by GoK is well established, with prescriptions documented within the overarching mandate enshrined in the Constitution of India⁶ (CoI) and the processes are substantially automated.** The salient features of the budget framework in Kerala are described briefed below:

(a) **Prescriptions and procedures for planning and budgeting are stipulated in the Kerala Budget Manual⁷** which inter-alia provide the following.

- Prescriptions classified under the four stages of budgetary process viz. preparation, passing, execution and review.
- Timelines for key activities during preparation e.g. non-plan estimates to be received by the Finance Department by September 15 and plan and revenue estimates by November 30 every year.
- Five-year plans and annual plan proposals underlie the estimation of budget estimates for plan schemes⁸.
- The schema for recording the budget estimates and accounts. Consolidated Fund accounts have two main divisions i.e. revenue and capital. Year-end and monthly accounts are consolidated by the State Accountant General (Accounts & Entitlement) using the same structure for classification of accounts facilitating legislative and audit review of actual expenditure against approved budgets.
- Prescriptions on performance budgeting including the structure of budgets.
- Presentation of annual budgets to the State Legislature towards the end of February or beginning of March every year. Provisions include the process for passing of the budget in the Legislature.
- Prescriptions on control over appropriations i.e. appropriation, supplementary grants and resumption⁹.

(b) **The budget classification/government account presentation¹⁰ system is well defined.** It follows a five-tier 13-digit code budget/account classification system. Table xx explains the budget

⁶ Article 202-207 of CoI prescribe procedures in Financial Matters of the States e.g. annual financial statements/budgets of a State; appropriation bills; supplementary, additional or excess grants; procedure in legislature with respect to estimates; vote on account, vote of credit and exceptional grants, special provisions as to finance bills etc.

⁷ Third edition embodying corrections upto June 30, 1982.

⁸ FY 2021-22 is the fifth and final year of the thirteenth five-year plan (2017-22).

⁹ Withdrawal of appropriation found to be in excess of requirements.

¹⁰ Description is provided in the Budget manual read with the Explanatory Memorandum on the Budget and the State Finance

code allocation in GoK. The actual expenditure is aggregated against the 13-digit codes that allows for expenditure planning, tracking and budget control. A demand for grant¹¹ is proposed for each function and expenditure on revenue account, capital account and loan & advances are consolidated under the same demand for grant.

Table 5: GoK's Budget Code description

<i>Digit Code</i>	<i>Descriptive heads</i>	<i>Significance of each head</i>	<i>Explanation</i>
4 digits	Major Head	Function	Functions of the Government such as agriculture, education, health etc., and to correspond to heads of development in the Plan classification.
2 digits	Sub- Major Head	Sub- function	Sub-function under each major head
3 digits	Minor Head	Program	Plan and non-plan program under each function to achieve the objectives of the function represented by the major head
2 digits	Sub head	Scheme	Schemes under each program or minor head.
2 digits	Detailed Head/ Object Head	Nature/Form of expenditure	Purpose/object of expenditure e.g. salaries, travel expenses etc.

(c) ***A budget circular is issued every year (generally in the month of July¹²) by the Finance (Budget Wing A) Department, GoK*** which provides detailed instructions on the process of preparation and estimation of annual budgets including timelines for submission of budgets to the Finance Department. Some key instructions provided through the budget circular between FY 2018-19 to FY 2021-22 are briefed below:

Budget Circular for budget of FY 2021-22 and FY 2020-21 issued in July 2019 and July 2020.

- **Timelines**: Timelines prescribed for submission of estimates: Non-plan expenditure (August 31); Plan expenditure (September 10); Revenue and other receipts (September 15). Timelines fixed for submission of annual budget estimates are within the timelines prescribed in the budget manual.
- **Adherence to State guidelines**: Formulation of estimates of Plan schemes are prepared in accordance with the detailed guidelines issued by the Kerala State Planning Board (KSPB). Proposals in respect of plan schemes are not captured in the BMS and details are to be furnished to the Finance Department in physical formats. Additionally, instructions issued by the Planning and Economic Affairs Department are considered while proposing provision for the centrally sponsored schemes (CSS).
- **Administrative oversight**: Administrative Departments are required to record their comments and recommendations and electronically forward it to the Finance Department within 10 days of receipt of estimates from the controlling officers. This timeline is also mandated in the budget manual.
- **IT Platform**: Mandatory use of web-based application for submission of certain categories of budget proposals directly to the Finance Department and Administrative Department by Controlling Officers¹³. Estimates under non-plan heads (salary/non-salary), receipt heads, debt heads,

Accounts.

11 Kerala Budget Manual defines “demand for grant” as a document which the Government presents to the Legislature by way of asking for a given sum for a particular service/function e.g., Medical, Public Works, Housing, Irrigation, Transport, etc., and showing, in some detail, how the sum is proposed to be utilised. This does not include estimates of expenditure charged on the Consolidated Fund of the State. Ordinarily, budget provisions are incorporated on gross basis for revenue and capital account relating to that service. A demand for grant can be made only on the recommendation of the Governor.

¹² Budget Circular no. 41/2020/Fin dated July 28, 2020 and circular no. 70/2019/Fin. dated July 29, 2019 issued for budget of FY 2021-22 and FY 2020-21 respectively.

¹³ The Kerala Financial Code (Volume I) defines a controlling officer as “a head of a department or other departmental officer who is entrusted with the responsibility of controlling the incurring of expenditure and/or the collection of revenue by the subordinate authorities of a department.

estimates of grant-in-aid institutions and LSGs and estimates under Public Accounts are furnished through the web-based application i.e. Budget Monitoring System (BMS).

(d) **Expenditure estimates are classified and consolidated under plan and non-plan category in addition to revenue and capital expenditure.** This classification of expenditure between plan and non-plan was discontinued by the Government of India (GoI) with effect from the annual budgets for FY 2017-18 consequent to the abolition of the Planning Commission.

(e) **GoKs budget preparation and consolidation methodology and procedures are a mix of physical and automated techniques.** The key details are as below:

- Web-based application is used for submission of plan proposals by the departments to Kerala State Planning Board (KSPB) but submission of the approved proposals by the departments to the Finance Department is in physical formats. Annual plan proposals are submitted by the departments to the State Planning Board through Planspace, a web-based application for monitoring of plan schemes implementation accessed by the departments and implementing agencies for keying in plan progress information. Plan proposals are submitted¹⁴ both on-line and in hard copy.
- Access to BMS application is limited only at the level of the controlling officers for consolidating the budget of the department as a whole. Budget data is keyed-in BMS in the format and structure as pre-set in the application. However, preparation and compilation of budget estimates by individual offices within the departments is currently outside of the BMS application.
- An offline web-based application 2.0/BOUGETTE software is used by Finance (Budget) Department to prepare the budget documents. Data once entered in the application for the preparation of the Budget documents for a particular financial year can be retained and used for the works relating to the remaining budgetary process such as supplementary demands for grants, additional authorization, re-appropriation, resumption, opening new budget heads etc. In addition, data relating to twelve preceding financial years can be retained in the Budget software and the same can be used by Finance Department for various comparisons/analysis/references etc.
- Data for preparation of the budget documents in Budget 2.0 are manually keyed-in the application except for integration of estimates from BMS. Actual expenditure figures of the previous financial year from the Accountant (A&E) and details of plan scheme allocation received from KSPB are manually entered in the application. When the estimates are ready, soft copies of the budget documents are generated from the application for printing of budgets.

(f) **Budget documentation is comprehensive disclosing significant information.** Key documents forming part of the budget include the budget speech (both in English & Malayalam), budget in brief, annual financial statements, medium term fiscal policy and strategy statement with medium term fiscal plan, annual plan (volume I & II), Appendix IV (details of provisions earmarked to local self-government institutions), Demand for Grants (Volume I, II & III), debt budget, revenue budget, gender budget & child budget, supplementary demand for grants, vote on account, work appendix (volume I & II – details of provisions earmarked to works having administrative sanction), staff appendix, summary document ¹⁵(provides the name of the department and the name of the officer implementing each plan scheme in the annual plan budget) and explanatory memorandum etc. The demand for grants provides the budget estimates of the current year, budget and revised estimates of the previous year and the actual expenditure of the year preceding the previous year i.e. budget document for FY 2021-22 include budget estimates for FY 2021-22, budget and revised estimates for FY 2020-21 and actual expenditure for FY 2019-

¹⁴ Guidelines issued by KSPB provide for submission of proposals in September every year e.g. 7th September 2020 for FY 2021-22 and 20th September 2019 for FY 2020-21. Guidelines provide that for finalization of proposal, Member-Head of Department level discussions are to be held in KSPB during September and Vice Chairperson – Minister and Government Secretary level discussion during October every year.

¹⁵ Being published from FY 2013-14 as a part of the budget document.

Performance within system framework

22. **The framework for planning and budgeting by GoK is fairly elaborate with comprehensively documented rules and regulations and significantly automated processes operating within the overarching mandate enshrined in the Constitution of India¹⁶** The GoK has an established budget preparation and approval process which are working well at multiple level of implementation. Further, the budget classification system of GoK is well defined, and it is uniformly applied across the state. However, the increasing gap between income and expenditure is emerging as a persistent constraint of Kerala's financial position for the last five years. Hence, from a larger PFM prospective, Kerala needs to strengthen its resource estimation framework to effectively and efficiently utilize its available resources.

23. **Budget estimates are prepared before the start of a respective financial year.** Budgets are tabled before the State Legislature prior to the commencement of the financial year though the Appropriation Act authorizing the withdrawal of money from the Consolidated Fund may be passed in the next financial year. After the demands have been voted by the Legislature, the money required to meet the grant so voted and the expenditure charged on the Consolidated Fund are authorized to be withdrawn from the Consolidated Fund under an Appropriation Act passed by the Legislature. The Table 6 below presents the dates for budget presentation and enactment of budgets:

Table 6: Date of Presentation of State Budget and Enactment

S. No.	Financial Year	Date of Presentation before State Legislature	Date of Enactment	Act No.
1.	FY 2021-22	15-01-2021	--	--
2.	FY 2020-21	07-02-2020	25-03-2020	Act 5 of 2020
3.	FY 2019-20	31-01-2019	19-07-2019	Act 6 of 2019
4.	FY 2018-19	02-02-2018	31-03-2018	Act 4 of 2018
5.	FY 2017-18	02-03-2017	01-06-2017	Act 7 of 2017

24. **Budget Reliability:** The consolidated position of the original and revised budgets and actual expenditures for budget heads forming part of the Program expenditure framework is shows below in Table 7.1

Table 7.1: Budget and Revised Estimates vis-a'-vis Actual Expenditure FY 2017-18 to FY 2019-2020

Particulars	FY 2017-18	FY 2018-19	FY 2019-20
	(In INR million)		
Original Budget Estimates (BE)	7,805.22	8,059.38	10,460.73
Revised Budget Estimates (RE)	7,204.66	7,422.93	7,337.65
Actual Expenditure (AE)	7,126.20	7,464.99	7,583.65
Budget Outturn (BE)	91.30%	92.62%	72.50%
Budget Outturn (RE)	98.91%	100.57%	103.35%

25. The RE based budget outturns are significantly improved as compared to the outturns computed on BE e.g. during FY 2019-20 the outturn improved from 72.5% to 103.35%. Similarly, during the previous two years the outturns have increased by around 7% - 8%. As an overall state budget level, this is suggestive of large savings in budget allocations and significant adjustments through revised budget. Hence, for larger state PFM system, this indicates towards a need to strengthen the overall planning & budgeting process as improved outturns on RE basis are consequent to re-appropriation

¹⁶ Article 202-207 of the Constitution of India prescribe procedures in Financial Matters of the States.

of the original budget. Further, the department-wise performance on budget estimations given below in Table 7.2 echoes the aforesaid particularly in Water Resources Department and Public Works Department. Detailed outrun calculation for individual budget heads budget heads forming part of the Program expenditure framework are presented in Annexure 2 of the IFSA.

Table 7.2: Participating Budget and Revised Estimates vis-a'-vis Actual Expenditure FY 2017-18 to FY 2019-2020.

Name of the Program Implementing Department	Budget Outturns % BE (RE)		
	FY 2017-18	2018-19	2019-20
Department of Agriculture and Farmer Welfare	85.94 (105.05)	59.66 (126.73)	81.15 (104.72)
Finance Department	97.18 (99.55)	96.57 (97.37)	94.88 (98.96)
Department of Health & Family Welfare – Directorate of Health Services	94.75 (100.77)	91.69 (98.50)	88.72 (101.96)
Water Resources Department	20.60 (121.22)	18.10 (27.68)	32.86 (80.57)
Public Works Department	70.13 (97.47)	125.73 (100.01)	35.17 (127.29)
Local Self Government Department	94.15 (94.23)	96.75 (100.57)	103.36 (97.36)

26. Adequacy and Reliability of Budgets: The State Finance Audit Report¹⁷ of the C&AG for the FY 2018-19, FY 2017-18 and FY 2016-17 have also highlighted gaps in the State budget mechanisms. It clearly reflects that in addition to garnering resources, the state needs to adhere to fiscal targets, improve effectiveness of its planning and budget execution processes, and bring efficiencies in public investment management. The key observations are briefed below:

- Compared to the previous year, overall savings from the budget allocation increased by 2.49 per cent (from 7.89 per cent in 2017-18 to 10.38 per cent in 2018-19) showing deficiency in the budgetary process (FY 2018-19).
- Persistent savings exceeding Rs. 100.00 crore during the last three years were noticed in nine grants under Revenue section and five grants under Capital section. In FY 2017-18 same observation was reported for eight grants under Revenue section and five grants and one appropriation under Capital section. In FY 2016-17 this observation was reported in Grants 'Urban Development', and 'Rural Development' under Revenue section and 'Water Supply and Sanitation', 'Miscellaneous Economic Services', 'Agriculture' and 'Public Debt Repayment' under Capital Section.
- Surrender of budget allocations obtained through supplementary demands for grants at the end of the year showed laxity on the part of Departmental Officers in assessing the actual requirement of funds.
- Unnecessary and injudicious re-appropriations indicated that departmental officers failed in assessing the actual requirement of funds in heads of account under their control.
- Surrender of money in excess of actual savings indicated improper maintenance of appropriation control registers at all levels.
- Persistence of excess payment of pension showed that treasury officers are not plugging the loopholes in the system.

¹⁷ Chapter II (Financial Management and Budgetary Control), Para 2.8 (Conclusions and Recommendation) page 75, Page 81 and Page 63 in Audit Reports for FY 2018-19, 2017-18 and FY 2016-17 respectively.

27. **Preparation of performance budgets is limited to three departments.** Performance budgets are prepared separately in respect of all demands/appropriations controlled by the respective departments. GoK had reintroduced¹⁸ these budgets in three departments viz. Agriculture Development and Farmers Welfare, Forest & Wildlife Department and Water Resources Department on the recommendation of Public Accounts Committee in the 140th Report (2008-2011). Prescriptions on performance budgets are provided in the Budget Manual and annual guidelines¹⁹ are issued by the Finance (Performance Budget – A) Department, GoK.

- The Performance budget preparation follows a consultative process and involves interactions with Heads of the department, Officers and Staffs in the department and the associated beneficiaries. The performance budget is placed before the Legislative Assembly along with other Budget Documents.
- For FY 2018-19, the performance budget has substantially covered reform measures and policy initiatives taken by the respective department and its impact on the outputs and financial outcome in various areas/fields. It has also reviewed the past performances and financial review covering overall trends in expenditure vis-a-vis Budget Estimate/Revised Estimates in recent years. Finance Department has also given their comments and suggestions. The performance budget of the previous financial year (e.g. FY 2019-20) is prepared in the current financial year (FY 2020-21). Adverse climatic conditions during the year had prevented Finance (Performance Budget) Department from a more extensive coverage of field offices during this year. But overall, substantial analysis has been made in the reports.
- Out of the six Program PD, for FY 2018-19 the Performance Budget was prepared for the Water Resources Department and Agriculture Development and Farmers Welfare Department. The main suggestions in the performance budget for agriculture department included the necessity to define a farmer, avoid untimely and unscientific implementation of schemes, develop a system for online submission of application of different schemes and to avoid false claims. It touched upon varied topics like managing the opening and closing of canals according to the requirement of farmers, purchase of tools and machinery, avoiding the plastic covers used for vegetable grow bags, making available good quality seeds at the right growing season, strengthen agricultural engineering wing and facilities for the periodical repair of machineries, training, value addition units, modification of subsidy guidelines etc.

28. **Budget transparency: The GoK makes public the annual budget allocations and utilizations details of the State Budget on adoption by the State legislature.** The annual budget speech details the budget strategies with due emphasis on the State's development focus and fiscal position. The annual 'Budget in Brief' discloses budgetary transactions and gives a broad picture of Kerala's economy for the last decade in comparison with that of all other states. These are accessible on the website of Finance Department (www.finance.kerala.gov.in). It provides the information on the State's various resources, expenditure on development and non-development activities, and the annual plan outlays earmarked under different sectors such as Agriculture, Education, Industries, Irrigation, and so on. In addition, gender budget and child budget, detailed demand for grants, performance budgets, supplementary budgets, audited state financial statements are duly made public. District-level budgets are also made public through LSGIs, albeit with time lags. *While initiatives have been taken toward budget transparency, the GoK is yet to adopt a formal framework or policy for the same. The State has developed online systems for departmental budget preparation; however, budget preparation remains an administrative process with very limited decentralized participative planning. Further, no concrete efforts are underway towards citizen awareness and engagement in budgetary process.*

¹⁸ Performance budgets from FY 2013-14 onwards.

¹⁹ e.g. Circular no. 29/2020/Fin dated 20-05-2020 for preparation of performance budget for FY 2019-20; Circular no. 48/2018/Fin dated 24-05-2018 for preparation of performance budget for FY 2017-18.

The Program Framework

29. **The GoK framework for planning and budgeting is considered adequate associated functions under Rebuild Kerala PforR Program.** The Program expenditure will be budgeted in annual budget of the GoK across multiple demand for grants and budget heads being operated by various implementing departments. As part of the Program expenditure framework a set of budget heads supporting the cost of ongoing activities and initiatives which are essential for achievement of the program results across the Program participating departments have been identified. In addition, new budget heads will be opened in few departments for supporting the incremental (new) activities essential for achievement of the DLI. This will allow the Program related expenditures to be separately identified, accounted and reported in the consolidated accounts prepared by the Accountant General (AG) of GoK.

30. **Budget Adequacy: Funding predictability is high. Risks to the Program Expenditure Framework arising out of budget constraints are low.** The RKP Program cost constitutes a relatively small portion of the overall budgeted departmental spending of the program participating departments and is well aligned with the GoK's priorities both at overall state and departmental level. For FY 2020-21, the total budget allocation of the six RKP program implementing departments and RKI is USD 5 billion. Kerala has enjoyed robust economic growth, albeit below the national average, in recent years. However, due to the COVID-19 pandemic economic impacts, the state's economy is expected to contract in short run and only recover gradually thereafter. Further, considering that the participating departments represent core state sectors, on an average over the next five years the budget levels are very likely to maintain. Hence, RKP's estimated program cost (USD 530 million) represents only 2% of the total estimated budget allocations of USD 25 billion of the six RKP program implementing departments and RKI for the period FY 2021-26. Further, the extraneous factors affecting overall government expenditure are unlikely to affect budget allocations to the Program. There is a high level of commitment and ownership within GoK. The transversal reform and institutional capacity building agenda also reflect the priorities the government at the national level.

31. **The Program activities will be pre-financed by the GoK's annual state budget and the Bank funds will be disbursed based on the achievement of annual Disbursement Linked Results (DLRs).** The Program expenditure will be budgeted in annual State budget across the multiple budget heads, operated by the Program implementing departments. The Program budget allocation and fund flow system will follow dual approach, and thereby ensure adequate fund availability for the Program activities:

- a) **Departmental Budget allocations**: The six participating departments will receive allocation under the budget heads identified under the Program expenditure framework, based on work plans and activities approved by RKI.
- b) **Budget allocations to RKI**: RKI, the Program nodal agency have an existing operational head for externally added projects (5475 and/or 3475 – Post Flood projects under Re-build Kerala Initiative) under the Rebuild Kerala Initiative (RKI) – Plan). The Program funds shall also be routed through this existing budget head. Funds will be annually budgeted based on the Program plan approved by PSC. For devolution of project funds, the RKI follows the below-mentioned mechanism to ensure smooth and timely fund flow. When a project is given Administrative Sanction, and the work is awarded by the department concerned, the Department will place a formal request to the RKI for allocation of a certain amount for meeting project expenses during the particular quarter of the financial year. Subsequently, the RKI will process the request, and will cross map the SCO/DDO of the Department concerned and allocate the required amount at the disposal of the particular SCO/DDO of the Department, and to enable the SCO/DDO to make the expenditure, allocate necessary funds through BaMS. The Program funds shall be devolved to the participating departments through the following approach:

- (i) The Department does not have a functional head for the Program activity/ initiative for a particular DLI : The implementing department may be cross-mapped under the RKI head, and they may be allotted requisite funds under such head, which they can operate and incur expenditures. In such cases, the SCOs²⁰/DDOs²¹ of the implementing department may be cross-mapped under the RKI head, and they may be allotted requisite funds under such head, which they can operate and incur expenditure. This is exactly the same procedure which the RKI follows for its other donna funded projects and is assessed to be functioning effectively.
- (ii) The Department already has an operational head of account for an existing scheme coming under a particular DLI: In such cases the funding will happen either through fund being budgeted in the existing budget lines based on work plans and activities approved by RKI or through re-appropriation between the allocations under the department head and the RKI head. This necessitates transfer of allocation from one major head to another major head, for which the RKI may request the Finance Department to surrender/ resume the amount required by the implementing department from the RKI's head, and give the same allocation under the department's specified head of account.

32. The Program expenditure will be budgeted in annual State budget across multiple demand for grants and budget heads operated by the implementing departments. It may be noted new budget heads may be needed for incurring expenditure like Surveys, performance incentive grant, system establishment consultancies. Since the expenditure under these heads are expected by end of first year of the Program effectiveness, RKI in consultation with respective PDs will finalize the budget and fund flow procedure for these expenditure by the end of six months from effectiveness. Table 8 lists the budget heads forming part of the Program Expenditure Framework. For more detailed budget classifications and associated demand for grants refer Annexure 3.

Table 8: Program Expenditure Composition: Departmental Budget Heads

Department Name	Budget Head of Account
Dept. of Finance	2052-00-090-90; 2049-01-305-98; 2052-00-090-96 -01; 2052-00-090-96 -02; new budget head or sub head to be allotted
Local Self Govt. Department	2515-00-001-92; new budget head or sub head to be allotted
Dept. of Health & Family Welfare.	2210-06-101-98; 2210-06-101-94; 2210-06-101-91; 2210-06-101-89; 2210-06-101-80; 2210-06-101-49; 2210-06-101-45; 2210-06-003-99; 2210-06-003-97; 2210-06-003-90; 2210-06-003-89; 2210-06-107
Water Resource Dept.	2701-80-001-92-99; 2701-80-005-92; 2701-80-005-93; new budget head or sub head to be allotted
Dept. of Agriculture	2401-00-800-28; 2401-00-104-91; 2401-00-113-83; 2401-00-109-60; 2401-00-001-86; 2435-01-800-94
Public Works Dept.	5054-80-004-98; 5054-04-337-89; 3054-03-337-97; 5475-00-115-94-03
Dept. of Planning (RKI)	5475-00-115-94

33. Finance Department/ RKI will regulate Program budget planning. The annual plans and budgets of all the implementing departments with regards to the expenditure forming part of the Program Expenditure framework, will be reviewed and concurred by the RKI before presentation for approval to the State Finance Department. This will ensure effective coordination of activities across the implementing departments.

34. Required Actions:

²⁰ Subordinate controlling officer is an intermediate controlling officer, immediately subordinate to a Chief Controlling Officer.

²¹ A Government officer authorised to draw money and make payments on behalf of the State Government. The term shall include Chief Controlling Officers and Subordinate Controlling Officers, where they themselves discharge such functions.

- i. RKI in consultation with respective PDs will finalize the budget and fund flow procedure for the new category of Program incremental activities (expected to be underway by the end of first year of Program effectiveness).
- ii. The Program Funds will be annually budgeted based on the Program plan approved by PSC.

3.3 Procurement Planning

35. **Procurement planning:** Annual Works Programs determine the procurements to be done, and are prepared by the concerned departments based on priorities. These plans are consolidated by Finance Department for approvals and budgeting. All the works to be covered in the annual procurement are then decided based on priorities, budget allocation and availability of funds. Works spread over more than a year, are a part of the subsequent annual works programs and are budgeted on priority accordingly. Annual works programs are available in PLANSAPCE, a web-based application for monitoring of plan schemes by Planning Board of Kerala. The annual works programs are not disclosed on the departmental websites. DOA, PWD, RKI and WRD plan their procurements based on the annual works programs so approved and budgeted. In case of DoHFW, however, DHS, NHM, and DME consolidate the requirements after the budget allocation, and these consolidated requirements are then planned for procurement by KMSCL. KMSCL also assists DoHFW in consolidating projected drug requirements for inclusion in the annual works programs. However, procurement plans including contract packaging, method and timing of procurement keeping weather conditions in view, and contract completion are not being prepared and published. Procurement planning is clearly linked to the available budget, considers the objectives of the departments, and needs of the users.

36. **Procurement profile of the Program:** Based on the activities identified in the Program scope, the main procurable items include (a) Goods: machinery, equipments, materials & supplies for Health; IT hardware, software and office equipment required by participating departments, provisions for Centre of Excellence at KHRI; (b) Works: contracting and upgrading of core road network, special repairs to Communications (OPBRC), system establishment and incremental program support for WRD, post flood Projects under the Rebuild Kerala Initiative; and (c) Consultants: for modernization of Finance department and training of staff, support to Social Registry and Disaster Risk, training support for Institute of Health and Family Welfare, modernization of WRD, consultancy/ capacity building for WRD, support for Centre of Excellence at KHRI and other program activities.

37. The Program is not expected to procure any large contracts valued at or above the Operational Procurement Review Committee (OPRC) thresholds (US\$75 million for works, US\$50 million for goods and non-consulting services, and US\$20 million for consultant services), which are based on a “Substantial” risk rating. This conclusion is drawn based on analysis of procurement data of the four agencies assessed. Procurements under the Program are of relatively small values. Amongst the four departments assessed, the single largest value contract issued in the last three years is by KMSCL for procurement goods for Rs 37.7 crore [US\$ 5.1 m, taking exchange rate of US\$ 1=Rs 73]. Accordingly, additional due diligence due to complexity and competitiveness is not likely to be required in reviewing the procurement arrangements.

3.4 Treasury Management and Fund Flow

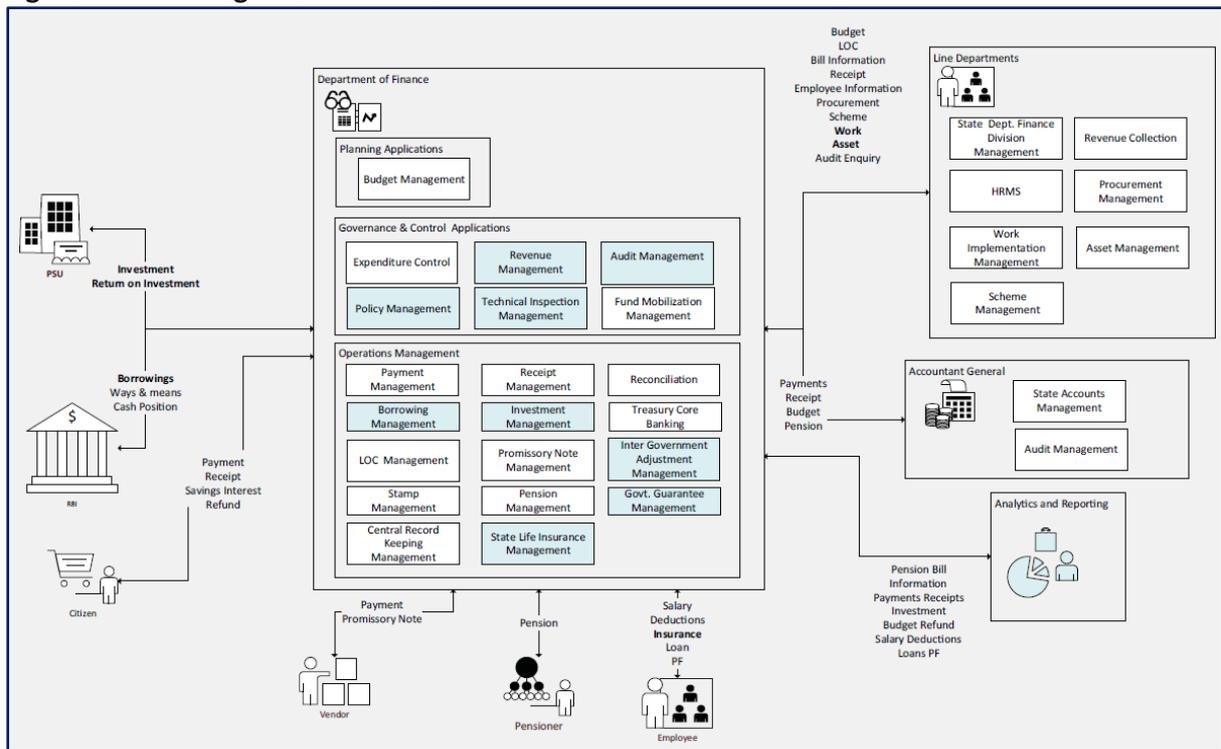
A. Country System framework

38. **GoK has implemented an end-to-end Integrated Financial Management System (IFMS) for strengthening financial management including treasury operations of the State:** This is one of the prestigious projects of the Government of Kerala, undertaken by the Finance Department and the Treasury Department in line with the Modernization of Treasury Systems, one of the Mission Mode Projects (MMPs) of the Government of India. IFMS platform provides end-to-end integration of systems and IT services among various stakeholders such as Finance Department, Treasury

Department, Administrative and Line Departments, Accountant General, PFMS²² application of Government of India, Reserve Bank of India and Banks.

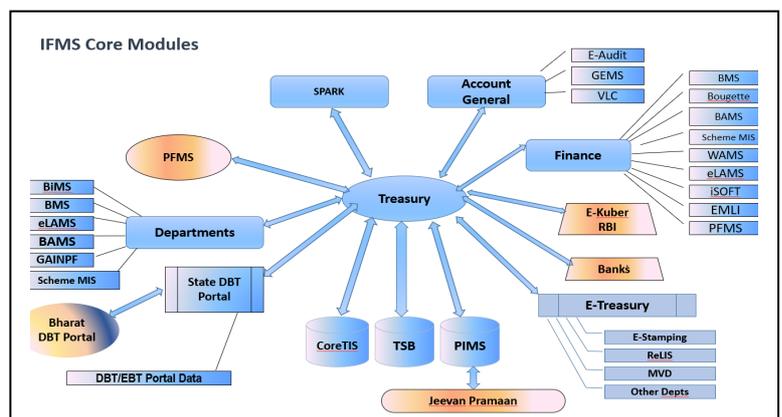
39. IFMS has established a platform for financial data sharing amongst stakeholders confining multiple data entry sources, introduced modern technology in financial transaction and fund settlement culminating with reporting of financial status on a real-time basis. This has provided GoK with real-time data for robust management of treasury operations regulating both the appropriation of funds and the expenditure management. The chart below demonstrates the integration of software applications under IFMS.

Figure 2: IFMS Integration Structure:



40. **IFMS Framework:** The IFMS implementation is under way since April 2016 with key transaction processing systems having gone live. The major application modules for expenditure management and treasury bill processing in IFMS have fully rolled out and are fully functional. Key modules and their core functions have been briefed below:

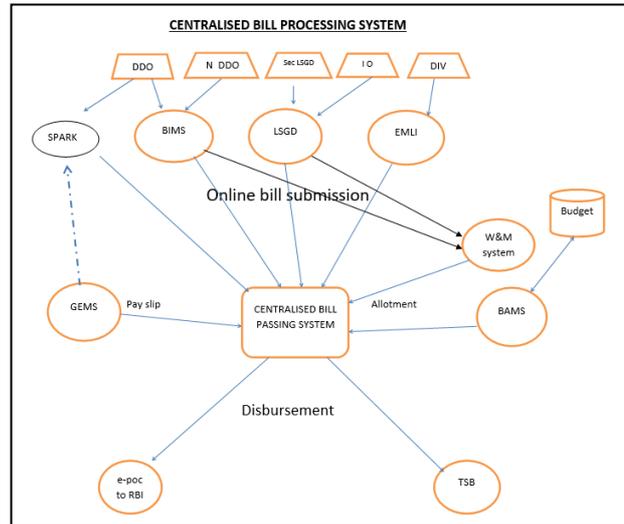
- **Planning & Budgeting:** (i) Budget Monitoring System (BMS - for collection and preparation of budget estimates under non-plan, receipt estimates, estimates of receipt and expenditure under Debt Heads (Non-plan) and Public Account; (ii) PlanSpace (for collection and preparation of budget estimates of plan schemes and reporting progress); (iii) Budget 2.0/Bougette (offline web-based application for the



²² Public Financial Management System (PFMS), a web application, is an online management information and decision support system for the plan schemes of the government of India. The purpose of this system is to track and monitor the fund disbursement and utilization under Plan schemes on real time basis.

preparation of the budget documents and for sending budget data to constituent web utilities).

- **Fund allocation:** Budget Allocation and Monitoring System (BAMS - for allotment/distribution of budgets to the drawing and disbursing officers (DDOs) and for post budget activities e.g. re-appropriation, supplementary demand for grants, authorization and regularization of additional expenditure etc.).
- **Centralized system for issuing administrative sanctions for expenditure from Plan Heads:** e-Anumathi has been implemented²³ in five government departments namely Finance, SC/ST, Fisheries, Health (DHS and DME) and PWD with effect from July 2020. All software which submits electronic bills online to the treasury system will electronically verify the authenticity of the administrative sanction number generated from e-Anumathi before its submission and passing in the treasury system.
- **Treasury bill generation:** Online treasury bill generation by State Departments through four applications and e-submission to treasury (i) Budget Information and Management System (BIMS – contingency bills); (ii) Service and Payroll Administrative Repository of Kerala (SPARK – employee/personal claims); (iii) Effective management of Letter of Credit Issuance (EMLI – contractor bill payments of works/engineering department like Public Works, Irrigation, Harbour Engineering etc.); (iv) Sankhya (for local self-government institutions claims).
- **Fund/Liquidity management:** Ways and Means System (WaMS) – a web-based system for prompt monitoring and effective management of liquidity position of the State. Finance Department uploads necessary regulations on treasury transactions at regular intervals based on which the system decides whether a claim requires ways and means clearance from Finance Department and accordingly the system regulates e-submission of instrument to treasury for payment. WaMS is linked with all the four bill generation modules.
- **Treasury bill payments:** IFMS payment system has been integrated with E-Kuber system (core banking solution platform) of Reserve Bank of India (RBI) for payments to beneficiaries (salaries, pension, vendor/supplier payments, direct benefit transfers etc.). After approval in the treasuries, electronic advices are sent to E-Kuber for release of payments.
- **On-line reconciliation of accounts of the State Departments with AG (A&E):** GoK has implemented an on-line module for reconciliation of accounts by State Departments and to submit reconciliation certificate digitally to the AG office. Departments have e-access²⁴ to the Voucher Level Compilation (VLC) Module of AG (A&E) as separate login credentials have been allotted to DDOs and Chief Controlling Officers (CCOs²⁵).
- **Prevent hasty and imprudent expenditure at the year-end:** Electronic Ledger Account Monitoring System (eLAMS – unallocated amount of immediate previous year that can be spent within the first six months of the financial year and for which requisite administrative/purchase sanctions have been granted are posted in electronic ledger account. The expenditure in respect of such amounts will be allowed to be spent from the respective Budget Head of Account in the next year and additional allocations provided for this purpose wherever found necessary.



²³ GO (P) No. 85/2020/FIN dated 26-06-2020 issued by Finance (Streamlining) Department.

²⁴ ksemp.agker.cag.gov.in

²⁵ Chief Controlling Officer is the Head of a Department or other officer who submits estimates direct to Government, who is entrusted with the responsibility of controlling the incurring of expenditure and/or the collection of revenue. In the case of appropriations retained in the hands of Government, the term may include Secretaries to Government/Departments of the Secretariat as well.

- The expenditure management applications enable users to prepare treasury bills online and get updates on processing of bills i.e. information on approval/rejection/objection or e-Pay Order Cheque (PoC) issued by RBI. *Further, system-based validation for claim processing leads to standardization and enhanced transparency.*
- Post budget activities such as authorization of additional expenditure, appropriation of funds, supplementary demand for grants, regularization of authorized additional expenditure etc. are undertaken through BAMS.
- Mandatory application of digital signature certificate (DSC) for online treasury bill submission. Since online bill submission for claims involves financial implications GoK has mandated that online bill submission is permitted only on application of digital signature certificate.

B. Performance within system framework

41. Implementation of e-treasury and integration of various stakeholder applications has enhanced efficacy of treasury operations and strengthened the overall internal control environment encompassing the FM operations of the State. The treasury systems in Kerala by large has evolved significantly and is functioning with reasonable efficiency and effectiveness.

42. Treasuries in Kerala are grouped into four regions for reasons of administrative control. The Department of Treasuries, Government of Kerala is having 223 Treasuries, 3 Regional Offices and 12 Stamp Depots spread across the State with one Head Office (Directorate of Treasuries) located at Thiruvananthapuram. All the Treasuries of the State were fully computerized at the branch level in standalone mode from 2004 onwards. Table 9 presents position of staff in the Department of Treasuries in the year 2018-19 indicating the number of trained persons in IFMS. IFMS trainings of the Treasury staff is a concurrent process, and extensive trainings are being conducted for each tire of treasury employees. The updated staff trained numbers have been requested from the counterpart, the table shall be updated on receipt.

Table 9: Overall Treasury Staffing Position

Year	Sanctioned Strength	Men in Position	Trained in IFMS	Un-trained in IFMS
2018-19	3,768	3,744	1,696	2,048

43. Budget allocations are timely: Robust management of budget allocation through BAMS strengthens control over appropriation of funds by the Finance Department and the Line Departments. Ceiling limits against budget provisions is determined and set in the application by the Finance Department for regulating expenditure based on resource estimation normally done at the beginning of every quarter. However, Salary, pension, interest payments and debt repayments are exempted from the purview of this regulated system. Further, ceiling exception is allowed to exigent/prioritized items after locating savings from non-development items. As stated above the frequency of budget allotment during a year various for expenditure types. However, as the allocations moves through BAMS, they trigger on automated basis within the set framework, the allocation are timely. The Table 10 below details the timeframe for budget allocation for the Program.

Budget Allocation through BAMS: On passing of Budget in the Legislative Assembly, the connected Appropriation Act is published. Thereafter, the details of budget allocations are made available to the CCOs who allot funds online to the SCOs, who subsequently sub-allot funds to respective DDOs who draw bills for making payments on behalf of the government.

Table 10: Frequency of Annual Budget Allocation for Program Expenditure Framework

S. No.	Particulars	Approximate Yearly Frequency
1.	Salary and Wages	Priority expenditure. Hence, no ceiling applicable.
2.	Contractor Bills of Engineering Departments (PWD and Water Resource Department)	Generally, on a monthly basis regulated by Finance Department; monthly pendency is accumulated and assigned State-wide seniority. Orders are issued by Finance Department in advance sanctioning payments on a future specific date.
3.	Funds devolved to LSGs	General Purpose Fund: Monthly basis by the Finance Department Other Funds for maintenance and development: Allotment for a financial year issued in three instalments by the Finance Department i.e. on or before 25 th of March, July and November every year. Allotments not drawn till March 31 st are provided through additional authorization/supplementary demand for grants along with the 2 nd instalment of the subsequent year. This unspent balance can be utilized before 31 st March of the next financial year.
4.	All Other Departmental Expenditure	Quarterly ceiling by Finance Department.

44. **Integration of treasury bill generation and submission modules i.e. BIMS, SPARK, EMLI and SAANKHYA with e-kuber for payments to beneficiaries/vendors helps in effective fund management on a real-time basis.** This also supports monitoring/tracking timeliness in government payments and pro-actively implementing measures for reducing delays in payment. End-to-end automation of treasury operation also helps in enhancing transparency in the government payment process.

45. **Bill payment by Treasury:** As part of the IFSA, the detailed analysis of the payment timelines (during FY 2020-21) was conducted on sample basis for budget heads forming part of the Program expenditure framework. The sample review of the time taken for processing an approved bill (by respective operating department) suggest that on an average the payments are made by respective Treasury within 10 days from receipt of payment request. Table X below gives the average payment processing timeline for the six Program participating departments.

Table 11: Payment Processing time against approved bill by Treasury for FY 2020-21*

S. No.	Name of Program Implementing Department	Average Time taken in processing of bills in Treasury (days)
1	Agriculture	5.20
2	Finance	2
3	Health	6.39
4	WRD	5.50
5	PWD	9.25
6	LSGD	1

Refer Annexure 4 for details on sample and budget-head-wise average time taken in processing of bills in treasury.

46. **Exception to Bill payment by Treasury:** As part of the IFSA, detailed analysis was carried out to assess the status of bill processing pendency by Treasury. As part of the review, for FY 2020-21, total number of bills pending approval as on February 10, 2021 by Treasury for a sample of budget heads forming part of the Program expenditure framework of budget are taken. Table 12 below gives the average payment processing timeline for the six Program participating departments.

Table 12: Average holding-period of bills outstanding for payments in Treasury*

S. No.	Name of Program Implementing Department	Average holding-period of bills outstanding for payments (days)	Number of Program Budget Heads /Total sample size (nos.)
1	Agriculture	14.25	4/121
2	Health	77.50	2/4
3	WRD	42.50	2/10
4	PWD	56.67	3/14

*Refer Annexure__ for details on sample and budget-head-wise average holding-period of bills outstanding for payments

The sample review reflects that the maximum average holding period of bills outstanding at treasury for final payment is 80 days. However, it may be noted that the review largely reflected (based on small number of long pending bills) that in instances of extended delays, the primary reason are standalone bills and isolated instances. The overall impact of such bills is insignificant when compared to the total quantum, both in value and numbers. **Further, since no persistent pattern emerged which may reflect, the existing system is assessed to be adequate for supporting the Program activities.**

47. **Payment cycle Works:** Infrastructural investment through PWD departments are estimated to form 19 percent of total Program expenditure framework. Hence, as part of the IFSA, end-to-end payment cycle for Public Works department was assessed. In PWD, the total payments outstanding (as of February 10, 2021) towards contractor work bills was shared as Rs. 125.41 crores of which around 75% have been outstanding for a period of less than 6 months while the remaining 25% are outstanding for around one year as given in Table 13 below.

Table 13: Works Bills Pending Payments in PWD

Program Budget Head Code	Total number of work-related bills outstanding* for payment (Nos.)	Total Value of work-related bills outstanding* for payments	Ageing analysis (Amount in INR Million)	
			Upto 6 months	6 month-1 year
			(In INR Million)	
5054-80-004-98	Nil	Nil	Nil	Nil
5054-04-337-89	57	1,065	783	282
3054-03-337-97	152	188	163	25
Total		1,253	946	307

48. Prolonged payment cycle is systemic feature across all engineering departments of Gok. This is being regulated by the Finance Department through a combined system of EMLI²⁶/Letter of credit (LoC), BAMS and a Bill Discounting System (BDS) which operate as an integrated e-platform. Pending bills of contractors for a particular month are prepared in accordance with State-wide seniority and Government issues orders sanctioning payment of these bills on a future specific date. There is continuous real-time monitoring and regulation of contractor work bills payments by the Finance Department, GoK. *In this light, the Bank will also follow up on the status of vendor payments for program expenditures on a bi-annually basis during the program life. In case of persistent issue impacting the result achievement, the related payments shall be routed through the treasury channel of the PMU (RKI).* Further, for all other Program expenditure heads, the average payment cycle is two to three months.

49. **Annual independent review of Treasury functioning:** The Accounts General (A&E), Kerala conducts periodic review of the working of the treasury and submits an annual Review Report to the State Government of Kerala. *The report points out the defects/ deviations noticed in the functioning of the Treasuries, suggests corrective measures and thus assist in the effective functioning of the department.* The review is very detailed and evaluates various aspects of functioning covering areas like internal controls, IT controls, physical safeguards, core departmental functioning's including transaction audit. The various observations raised reflects that from broad PFM environment

²⁶ Bills which have been approved for release of payments by the offices/divisions of the engineering departments are uploaded on the EMLI software. Upon receipt of funds through LoC/ online allotment, the offices prepare and present the bill to the treasury along with the passed work bill for payment. The Treasury shall pass payment orders after verifying the fund position using LoC/BAMS and the net amount shall be transfer/credited to the treasury savings bank account/bank account of the contractor.

prospective, GoK will benefit from an end-to-end treasury functional review to enhance the performance. The key observations²⁷ highlighted for FY 2018-19 with regard to treasury functioning are as below. It may be noted that most of the observations are standalone instance, does not reflect universal patterns.

- Delay in submission of Monthly Accounts by Treasuries: Compiled Accounts are received from the District Treasuries, the Accounts for a particular month are to be forwarded online to the Accountant General on the 8th of the succeeding month. The monthly Accounts are to be submitted to State Government on the 25th of the succeeding month. Delay in receipt of Compiled Accounts from Treasuries results in delay in the rendition of Monthly Accounts to State Government. During the year 2018-19 all the District Treasuries have not complied with the due dates for submission of monthly compiled Accounts to the Accountant General, on account of which, the Monthly Accounts could be submitted only after the due date to State Government in the month of April and October 2018.
- Non receipt/Delay in receipt of awaited Vouchers from Treasuries. The system of online filing of vouchers is in transition stage as a result there are instances of non-receipt of vouchers/schedules from Treasuries resulting in unsettled balances.
- Under Debt, Deposit and Remittance Heads, several cases under both Debit and Credit transactions are outstanding for clearance and settlement.
- Un-reconciled Net (Dr.) differences of Reserve Bank Deposits (State)(RBD(S)) between Treasuries and Banks.
- Delay in Adjustment of Balance Under Suspense And Remittance Heads.
- Non-compliance of monthly physically verify the cash balance requirement at 8 Treasuries.
- Discrepancies noticed in the Service Books maintained in certain Treasuries
- Retention of cash balance by Treasuries in excess (Para 3.5 of Part III) of stipulation.

C. Program Fiduciary Framework

50. The GoK Treasury framework and functioning is considered adequate for associated functions under Rebuild Kerala PforR Program. The expenditure under the program will be incurred both at the PMU (RKI) and the participating departments including district and sub-district offices and LSGI. All these Program units will follow GoK's Treasury channel for incurring expenditure along the Program expenditure framework.

51. As part of the Program supervision, the following performance standards would be monitored: (i) The Treasury Annual Review report shall be reviewed to monitor the observations and the potential impact on the Program expenditure framework; (ii) Monitoring of Work payments: In view of the real-time monitoring and regulation of contractor work bills payments by the Finance Department, GoK, the Bank will also follow up on the status of vendor payments for program expenditures on a bi-annually basis during the program life. Report on program expenditure outstanding payments will be shared quarterly by the GoK in a format agreed with the Bank.

3.5 Accounting and Financial Reporting

A. Country System framework:

52. The accounts of the GoK are compiled by the AG (A&E), Kerala discharging the duties and exercising the powers entrusted on the C&AG in the Constitution of India²⁸. C&AG (Accounts) is responsible for preparation and submission of Annual Accounts to the State Legislature. On other hand, the treasuries, offices, and/or departments functioning under the control of GoK are primarily

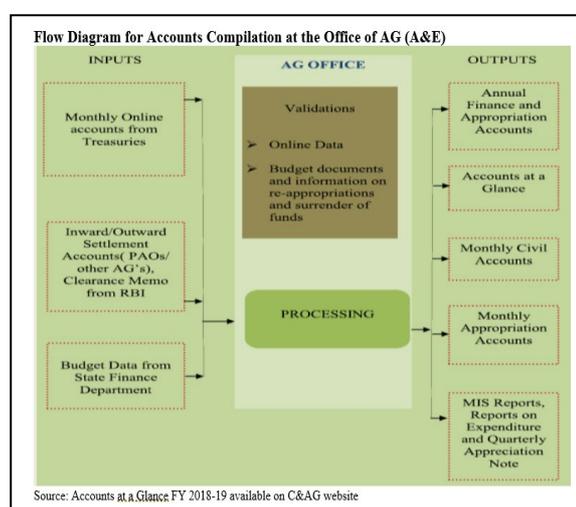
²⁷ REPORT ON THE ANNUAL REVIEW OF WORKING OF TREASURIES IN KERALA 2018-19, issued by OFFICE OF THE ACCOUNTANT GENERAL (A&E), KERALA THIRUVANANTHAPURAM.

²⁸ Article 149: Duties and powers of the C&AG in relation to the accounts of the Union and the State; and Article 150: Form of accounts of the Union and the States.

responsible for the preparation and correctness of the initial and subsidiary accounts as well as ensuring the regularity of the transactions in accordance with the applicable laws, standards, rules and regulations relating to such accounts and transactions.

53. **Accounting is done on a cash basis** with the exception of certain book adjustments. Three Indian Government Accounting Standards (IGASs²⁹) notified by the Ministry of Finance, GoI also apply. Notes to accounts along with the significant accounting policies are stated in the annual Finance Accounts. Physical assets are not depreciated or amortised. Future pension liability of the Government, i.e., the liability towards payment of retirement benefits for the past and the present service of its employees is not included in the accounts.

54. **AG (A&E) consolidates monthly in-year financial reports comprising of the Civil Accounts, Appropriation Accounts and Key Indicators** in accordance with the provisions of C&AG's (Duties, Powers and Conditions of Service) Act³⁰, 1971 (hereinafter referred to as "DPC Act"). The accounts are compiled from the vouchers, challans, initial and subsidiary accounts rendered by the treasuries, offices, and departments responsible for the keeping of such accounts, functioning under the control of the GoK and the statements received from the Reserve Bank of India. Accounting data is transferred electronically by the State treasury office to the AG (A&E) for compilation of accounts in AG's VLC application software. Monthly civil accounts have to be submitted to GoK by 25th of the succeeding month. The monthly accounts are available for public access on the C&AG website (www.cag.gov.in).



55. **Year-end financial reports comprising of the Finance Accounts and the Appropriation Accounts are consolidated by AG (A&E) from the monthly accounts.**

Annual Accounts of the State Government

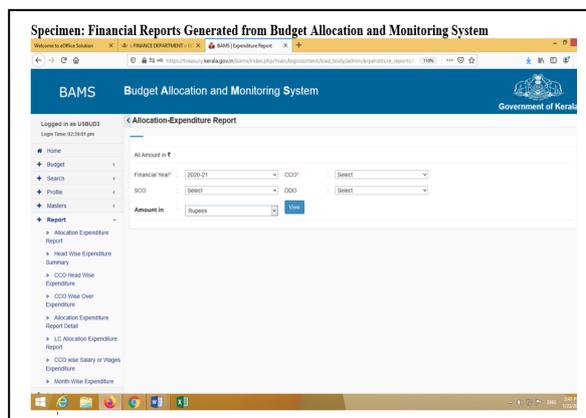
- **Finance Accounts** present the financial position along with the accounts of the receipts and disbursements of the government for the year. These are the summary statements of the accounts under the Consolidated Fund, Contingency Fund and Public Account.
- **Appropriation Accounts** present the account of the sums expended in the year compared with the sums specified in the schedules appended to the Appropriation Acts passed under Articles 204 and 205 of the CoI. It also provides explanations for variations between the actual expenditure and the funds provided.
- **Accounts at a Glance** provides a broad overview of the Government's activities as reflected in the Finance Accounts and Appropriation Accounts. The information is presented with brief explanations, statements and graphs.
- The Finance Accounts, generally (with some exceptions), depict transactions upto the Minor Head. The figures in the Finance Accounts are depicted at net level, i.e., after accounting for recoveries as reduction of expenditure. This treatment is different from the depiction in the Demands for Grants presented to the Legislature and in the Appropriation Accounts, where, expenditure is depicted at the gross level.
- Norms approved by the Public Accounts Committee of Kerala Legislature are adopted for selection of heads of account for the purpose of comments on the Appropriation Accounts.

²⁹ IGAS 1- Guarantees given by the Government, IGAS 2- Accounting and classification of Grants-in-aid and IGAS 3- Loans and Advances made by Government. These three Accounting Standards describe the disclosure norms for Guarantees, Principles for Accounting and Classification of Grants-in-aid and disclosure norms for Loans and Advances made by Government in the Financial Statements of Government respectively.

³⁰ Section 10 – 12 of the DPC Act.

56. The framework, prescriptions and procedures on accounting, book keeping and financial reporting by the State departments are contained in the Accounts Code, Treasury Code, Financial Code, Budget Manual, Public Works Account Code and other manuals implemented in addition to the periodic directions issued by the Finance Department, GoK. Physical records are maintained by the department/subordinate offices in addition to the outputs/reports which are extracted from the IFMS applications and these include the fund allocation register, cash book, asset register, stock register, e-bill book generated from BIMS/bill register, treasury bills/vouchers etc.

57. With the implementation of the IFMS, reports on various financial management aspects are readily available for the State departments on real-time basis. Need based financial reports can be compiled from the data extracted from the various modules. Additionally, mechanism for periodic reporting (monthly/annual etc.) is prescribed in the extant rules and regulations along with the formats in which the reports have to be submitted.



58. PLANSAPCE³¹ – KERALA (System for Progress Analysis and Concurrent Evaluation) is a web based integrated information system for monitoring and evaluating the progress of Plan schemes implemented across all departments in Kerala. It is an effective online project management and monitoring tool tracking the physical and financial progress as also the status of the scheme implementation lifecycle. It is also an online reporting tool for the Implementing Departments/Agencies to update their progress and implementation issues periodically and to support effective decision-making process. The application has also been rolled out at the district level for strengthening review below the State level. As already stated, information on financial achievement under each scheme as available on Planspace is an important criterion to determine scheme wise allocation of funds during annual budgeting of Plan schemes. The real-time state treasury expenditure for each scheme has been integrated with PLANSAPCE for the strengthened monitoring and comparison of expenditure.

B. Performance within system framework

59. **Timely submission of Monthly Accounts:** Actual date of submission of monthly accounts during FY 2020-21 has generally been within the established timelines of 25th of next month except for the month of August and October 2020 as evident from the Table 14 below:

Table 14: Timelines for Submission of Monthly Accounts

Month	Date of Submission of Finance Accounts	Date of Submission of Appropriation Accounts
April 2020	Not available	Not available
May 2020	24-06-2020	24-06-2020
June 2020	23-07-2020	23-07-2020
July 2020	25-08-2020	25-08-2020
August 2020	28-09-2020	30-09-2020
September 2020	21-10-2020	23-10-2020
October 2020	25-11-2020	02-12-2020
November 2020	25-12-2020	Not available

Source: Monthly accounts available on the C&AG website

³¹ www.planspace.kerala.gov.in

60. Mandatory reconciliation of accounts between the State Departments, Treasury and AG (A&E).

To ensure completeness of accounts, prescriptions on reconciliation of accounts maintained by the Departments, treasury and AG (A&E) are contained in the Kerala Budget Manual and Kerala Treasury Code. The prescriptions provide for monthly reconciliations. The prescriptions³² provide for monthly reconciliations. With the implementation of IFMS and centralized treasury bill processing systems commonly accessible to both the State Departments and Treasury, reconciliation of accounts is done by the DDOs and thereafter by the CCOs with the AG (A&E). However, there were persistent delays to this monthly requirement, as reflected through Table 15 below presenting summarized status of reconciliations reported by the some implementing departments.

Table 15: Status of Reconciliation with Treasury and AG (A&E)

S. No.	Name of the Implementing Department	Status of Reconciliation of accounts by DDO	Status of Reconciliation by CCOs
1.	PWD Roads	Till September 2020	June 2020
2.	Irrigation (WRD)	Till September 2020	Till September 2020
3.	Agriculture & Farmers Welfare	Till FY 2018-19	Till FY 2018-19
4.	Directorate of Health Services	Till FY 2019-20	Till FY 2018-19

As a part of the IFMS initiative, GoK with effect from October 01, 2020, has implemented an on-line process of reconciliation of accounts and submit reconciliation certificate digitally to the AG office. Hence, the earlier manual (partially) process of reconciliation of accounts with treasuries and AG (A&E) by the CCOs and DDOs, which was hitherto implemented, has been dispensed with. Under the new initiative, the respective departments have e-access to the VLC Module of AG (A&E) with separate login credentials for DDOs and CCOs. This online reconciliation by the DDOs and CCOs, directly with AG (A&E) is expected to strengthen the existing process and reduce delays, since both the DDOs and CCOs would be reconciling the accounts directly on the accounting portal of AG (A&E).

C. Program Fiduciary Framework

61. The Program will follow the extant practices of accounting and financial reporting. As part of the Program supervision, the following performance standards would be monitored:

- GoK initiative of online reconciliation of accounts is expected to reduce process delays will be monitored during the Program life for effectiveness in implementation. Consequently, in respect of the budget heads of account included in the expenditure framework, the expenditure reported in the monthly accounts prepared by the (AG (A&E), Kerala will be shared with the Bank along with the status of Treasury and AG reconciliation on a bi-annual basis.
- MIS generated from IFMS and/or PLANSAP will also be shared with the Bank during the period of Project implementation in formats and frequency as mutually agreed within six months of Project effectiveness.

3.6 Procurement Processes and Procedures

62. Procurement processes and procedures: Salient features of the applicable procurement framework across the four implementing departments are similar but the practice of the applicable rules and regulations may slightly vary across them. Procurement mainly follows Kerala Financial Codes, Kerala PWD Manual, Kerala Stores Purchase Manual, KMSCL provisions, State delegation of financial powers, GOs issued from time to time, and staffing regulations. The implementing agencies use the same e-tendering system, their own standard bid documents, Government e-Marketplace

³² Rule 72 – 74 of the Kerala Budget Manual and Rule 93 of the Kerala Treasury Code.

(eGeM) portal of central government, and government of Kerala e-governance IT procurement portal (CPRCS). Procurement systems of the four departments were assessed to determine the degree to which the planning, bidding, evaluation, contract award and contract administration arrangements and practices provide a reasonable assurance that the program will achieve the intended results and were found to have processes and procedures for effective implementation of the Program with fiduciary risks identified and proposed for mitigation in PAP. Procurement processes and procedures summarized below show that the procurement system ensures a fair and transparent procurement process with the objective of achieving best value for money.

- a) Open tendering is the preferred method of procurement, and conditions and lower thresholds are laid down for limited and direct procurement in specified circumstances, provided in Kerala Stores Purchase Manual and Kerala PWD Manual.
- b) GoK promotes use of e-procurement and has stipulated use of e-procurement (NIC portal) for all procurements estimated at or above Rs 5 lakhs. There is obviously no bar in using e-portal for procurements below Rs 5 lakh each.
- c) KMSCL uses e-procurement for all cases above Rs 1 lakh, and since KMSCL is the central procurement agency of the State for purchase of drugs and medical equipment, the Corporation finalizes rate/ running contracts for the items procured by it.
- d) GoK has stipulated use of Government e-Marketplace (GeM) portal of central government, and government of Kerala e-governance IT procurement portal (CPRCS).
- e) The provisions require that unbiased technical specifications shall be prepared, and tender documents shall clearly indicate the qualification criteria (or class of registration) and criteria for evaluation.
- f) Time of 7 to 30 days based on value, category of purchase (Goods 15-30, and Works 7-30 days), and the procuring agency (KMSCL 30 days) is provided for submission of bids. Similarly, timelines for various other activities have been specified. Bids are required to be opened publicly.
- g) In line with the procurement provisions of GoI and GoK, specified preferences are applicable to Make in India, MSMEs, PSUs, State labor contractors.
- h) All the four implementing agencies assessed use NIC portal for e-procurement, and their respective standard bid documents.
- i) Negotiations after opening of tenders are severally discouraged/ not permitted. Under exceptional circumstances if negotiations are allowed to be held, these will be held with L1 bidder only.

63. Historical procurement data for the four procurement agencies (DoHFW, WRD, DoA, and PWD) assessed was collected through a local consultant to review their procurement performance. Position in respect of typical indicators is tabulated below.

Parameter/IA	PWD	KMSCL	WRD (Irrigation)	Agriculture
Procurement Size: No. of tenders issued on e-portal during 2020	Works 10249 tenders CS 2 tenders Goods 21 tenders	Works 15 tenders NCS 36 tenders Goods 36 tenders	Works 6289 tenders CS 8 tenders Goods 84 tenders	Works 256 tenders CS&NCS 16 tenders Goods 121 tenders
Time for preparation of bids	144/10=14.4 days(Sample Size 10)	10.8 days (Sample Size 20)	13 days (Sample Size 13)	11.6 days (Sample Size 15)
Time for bid evaluation	106 days (Sample Size 10)	38.4 days (Sample Size 20)	71.3 days (Sample Size 15)	76.3 days (Sample Size 15)
Processes cancelled	4.27% (out of 10,272 tenders)	14.47% (out of 152 tenders)	4.64% (Out of 6381 tenders)	5.85% (out of 393 tenders)

Bidders participation	4.3 (Sample Size 10)	9.5 (Sample Size 15)	2 (Sample Size 15)	2.8 (Sample Size 15)
Number of contracts with cost increases over award amount	40% (Sample Size 20)	8% (Sample Size 56)	15% (Sample Size 20)	20% (Sample Size 20)
Time taken for Payment of Bills (days)	nearly 11 month's pendency	24 days (Average of 1054 cases)	nearly 11 month's pendency	Awaited
Awards within Bid Validity	100% (Sample Size 10)	90% (Sample Size 20)	60% (Sample Size 15)	53% (Sample Size 15)
Length of proc process	116 days (Sample Size 10)	49.5 days (Sample Size 20)	84.3 days (Sample Size 15)	87.9 days (Sample Size 15)

(Notes: Figures in the denominator represent the sample size)

64. It is noted that the sample procurements were conducted through open tenders, and the assessment did not come across any case of limited tender/ single source. As it is, bulk of the procurement is through open tendering on e-portal. A pendency of about 11 months in payment of bills of PWD and WRD due to budgetary constraint was noted in the assessment.

65. GoK and consequently the assessed departments do not have a formal robust complaint management system and depend on complaints received directly by the procuring entity or its administrative department. E-Adalat, the online Platform of GoK to submit complaints is mainly with respect to delivery of public services and is neither designed nor suitable for procurement related complaints. None of the four departments assessed have a disclosure policy covering procurement information like procurement plans, contract award, contract performance, complaints redressal, audit reports, appeals and their disposal, except the disclosure of contract award information for tenders processed through e-portal.

66. **Contract Administration:** In the absence of an overarching legislation on public procurement in the State, contract administration between two parties shall take place in line with provisions agreed by the parties during the tender process and as incorporated in the resulting contract agreement. Both, Kerala Stores Purchase Manual and Kerala PWD Manual, have provisions related to requirement assessment, specifications, technical approvals, registration of suppliers/ contractors, tender conditions, contract conditions, delivery of goods/ works, quality control, terms of payment, termination and dispute settlement.

67. In DOA, PWD and WRD (which was originally a part of PWD and was later separated) the departmental engineers supervise the execution of works, quality control, passing of bills and monitoring till completion. In KMSCL contract administration is supported through IT solutions. An Equipment Management software for Equipment, and a Drug Distribution Management System (DDMS) for drugs are used by the Corporation. All inward receipts are checked for quality either through inhouse technical officials or through testing at empanelled laboratories. In case of drugs, all supplies are got tested batch wise and KMSCL initiates penal action, if necessary, based on the test results against each batch.

3.7 Internal Controls and Internal Audit

A. Country System framework:

68. **The Constitution of India (Col) provides the overarching framework of internal financial control for operations in India's parliamentary form of government.** Col prescribes procedures on financial

matters³³ of the State, form of accounts³⁴, mechanism of audits³⁵, custody etc. of Consolidated fund, contingency fund and money's credited to the public accounts³⁶ etc. At the Central Government level, these are detailed in the GFR-2017, the GAR-1990, and the Central Government (Receipts & Payments) Rules-1983. At the States, these are detailed in their respective budget manuals, financial rules, and treasury code. Oversight over compliance with internal controls are vested with the head of the Administrative Department and Finance Departments, and these are reviewed by the C&AG during annual audits.

69. Within the overall mandate of the Constitution, GoK has mandated and documented prescriptions on various aspects of financial management which set the tenor, regulations and procedures of a well-defined and reasonably comprehensive internal control framework in government financial matters. These manuals are available on the website of the Finance Department, GoK and/or the respective departments for public access. Key prescriptions applicable to the Program participating departments include the following:

- **Kerala Budget Manual³⁷:** The manual describes prescriptions encompassing the four stages of the budgetary process viz. preparation, passing, execution and review. *The manual is being updated (last version: third edition 1982) and currently in advanced stage of revision by the GoK.*
- **Kerala Financial Code³⁸:** The Code focuses on the general financial principles and the rules of procedure in respect of all financial matters, which are common to all Departments under the Government. Government Departments have to mandatorily comply with these rules supplemented by the special instructions in their respective Departmental manuals.
- **Kerala Treasury Code³⁹:** The code prescribes the procedures for treasury operations and related rules, regulations and procedures.
- **Kerala Account Code⁴⁰:** The Code contains the C&AG's rules issued in his Account Code. The rules and order issued by the State Government on matters on which the Auditor-General's rules vest powers in the State Government to frame or issue rules and certain rules of local interest based on the rules now in force in the State which are not in consistent with the basic principles laid down by the Auditor-General are incorporated as 'Local Rulings', Illustrations, etc., under the relevant Articles.
- **Kerala Public Works Department Manual⁴¹:** The Manual outlines the functioning of the Public Works Department.
- **Kerala Public Works Account Code⁴²:** The Code contains account rules which are special to the Public Works Department. General rules will apply in matters where there are no special rules in this code.
- **Manual on Financial Management: Procurement of Goods and Services in Local Self Government Institutions of Kerala⁴³:** The Manual incorporates all aspects of functional procedures for the

³³ Article 202-207 of Col: annual financial statements/budgets of a State; appropriation bills; supplementary, additional or excess grants; procedure in legislature with respect to estimates; vote on account, vote of credit and exceptional grants, special provisions as to finance bills etc.

³⁴ Article 150 Col; Form of accounts of the Union and of the States

³⁵ Article 148, 149, 151 of Col: Comptroller and Auditor General of India; Duties and powers of the Comptroller and Auditor General of India; audit reports.

³⁶ Article 283 of Col

³⁷ Third edition embodying corrections upto June 30, 1982.

³⁸ The Code is published in two volumes. Volume I: Eighth edition year 2016 provides the text of the Code; Volume II: Third edition incorporating corrections upto January 31, 2012 contains the appendices and the forms.

³⁹ Volume I Fourth edition 2013 incorporating amendments upto December 31, 2012.

⁴⁰ The Code is published in two volumes. Volume I: Third edition (Revised) year 2013 provides the general principles and method of accounts; Volume III: Fourth edition (Revised) year 2013 contains the directions regarding accounts to be kept by the Public Works Officers and the accounts to be submitted by the Public Works Officer to Audit and Accounts office.

⁴¹ Revised Edition 2012 (Revised as per G.O.(P)No.13/2012/PWD dated 01.02.2012).

⁴² Fifth edition 2013 incorporating amendments upto May 02, 2012.

⁴³ Edition 2016 (GO no (Rt) No. 2487/2016 LSGD dated 20-08-2016 issued by the Local Self Government Department. This Manual supersedes the guidelines for the Procurement of Goods and Services issued as per GO (P) 259/2010/LSGD dated

Elected Representatives, officers and all other Stakeholders, in carrying out procurement process applicable to all LSGIs in the State.

- **GoK circulars, Government orders and other manuals/guidance's** e.g. delegation of powers⁴⁴, PWD Quality Control Manual⁴⁵, Stores Purchase Manual⁴⁶ etc.

70. Kerala has a system of multiple reviews and audits focusing on various aspects of state finance and departmental functioning: The system and transaction audits relevant for the program participating departments have been briefly described below:

- **Internal Audit framework:** GoK has an Internal Audit (IA) wing functioning in various departments for conduct of audit in the department offices and an IA cell in the Finance department to supervise and oversee the internal audit operations. Finance Department, GoK has also published a Handbook of Guidelines on Internal Audit in year 2008 as a reference for audit teams.
- **Finance (Inspection Non-Technical) Department has authority to conduct inspection** (both surprise and routine) at various government offices, PSUs, LSGI, autonomous institutions and other similar institutions⁴⁷. Rule 132 of Kerala Treasury Code also stipulates that the Government in the Finance Department shall arrange to hold surprise inspection of cash, stores and accounts in Government offices by the Inspection Wing of the Department. Any grave or important irregularities detected during the local inspection shall also be intimated to the Accountant General.
- **Concurrent Evaluation and Monitoring of Schemes (CEMS):** An annual circular⁴⁸ is generally issued in the month of May providing guidelines on CMES. Guidelines on CMES inter-alia include: information on the selected schemes of select departments is to be furnished in prescribed formats to the Finance departments by the respective departments; Submission of monthly progress reports with details of targets, allocation and expenditure; Field visits to be undertaken by teams from the Finance Department and status reports submitted; Grave irregularities noticed in the implementation are to be reported to the Head of Department and the Administrative Department for corrective action; Action taken Report is to be submitted by the Administrative Department with defined timeframe.
- **Performance Budgeting Audit:** the same has been detailed in Budget section of the IFSA report.
- **Annual Review of Working of Treasuries:** the same has been detailed in the Treasury section of the IFSA report.

B. Performance within system framework

71. The existing manuals which establish the contours of the financial management framework, policies and procedures are very comprehensive in nature, can further benefit from review and updating. Given the extensive implementation of IT applications and the evolving PFM environment, GoK will greatly benefit from a comprehensive reviewed and suitably updated to align with the existing operations and internal control environment which is embedded in the IFMS architecture and also to recognize amendments in practices of various aspects of financial management vis-à-vis prescriptions e.g. the erstwhile cheque drawing departments like PWD, Water Resources Department were brought under the treasury bill system w.e.f. 01-04-2016 consequent to which the compilation of divisional accounts by these departments was dispensed, introduction of on-line reconciliation of accounts with

8.11.2010

⁴⁴ GO (P) No. 111/2019/Fin dated 21-08-2019 enhancing financial powers of various engineering departments and GO (P) No. 102/2017/Fin. Dated 07-08-2017 enhancing financial powers delegated to Administrative Departments in the Secretariat and the Heads of Department issued by the Finance (Expenditure – B) Department, GoK.

⁴⁵ Edition July 2015 issued by the Kerala Public Works Department.

⁴⁶ Revised Edition 2013 (Revised as per G.O (P) No.3/2013/SPD, dated 21.06.2013)

⁴⁷ GO (P) No.59/2020/Fin dated 14-05-2020 issued by the Finance (Inspection Non-Technical – A) Department.

⁴⁸ Circular no. 29/2020/Fin dated 20-05-2020 for preparation of CEMS for FY 2020-21; Circular no. 48/2018/Fin dated 24-05-2018 for preparation of CEMs for FY 2018-19.

AG (A&E), examine the need for treasury reconciliation considering the IFMS architecture, identifying books of accounts and/or subsidiary records to be maintained considering the outputs being generated from various IT applications etc. Currently, the reviews and updates are in piecemeal, the state could greatly benefit from a comprehensive and consolidated approach.

72. Internal audit (IA) framework established by Gok does not appear to be commensurate with the size of operations, nature of business, is conducted with substantial delays and the prescriptions/guidelines are dated. GoK has an IA wing functioning in various departments for conduct of audit in the department offices and an IA cell⁴⁹ in the Finance department to supervise and oversee the internal audit operations. Finance Department, GoK has also published a Handbook of Guidelines on Internal Audit (Year 2008 publication) as a reference for audit teams. Periodic circulars⁵⁰ are issued by the Finance (Internal Audit Cell) Department, GoK for strengthening the internal audit system in the State. However, the guidelines and the circulars which cumulatively constitute the existing framework document for IA need to be significantly improved both in terms of the content and presentation to align with the current financial management prescriptions and practices and the internal control environment appropriately incorporating nationally/internationally accepted best standards and practices in internal audit.

73. Frequency of IA (routine) is generally annual or on a need basis (on employee retirement and special audits in cases involving misappropriation of funds). Copy of the IA reports⁵¹ of each department along with action taken report is sent to the IA cell in Finance Department for monitoring and verification. Audit objections in connection with financial irregularities and misappropriations and violation of government orders/instructions cannot be dropped without approval of the IA cell of Finance Department. Table 16 reflects on the status of internal audit in the program participating departments.

Table 16: Status of Internal Audit in Program participating departments.

S. No.	Name of the Department	Status of IA	Frequency	Other Information
1.	PWD: Kerala State Transport Project and PWD Roads	KSTP: Completed till FY 2019-20 PWD (Roads): Audit of the Office of SE Kozhikode is for FY 2019-20 complete	KSTP: Half-yearly PWD (Roads): Yearly audit of SE Offices	PWD Roads: Proposed to conduct audit of the office of SE Trivandrum in February 2021
2.	Agriculture Development and Farmers Welfare	Up to 2017 completed	Yearly	Audit examines cash books, contingent bills and all the registers maintained by the office. Conduct approximately 5% field inspection. Audit normally takes around seven days.
3.	Directorate of Health Services	FY 2016-17 completed	Yearly	Besides routine IA and special audit, surprise inspections are also conducted. Audit adalats are also held.
4.	Irrigation Department (WRD)	Information awaited	Yearly/need basis	Audit reports are submitted to the Chief Engineer for approval and submission to Finance Department.

⁴⁹ IA cell has two sections to which the various auditee departments are allocated for monitoring and supervision of IA in government departments. The IA cell is headed by a Special Secretary supported by a Joint Secretary, Deputy Secretary and one Under Secretary. Each of the two sections within the IA cell has 2-3 Assistants and one Section Officer.

⁵⁰ Guidelines includes as an Annexure various circular issued prior to the issuance of the Guidelines establishing the framework of the internal audit mechanism. Latest circular no. 79/2019/Fin dated 19-09-2019. The circulars are issued in the local language.

⁵¹ The internal audit reports are in local language

5.	Local Self Government Department	Information awaited	Yearly	<p>Sample report shared for the office of Deputy Director of Panchayats Trivandrum stated the period covered as 01-04-2008 till 31-03-2018 i.e. ten years. Audit observations included registers not updated, discrepancies relating to staff related payments, non-follow-up of departmental actions taken by the department.</p> <p>Sample report shared for the office of Regional Joint Director Kozhikode stated the period covered as 01-04-2015 till 31-11-2018 i.e. around 3.5 years. Audit Observations included cash book and payment abstract not available, last performance audit of municipalities under Joint Director was done in FY 2014-15 and further audit is advised.</p>
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Source: This table has been compiled from the information submitted by the departments through emails and as response to the FM questionnaire.

74. Effectiveness of IA appears constrained considering limited IA staff strength within departments. The departmental IA staff strength appears limited considering the number of offices and the scale of operations. IA staff at the departments consists of experienced clerks, junior superintendents, senior superintendents and Finance officer/Accounts Officer who work under the supervision and control of the Head of Department. Head of Departments are responsible to coordinate and conduct the audit as per schedule. The IA staff be person who have passed departmental tests/exams. Periodical trainings are provided to the audit staff in various departments through the Centre for Training in Financial Management (CTFM). Status of IA staff strength is given in the Table 17 below:

Table 17: Status of IA Staffing Structure for the Program participating departments

S. No.	Name of the Department	Staff Strength
1.	PWD (Roads) Kerala State Transport Project	IA wing constituted in the office of the Chief Engineer; Senior Finance Officer is the Head of the internal audit team. Audit conducted by a firm of Chartered Accountants.
2.	Agriculture Development and Farmers Welfare	Department has an IA wing. The audit team comprises of 3 superintendents and 7 clerks headed by a Senior Finance Officer.
3.	Directorate of Health Services	Department has an IA wing. At the Directorate there are four teams headed by one Finance Officer. Each team has one Junior Superintendent and at least two assistant staff/clerks for conduct of audit till Taluka level hospitals. IA teams report to the Director of Health Services and the GoK Approximately 1300 offices to be managed by the four IA teams. One section headed by a senior superintendent follows-up on audit reports including inspection reports of AG. Special audit is undertaken by this section on the directions of IA, Vigilance wing and Finance Inspection Wing. The district IA team undertakes the audit of the institutions under their control e.g. Community Health Centres.
4.	Irrigation Department (WRD)	The department does not have an internal audit wing. Internal audit of circle offices is conducted by the IA wing of the office of Chief Engineer while the audit of divisions is done by the IA wing of the circle offices. The team comprises representatives from finance, works, administration and vigilance wing.
5.	LSGD	The department has separate IA wings in the Directorate of Urban Affairs and Directorate of Panchayats which are headed by a Senior Finance Officer. In Directorate of Urban Affairs, the Joint Director (Administration) is the Chairman and Finance Officer is the Convener. The IA wing in the Directorate of Panchayats audits the office of the Deputy Director of Panchayats in various districts.

Source: This table has been compiled from the information submitted by the departments through emails and as response to the FM questionnaire.

75. **GoK undertakes Concurrent Evaluation and Monitoring of schemes (CEMS) in select departments for select schemes every year to offer real-time examination of physical outcomes, detection of irregularities and implementation bottlenecks ensuring “money is well spent”.** The table below summarizes the departments selected during FY 2018-19, 2019-20 and 2020-21 for concurrent monitoring and evaluation and lists the program implementing departments which were a part of the selection.

Table 18: Status of CEMS of the Program participating Departments

S. No.	Financial Year	Number of Departments selected	Program Implementing Departments included in the selection	Date of Report*
1.	FY 2018-19 ⁵²	9	Agriculture Development and Farmers Welfare, Public Works, Water Resources and Health & Family Welfare	31-05-2019
2.	FY 2019-20 ⁵³	11 departments and 1 State PSU	Agriculture Development and Farmers Welfare, Public Works and Water Resources	10-02-2020
3	FY 2020-21 ⁵⁴	11		

*Consolidated report on all departments is available on the website of Finance Department www.finance.kerala.gov.in; Date reported is as mentioned on the website

76. **CEMS evaluation primarily focuses on physical performance and its timely completion.** Some of the key observations in respect of select schemes of the Program Implementing Departments which were selected under CEMS are summarized below:

- **Agriculture Department:** Rice Development, Vegetable Development, Development of Location specific crops, Coconut Development and Organic Farming and Good Agricultural Practices were covered in the evaluation. It was suggested that the department needs to put in place a mechanism to ensure the availability of quality seeds and other inputs, avoid saltwater intrusions, give insurance cover for loss and damage and adequate support price for the produce. The Administrative department was also asked to verify the proposal submitted by the Onattukara Regional Agricultural Research Station (ORARS) for acquiring Geographical Index for 'Ayali' variety Sesamum.
- **Public Works Department:** Public Office Building – Construction Programme, Bridges and Culverts Reconstruction of Thattari Bridge in Kannur District, NABARD Assistance – Construction and Improvement of Bridges Construction of Mambram Bridge across Anjarakkandy River at KM 11/350 in Kannur District, Sabarimala Road Project and Traffic Safety Measures in NH Urban Links were covered in the evaluation. The suggestions for improvement included measures to be undertaken to avoid delay in execution, timely release of funds and the decisions that would have been taken to avoid unproductive expenses.
- **Water Resources Department:** Suggestions were based on field realities relevant on a case- to-case basis. The evaluation covered investigation and development of groundwater resources and suggested that non-plan head should be created for miscellaneous revenue expenses. On the “Add on Project of Jalanidhi” (World Bank Aided second Kerala Rural Water Supply and sanitation project) Bellur Jalanidhi Water Supply Scheme, East Elleri Bulk Water Supply Scheme, it was

⁵² Circular no. 48/2018/Fin. dated 24-05-2018 issued by the Finance (Performance Budget – A) Department, GoK; 45 schemes were selected i.e. 5 from each department.

⁵³ Circular no. 52/2019/Fin. dated 23-05-2019 issued by the Finance (Performance Budget – A) Department, GoK; 49 schemes selected.

⁵⁴ Circular no. 29/2020/Fin. dated 20-05-2020 issued by the Finance (Performance Budget – A) Department, GoK; 47 schemes were selected i.e. 5 each from 9 departments and 1 each from two departments.

suggested that big projects should be under Water Authority because they have their own Technical Wing and better water purification systems than Jananidhi. Priority needs to be given to the renovation of existing irrigation infrastructures and water resources than taking up new works under Minor Irrigation Class – II and Renovation of Main Canal, Branch Canal and Distribution System in Pazhassi Irrigation Project. With respect to the Renovation of Tanks and Ponds the suggestion was to increase the number of ponds, help farmers to construct farm ponds in subsidized rate in water scarcity areas.

C. The Program Fiduciary Framework

77. Internal audit (IA) framework in GoK does not appear to be commensurate with the size of operations, nature of business and IA is conducted with substantial delays. In addition, the function is short of skilled staff and uses antiquated audit techniques not conducive for audit in a highly automated environment. In this view, as the Program mitigation measure it has been agreed that a separate internal audit will be conducted for the expenditure forming part of the Program framework. The audit will be conducted by the central IA housed in Department of Finance in collaboration with the respective IA wings in the six Program participating Departments as per the agreed ToR with the Bank.

3.8 Governance and Anti-Corruption Arrangement

78. Program governance and anticorruption arrangements: Under the larger governance framework of the country, all the government departments and agencies implementing agencies are covered under the RTI Act 2005. Under the provisions of this act, any citizen of India may request information from a public authority, which is required to reply within thirty days. The act also requires every public authority to computerize their records for wide dissemination and to proactively disclose certain categories of information so that the citizens need minimum recourse to request for information formally. The Comptroller and Auditor General of India (CAG) through its State office also carry out compliance and performance audit annually and the audit paras are reported to the Legislature and Public Accounts Committee for recommendations and actions. Central /State Vigilance units have jurisdiction and power to undertake an enquiry or cause an enquiry/investigation to be made on any information that a public servant has exercised or refrained from exercising his powers, for improper or corrupt purposes. KMSCL is additionally governed by the Companies Act 2013 (previously Companies Act 1956). To ensure sound governance, the Companies Act spells out mandatory obligations in the areas of management and administration; accounts of companies; audit and auditors; inspection, inquiry, and investigation; and so on.

79. Applicability of the Anti-Corruption Guidelines of the World Bank to the operation. This Program will be subject to the Bank's Governance and Anti -Corruption Guidelines namely the "Guidelines on Preventing and Combating Fraud and Corruption in Program-for-Results Financing, dated February 1, 2012 and revised on July 10, 2015. As there is no distinction between World Bank funded activities and Government funded activities within the Program boundary, these guidelines shall be applied in an unrestricted manner on all activities within the Program boundary. Requirements under these guidelines include but are not limited to (a) borrower's obligation on informing the World Bank about all fraud- and corruption-related allegations and investigations, (b) the World Bank's right to conduct administrative enquiries, and (c) ineligibility of debarred firms for contract awards. In order to operationalize implementation of the various areas covered in the ACGs, the RKI shall:

- a) maintain and compile a quarterly report of complaints that may be reported that are related to the Program and share it with the Bank (based on the agreed format incorporated in the POM (Program Operation Manual));
- b) incorporate the Bank's listing of ineligible firms in the filter used by Implementing Agencies when they conduct due diligence. This list is available at the following website: <http://www.worldbank.org/debarr>.

- c) incorporate into the filter mentioned above the Bank’s suspension list that will be obtained from the WB team by the Program Team periodically.
- d) Report on quarterly basis stating that none of the contract awards under the Program are made to any of the ineligible/ suspended firm. For every bidding opportunity under the Program, each participating bidder shall
- e) submit (as part of the bidding process) a self-declaration that the firm is not subject to ineligibility or has not been sanctioned under the World Bank system of debarment and cross-debarment.
- f) Program audit also review and certify above aspects.

3.9 External Audit and Oversight

A. Country System framework:

80. **Constitution of India mandates that the annual State accounts will be audited by Comptroller and Auditor General of India (C&AG⁵⁵).** The offices of the Accountant General (Audit) at the state level support the audit of state departments. The mandate is enshrined in Article 151⁵⁶ and detailed in the DPC Act⁵⁷ encompassing audit of:

- All receipts and expenditure from the Consolidated Fund of the State Governments;
- All financial transactions in emergencies, outside the normal budget (called the Contingency Fund);
- Inflows and outflows of private monies of the public held by the Government as a trustee or banker (called Public Accounts) at the State level;
- All trading, manufacturing, profit and loss accounts, balance sheets and other subsidiary accounts kept in any Government Department;
- All stores and stock accounts of all Government offices and Departments;
- Accounts of all Government companies and any other company as defined in the Companies Act 2013;
- Accounts of all Regulatory Bodies and other statutory authorities/corporations, where the governing laws provide for their audit by the CAG;
- Accounts of all autonomous bodies and authorities substantially financed from the public exchequer;
- Accounts of a body or authority whose audit is specifically entrusted to the CAG, in public interest, by the President/ Governor /Lt. Governor, under enabling provisions of the CAG’s DPC Act, 1971.

The Program participating departments and line agencies associated with each result area falls within the mandate of C&AG for audit.

81. **The overall framework of audit by C&AG is well defined, comprehensively documented and continuously updated to align with national and international best practices in public sector auditing.** The C&AG, as the Supreme Audit Institution in India (SAI), is a member of the International Organization of Supreme Audit Institutions and follows international auditing standards of the SAIs. Financial accountability of the State Executive to the Legislature is secured through the Reports of the C&AG. The framework is established in the “Regulations on Audit and Accounts⁵⁸”, provides the overarching governance framework for both accounting and auditing functions. The regulations

⁵⁵ Independent statutory authority and the Supreme Audit Institution of India. C&AG is also a member of International Organization of Supreme Audit Institution (INTOSAI) which operates as an umbrella organization for external government audit community which provides high quality auditing standards for public sector helping governments in improving performances, good governance, ensuring public accountability and enhanced transparency.

⁵⁶ Article 151 (Audit Reports): The reports of the C&AG relating to the accounts of a State shall be submitted to the Governor of the State, who shall cause them to be laid before the Legislature of the State.

⁵⁷ Section 13 – 20 of the DPC Act.

⁵⁸ Regulations on Audit and Accounts (Amendments) 2020 substituting the Regulations on Audit and Accounts 2007 (issued by C&AG pursuant to Section 23 of the DPC Act)

include the prescriptions on types of audit⁵⁹, scope, audit processes, related guidance etc. The C&AG auditing standards⁶⁰ along with the code of ethics, guidelines, Manuals⁶¹, guidance notes, practice guides, concept notes, study reports and other instructions issued overtime by the C&AG office constitute the next layer of audit governance framework and sets out the professional standards of auditing. The framework encompassing documents are uploaded on the C&AG website for public access. Audit Advisory Boards⁶² have been constituted both at the central and state level to advise on audit related matters and suggest improvement in audit quality.

B. Performance within system framework

82. Audit of the State Accounts of Kerala is conducted by the Accountant General (AG), Kerala as state arm of the C&AG. Audit is undertaken by the two audit offices of Accountant General (Audit) – I & II with the cluster of auditee State departments and other auditees allocated between the two offices. The AG examines the annual State accounts to ensure that the grants made by the Legislature have been applied in the amounts intended and to the purposes for which they were intended, and that they have been spent according to law, rules, and regulations. Chapter IX of the Kerala Budget Manual provides guidance on procedures to be followed by the State departments on review by audit. Additionally, Finance Department, GoK has published a handbook⁶³ incorporating guidance for proper monitoring and furnishing of Action Taken Statements/replies to the recommendations of legislative committees and reports/objections from AG.

83. Audit Reports are placed before the State Legislature ensuring public financial accountability and transparency. The reports of the C&AG are tabled before the State legislature and examined by the legislative committees⁶⁴ i.e., Public Accounts Committee (PAC) and Committee on Public Undertakings (CoPU). These are made available for public access on the C&AG website after being tabled in the State Legislature. On an average the entire cycle takes 16 to 18 months from the end of the financial year.

84. Audit⁶⁵ of the State Accounts has been completed till Financial year (FY) 2018-19. State Finance Accounts and Appropriation Accounts duly certified by the C&AG are available for public access on C&AG website. Certification is generally completed by C&AG within approximately ten months from the close of the financial year though it takes approximately 1 ½ years to table the State Finance Report before the State Legislature. However, FY 2018-19 was a year of abnormal delay on account of Covid 19 pandemic. The timelines are detailed in the Table 19 and 20 below:

Table 19: Status of Audit of State Finance and Appropriation Accounts

S. No.	FY	Date of Certification of Annual State Accounts by C&AG	Date of State Finance Report*	Date of Sending State Finance Report to GoK**	Date when Report is tabled before State Legislature*	Period since close of FY till audit report is tabled before Legislature (months)
1.	2018-19	29-05-2020	29-09-2020	06-11-2020	18-01-2021	21

⁵⁹ Financial audit, compliance audit, performance audit, combination of all or some aspects of these audits and special audit

⁶⁰ C&AG auditing standards 2017

⁶¹ Financial Attest Audit Manual and Revenue Audit Manual Direct Taxes.

⁶² C&AG Performance Report for FY 2019-20 available on C&AG website www.cag.gov.in.

⁶³ Hand Book of Instructions for the Speedy Settlement of Audit Objections/Inspection Reports, Timely Disposal of Draft Audit Paragraphs and Timely Action on Matters pertaining to the Public Accounts Committee, the Estimates Committee, The Local Fund Accounts Committee and the Papers Laid on the Table Committee Edition 2017 published by the Finance (PAC -A) Department, Government of Kerala.

⁶⁴ The rules regulating the constitution and working of these legislative Committees are contained in Chapter XXIV of the “Rules of Procedure and Conduct of Business in the Kerala Legislative Assembly” read with provisions of Chapter X and XII of the Kerala Budget Manual.

⁶⁵ Directorate of Health Services and Kerala State Disaster Management Authority: Audit completed till FY 2017-18; Agriculture Development and Farmers Welfare Department: Audit completed till FY 2016-17.

S. No.	FY	Date of Certification of Annual State Accounts by C&AG	Date of State Finance Report*	Date of Sending State Finance Report to GoK**	Date when Report is tabled before State Legislature*	Period since close of FY till audit report is tabled before Legislature (months)
2.	2017-18	28-01-2019	24-10-2019	28-10-2019	14-11-2019	19
3.	2016-17	16-01-2018	23-05-2018	25-05-2018	06-06-2018	14
4.	2015-16	05-01-2017	08-02-2017	09-02-2017	28-02-2017	19

Source: State Finance Report; **Source: www.cag.gov.in/audit reports/state reports

Table 20: Status of Submission of Other Audit Reports by C&AG

S. No.	Particulars of Report	Date of sending Reports to GoK*	Date when Report is tabled before State Legislature*	Period since the close of FY till audit report is tabled before Legislature (months)
1.	FY 2018-19	Besides the State Finance Report mentioned in Table ___ above, other audit reports are yet to be submitted by C&AG		21 (till December 2020)
2.	FY 2017-18			
(a)	Report on Economic Sector	17-08-2020	24-08-2020	28
(b)	Report on PSUs	17-08-2020	24-08-2020	28
(c)	Report on Revenue Sector	06-02-2020	12-02-2020	22
(d)	Report on General & Social Sector	04-02-2020	12-02-2020	22
3.	FY 2016-17			
(a)	Report on Economic Sector	11-07-2018	30-11-2018	19
(b)	Report on PSUs	Date not available	19-06-2018	14
(c)	Report on Revenue Sector	Date not available	12-06-2018	14
(d)	Report on General & Social Sector	Date not available	12-06-2018	14
(e)	Report on LSG institutions	Date not available	12-06-2018	14

*Source: www.caq.gov.in/audit-reports/state-reports

85. Corrective/remedial actions are undertaken by the State departments in compliance with the recommendations of these Committees. The Report of the Committees describing the actions taken by GoK on its recommendations is also published and accessible on the website of Kerala Legislature www.niyamasabha.org.

86. **The C&AG and the State AG, Kerala are assessed to have sufficient capacity to produce reliable audit reports providing assurance about the use of Program funds.** Further, the Bank across India portfolio relies on the audit by the C&AG and respective State AGs for conduction the audit on the usage of funds under program/ project which are implemented by government departments.

C. Program Fiduciary Framework

87. **The consolidated Program financial statements of Resilient Kerala Program will be audited by the State AG, Kerala following the ToRs adopted by the C&AG for audit of World Bank supported projects.** The budget heads forming part of the Program expenditure framework (Annexure X details the list) spreads across the seven Program participating departments. The financial statements of the Resilient Kerala Program budget lines will be prepared by RKI within four months from the end of each FY. The Program consolidated audit will be conducted by State AG as per the ToR that was agreed between C&AG and WB for the India portfolio and such audit report will be submitted by RKI to the WB within twelve months from the end of each FY (i.e. by March 31 of the subsequent calendar year). RKI, GoK and the World Bank during first year of Program implementation will enhance the ToR with specific reference for a PforR operation, if deemed necessary. The RKI, GoK will coordinate for the annual audit which will be completed within twelve months from the close of the financial year.

88. **The Bank's FM system will track the following audit report.**

Name of Implementing Agency	Particulars	Due date
RKI, Department of Planning, GoK	Consolidated Annual Program Audit	March 31

89. As part of the Program implementation and supervisor, the following performance standard would be monitored (i) independent functioning of C&AG and State AG; (ii) tabling of before the State legislature State Finance Report and (iii) public disclosure of reports and timelines.

3.10 Procurement and Financial Management Capacity

90. **Financial Management Staffing is deemed adequate both in numbers and experience:** The existing FM staff strength and RKI and the participating departments are assessed to be adequate for managing the FM aspects of the Program. However, a nodal office for FM needs to be engaged at the overall Program level at the PMU. The appointments will be based on the ToR agreed with the Bank. Also, the arrangement of functional responsibilities of existing department's (at RKI and participating departments) finance and accounts staff for supporting Resilient Kerala Program needs to be clearly established.

91. **Procurement Staffing should be adequate in both numbers and experience:** The assessment noted that procurement under the Program is of relatively small values compared to the government procurements otherwise carried out by the four departments (DoHFW, WRD,

92. DoA, and PWD) assessed. The procurement staff strength is considered adequate in all the four departments. But RKI do not have a procurement specialist available with them. Even in the PMSS Consultancy that provides the PMU support to RKI, there is a provision of only a part time procurement expert. With the role now being assigned to RKI, it would be necessary that RKI has a full-time procurement specialist for management and monitoring of procurement activities and application of Anti-Corruption Guidelines under the Program. It is also noted that officials in these departments have not undergone any training related to procurement and contract management in the Program. This needs to be addressed, and RKI shall need to monitor regular training of officials on public procurement and contract management aspects to build necessary capacity.

3.11 Disbursement Arrangements

93. The key principles guiding the World Bank disbursement of DLIs are as follows:

- The PMU and the program participating departments will pre-finance expenditures for the Program using its own budgetary resources through the identified budget lines of the Program Expenditure Framework.
- The RKI, GoK (PMU) will prepare technical reports to document the status of achievement of DLIs. The technical reports will be verified by an IVA, appointed by RKI as per terms of reference agreed with the World Bank.
- On validation of DLIs by an IVA, RKI will communicate the achievement of DLIs and corresponding DLI values to the World Bank along with supporting documents. In case, the DLI target set out in any year is not achieved, it will be rolled over for future years till such time the DLI target is achieved.
- In the case of non-scalable DLIs, the World Bank will disburse the DLI value only upon full achievement of the DLI target. In the case of scalable DLIs, if partially achieved, the World Bank may authorize withdrawal of an amount lesser than the DLI value allocated to the said DLI target. The remaining amount of the DLI will be disbursed once the DLI target value is fully achieved.
- In case the of non-achievement of any DLI target (scalable or non-scalable), the World Bank may reallocate the proceeds of the Loan to another DLI, in consultation with RKI and the participating departments.
- The World Bank will issue an official letter to RKI endorsing the achievement of the DLI target and value.

- The RKI will submit the disbursement claim of the DLI value to the CAAA in the GoI.
- The CAAA will submit the disbursement claim to the World Bank and the funds will be disbursed by the World Bank to the GoI under IBRD loan terms.
- In the last year of the Program, RKI and the participating departments in coordination with the World Bank, will reconcile the audited program expenditure (incurred under identified budget lines) with the DLI amounts disbursed by the World Bank. Any shortfall in the Program expenditure in relation to DLI disbursement will be adjusted from the final DLI claim.

SECTION 4: PROGRAM FM SYSTEMS AND CAPACITY IMPROVEMENTS

Program Systems and Capacity Improvements

Risk	Mitigation action	Timeline	Action
Appropriate Budget Heads for new category of Program incremental activities expected to be underway by end of first year of effectiveness.	RKI in consultation with respective PDs, finalize the budget and fund flow procedure for these expenditures.	Within six months from the date of effectiveness.	implementation
Delays in Internal Audit and Internal Audit not commensurate to size of business.	Finalize the ToR and team composition (from IA departments) of Program Internal Auditors for conducting the Program internal Audit covering all Program participating departments.	Within six months from the date of effectiveness.	PAP
Requirement for comprehensive guidelines for eligibility of incremental Performance Incentive Grants under the Program to select LSG and ULBs.	Include Financial Audit review clause in the eligibility guidelines for Performance Incentive Grants to LGs under the Program. The clause will detail the requirements and procedures for review of annual audited Financial Accounts of LGs.	Within six months from the date of effectiveness.	PAP
Absence of Comprehensive Procurement Guidance for Goods and Services	RKI to develop general guidance on procurement process for Goods and Services and include it in the POM	Within six months from the date of effectiveness	PAP
Transparency	Implement (a) preparation and publication of procurement plans; (b) audit of sample of contracts by the auditors; and (c) disclosure policy covering procurement plans, contract award, contract performance, complaints redressal, audit reports, appeals and their disposal etc.	Within one year from the date of effectiveness	PAP
Absence of model bidding documents for goods and services leads to weak contract management	RKI to develop model bidding documents for procurement of goods and services for consistency	Within six months from the date of effectiveness	PAP
Lack of staff capacity related to procurement and contract management	RKI to hire a fulltime procurement specialist and organize regular training programs on procurement	Within three months from the date of effectiveness	PAP

	and contract management for procurement staff of IAs		
Inadequate complaint handling system	RKI to develop standard procedures for handling procurement complaints including timelines for (a) submission of complaints and appeals; (b) decision of institution in charge and appeals body; and (c) public disclosure in an effective manner	Within six months from the date of effectiveness	PAP
Debarment Provisions	Comprehensively specify the debarment process at one place for ready reference by IAs. Make list of debarred firms and individuals readily accessible to procuring officials as well as bidders/contractors/ suppliers for consistent application	Within one year from the date of effectiveness	PAP

SECTION 5: IMPLEMENTATION SUPPORT

The World Bank team will carry out regular implementation mission to support the implementing agencies to monitor implementation progress and address underperforming areas identified in the PAP. Fiduciary support includes:

- i. Reviewing implementation progress and working with the task teams to examine the achievement of Program results and DLIs that are of a fiduciary nature.
- ii. Helping the borrower resolve implementation issues and carry out institutional capacity building.
- iii. Monitoring the performance of fiduciary systems and audit reports, including the implementation of the PAP.
- iv. Reviewing key documents generated by the implementing agencies such as terms of reference, procurement progress, contract management, procurement complaints, adherence to Anti-Corruption Guidelines etc. and give its suggestions for improvement.
- v. Monitoring changes in fiduciary risks to the Program and, as relevant, compliance with the fiduciary provisions of legal covenants.

ANNEXURE 1: FINANCIAL MANAGEMENT SYSTEM ASSESSMENT IN LOCAL SELF-GOVERNMENT INSTITUTIONS

A. Regulatory & Operating Framework

1. The Seventy-third and Seventy-fourth amendments of the Constitution of India gave constitutional status to Local Self-Government Institutions (LSGIs i.e. Urban Local Bodies and Panchayat Raj Institutions) and established a system of uniform structure, regular elections and flow of funds. Consequent to these amendments, the State Legislature enacted the Kerala Panchayat Raj Act⁶⁶, 1994 (KPR Act) and the Kerala Municipality Act⁶⁷, 1994 (KM Act) to enable LSGIs to work as third tier of the Government.

2. The Program includes approximately 26% of the aggregate LSGIs in Kerala: Local Self Government Department (LSGD⁶⁸) through the Directorate of Urban Affairs (DoUA⁶⁹) and Directorate of Panchayats (DoP⁷⁰) administer the urban local bodies (ULBs) and the panchayati raj institutions (PRIs) respectively in Kerala in accordance with the underlying constituting acts. The Program includes approximately 26% of the aggregate LSGIs in Kerala which are located in the Pampa basin, category-wise break-up whereof is detailed in the Table 1 below:

Table 1.1: Total number of LSGI

Particulars	Total Number	Total number in PAMPA Basin/Program	% LSGI included in Program
Gram Panchayats	941	248	26%
Block Panchayats	152	39	26%
District Panchayats	14	4	29%
Municipal Corporations	6	0	0
Municipalities	87	18	21%
Total	1,200.00	309	26%

B. Planning & Budgeting:

3. Provisions are earmarked for LSGIs in the annual State budget for transferred schemes/functions⁷¹, the schemes/programme (including CSS) implemented through LSGIs and grants under the Central Finance Commission and State Finance Commission (for general/traditional, maintenance⁷² and development expenditure). Appendix IV to the Detailed Budget Estimates in the annual State budget provides the LSGI-wise allocation of funds.

4. The provision for the transferred schemes/functions and schemes/programmes (including CSS) implemented through the Local Government Institutions are included as lumpsum grants against separate sub heads of account under the standard Minor heads 191-Assistance to Municipal Corporations, 192-Assistance to Municipalities, 196-Assistance to District Panchayats, 197-Assistance to Block Panchayats and 198-Assistance to Grama Panchayats below the Major heads of various Demands for grants relating to the respective functions.

⁶⁶ Applicable to panchayat raj institutions i.e. village panchayat, block panchayat and district panchayats except the areas which are within the limits of Cantonments, Nagar Panchayats, Municipal Councils, Municipal Corporations and the Industrial areas of the State.

⁶⁷ Applicable to urban local bodies i.e. Nagar Panchayats, Municipal Councils, Municipal Corporations.

⁶⁸ www.lsgkerala.gov.in

⁶⁹ www.urbanaffairskerala.org

⁷⁰ www.dop.lsgkerala.gov.in

⁷¹ Schemes/functions transferred from the various State Departments of GoK in accordance with the mandate under the Constitution of India (11th and 12th Schedule) and the State local body Acts.

⁷² Both for Road and non-road assets.

5. **Funds⁷³ devolved to LSGI average approximately 7.44% of the total State expenditure.** The provision earmarked on the basis of the recommendation of the Central and State Finance Commission are included under the Major Head 3604 (Compensation and Assignments to Local Bodies and Panchayat Raj Institutions), and Major head 3054 (Roads and Bridges) for road maintenance. The expenses towards the payment of salary and allowances of the staff in the offices/ institutions transferred to LSGIs are met from the functional major heads relating to respective Departments. Funds devolved to LSGI as a percentage of total State expenditure as given in the Table 2 below.

Table 1. 2: Funds Devolved to LSGI as a Percentage of Total State Expenditure

No.	Particulars	Actual Expenditure (Rs. in crore)			
		FY 2017-18	2018-19	2019-20	Total
1.	Total Expenditure of the State	1,10,237.81	1,20,069.82	1,14,384.95	3,44,692.58
2.	Funds Devolved to LSGI	8,470.23	10,278.46	6,887.03	25635.72
	Funds devolved to LSGI as % of total expenditure	7.68%	8.56%	6.02%	7.44%

Source: Budget in Brief document for FY 2021-22, 2020-21 and 2019-20 accessible on the website of Finance Department, GoK www.finance.kerala.gov.in

6. **Budget Outturns:** Budget utilization during FY 2019-20 was around 58% of the original estimates (95% in FY 2018-19) and 69% of the revised estimates (119% in FY 2018-19). Year-on-year comparison of the budgets and actual expenditure indicate weaknesses in the estimation process as actual expenditure exceeded revised estimates by around 19% in FY 2018-19 while reporting 31% under-utilization in FY 2019-20 despite a 15% increase in revised estimates.

Table 1.3: Budget Outturns: Funds Devolved to LSGI (aggregate)

Particulars	(Amount in Rs. crore)	
	FY 2018-19	FY 2019-20
Budget Estimate (BE)	10,770.59	11,867.20
Revised Estimate (RE)	8,617.45	9,929.08
Actual Expenditure (AE)	10,278.46	6,887.03
AE as a % of BE	95.43	58.03
AE as a % of RE	119.27	69.36
RE – BE	(2,153.14)	(1,938.12)

Source: Budget in Brief document for FY 2021-22, 2020-21 and 2019-20 accessible on the website of Finance Department, GoK

C. Treasury and Fund Flows

Funds⁷⁴ are allotted in three⁷⁵ instalments during a year by the Finance (SFC) Department and LSGIs can withdraw the funds as per allotment from the first working day of the next month. The Additional Chief Secretary to Government, Finance Department will be the CCO and the Secretaries of the Local Governments will be SCOs. The DDOs draw funds by producing fully vouched contingent bills generated in “Saankhya⁷⁶” application (part of IFMS architecture) under Major heads 3604/3054. The allotments not drawn till March 31st are provided through additional authorization/supplementary demand for grants along with the 2nd instalment of the subsequent year. This unspent balance can be utilized before 31st March of the next financial year. However, general purpose funds are provided on

⁷³ Grants under the Central Finance Commission and State Finance Commission (for general/traditional, maintenance and development expenditure).

⁷⁴ GO (P) No. 119/2015/Fin dated March 21, 2015 issued by Finance (SFC – A) Department, GoK regarding drawl of funds in respect of local governments.

⁷⁵ Allotment for a financial year is issued in three instalments through GOs issued on or before 25th of March, July and November every year.

⁷⁶ Web Saankhya application which manages plan funds e.g. GoI and State Finance Commission grants and is integrated with the BAMS treasury application.

a monthly basis and permitted to be transferred to a special treasury savings bank account of the LSGIs to be opened in treasury and funds drawn as per requirements.

7. **The Saankhya application is integrated with “Sulekha⁷⁷” plan monitoring software of the GoK which provides expenditure tracking of the plan projects.** Sulekha is further integrated with the PLANSPACE for monitoring, evaluating and reporting the progress of all Plan schemes implemented across all departments in the state.

D. Accounting and financial reporting

8. **Prescriptions of the constituting statutory laws read with underlying accounts rules⁷⁸ provide the framework for accounting and financial reporting in LSGI.** In accordance with these accounting rules GoK has implemented the Kerala Municipal Accounts Manual⁷⁹ for ULBs. However, Kerala Panchayat Raj Accounts Manual as mandated under the panchayat account rules has not been implemented and the accounting framework has been established through GO (Ms) No.152/2011/LSGD dated 26-07-2011 providing the accounting policies and detailed coding structure.

9. **Computerized accounting is undertaken in LSGIs using the customized Saankhya⁸⁰ accounting software.** Accounting is uniformly done on accrual basis double entry system and annual financial statements are generated from the software. Financial transactions recorded in web saankhya application (plan expenditure) are transferred to the local saankhya application by each LSGI for generating an annual financial statement.

E. Internal Controls and Internal audits

10. The overall framework of internal control in LSGIs is established through the constituting Acts and rules prescribed for various functions which have been devolved on the LSGIs under the Acts. These are fairly comprehensive and available for public access on LSGD website.

11. **GoK has instituted a performance audit system for PRIs and ULBs⁸¹.** A Manual for performance audit has also been implemented⁸² to strengthen the framework of the audit process in evaluating the functioning of the panchayats. Audits are conducted on a monthly basis. In addition, theme based special audits have also been prescribed. Performance audits are currently not being undertaken in ULBs while audit of gram panchayats has been completed till November 2019. The reports are drafted in local language.

⁷⁷www.plan.lsgkerala.gov.in; software for formulation and monitoring of annual decentralized plan projects of local governments tracking the plan formulation, appraisal, approval, monitoring, revision processes and expenditure tracking of the plan projects.

⁷⁸ kerala panchayat raj (accounts) rules, 2011 read with go (ms) no.152/2011/lsgd dated 26-07-2011 mandating the accounting policies and detailed coding structure for panchayati raj institutions; kerala municipality (accounts) rules 2007 read with kerala municipal accounts manual.

⁷⁹ the kerala municipal accounts manual was drafted on the basis of the national municipal accounts manual formulated by the ministry of urban affairs, goi.

⁸⁰ local saankhya application is a standalone offline software which also manages own fund revenues and state specific schemes. the software has been implemented across lsgi since fy 2011-12. www.ikm.gov.in.

⁸¹ kerala panchayat raj (manner of inspection and audit system) rules, 1997 and kerala municipality (manner of inspection and audit system) rules, 1997.

⁸² go (rt) no.166/2017/lsgd dated 20-01-2017 issued by the local self government department.

F. Statutory Audit

12. **Prescriptions on audit of LSGIs are contained in the KPR Act⁸³ and KM Act⁸⁴** establishing the Examiner of Local Fund Accounts/Director of Local Fund Audit Department/Kerala State Audit Department (KSAD)⁸⁵ and nominees as the auditors. Rules and regulations for conduct of audit are detailed in the Kerala Local Fund Audit Act, 1994 read with Kerala Local Fund Audit Rules, 1996 and audit is prescribed to be conducted annually. The rules also provide that the annual financial statements of LSGIs shall be presented for audit by May 15 (PRIs⁸⁶) and May 31 (ULBs⁸⁷). Further, KSAD has issued an Audit Manual from year 2018 establishing the auditing standards for conduct of audit. The processes and guidance in the manual aim to strengthen the audit process establishing professional standards for conduct of audit drawing from the national/international audit standards. Provisions on audit of LSGIs have been incorporated in a separate volume of the Manual.

13. **Audit is conducted using the Audit Information Management Software (AIMS⁸⁸) application and annual financial statements are submitted electronically by LSGIs for audit by KSAD.** Presently all the pre audit processes, audit execution and post audit processes are being carried out through AIMS. Audit Reports of LSGIs are generated automatically from the software and issued online to the auditee institutions. The reports are issued in vernacular language and accessible on the KSAD website for each institution. The reports are mandated to be issued within three months⁸⁹ from the completion of audit. The software application is hosted online on a State Data Center web server and access to auditee institutions are given through separate unique login facility. Mechanism has been established through the auditee interface for electronically submitting the annual financial statement to KSAD.

14. **Consolidated Report on accounts audited by the KSAD is tabled annually before the Legislative assembly and examined by the legislative committee⁹⁰ viz. Committee on Local Fund Accounts.** The report consolidates significant audit observations and recommendations for all auditee institutions⁹¹ of KSAD including LSGIs. The Act and the Rules⁹² prescribe for the submission of the report to GoK before September 30, every year and the Government shall within three months after receipt cause it to be laid before the Legislative Assembly. The reports are drafted in local language and accessible on the KSAD website. The report for FY 2019-20 is delayed as audits for FY 2019-20 are not complete due to Covid 2019 pandemic.

For Pampa basin, the annual Audit for FY 2018-19 stands completed and annual financial statements for FY 2019-20 has been submitted for audit by LSGIs.

Table 1.4: Date of Issuance of Annual LSGI Audit Report

S. No.	Financial Year	Date of Consolidated Audit Report
1.	FY 2019-20	Not yet issued
2.	FY 2018-19	27-09-2019
3.	FY 2017-18	27-09-2018
4.	FY 2016-17	28-09-2017

⁸³ Section 215 of the Act read with the Panchayat Raj (Accounts) Rules.

⁸⁴ Section 295 of the Act. read with the Kerala Municipality (Accounts) Rules.

⁸⁵ The Local Fund Audit Department was renamed as Kerala State Audit Department (KSAD) vide [GO \(Ms\) No.24/15/Fin dated 14-1-2015](#) and [GO \(Ms\) No. 103/15/Fin dated 28.2.2015](#).

⁸⁶ Rule 62(5) of the Kerala Panchayat Raj (Accounts) Rules 2011.

⁸⁷ Rule 58(5) of the Kerala Municipality (Accounts) Rules 2007.

⁸⁸ www.aims.ksad.kerala.gov.in

⁸⁹ Rule 18 of the Kerala Local Fund Audit Rules.

⁹⁰ The rules regulating the constitution and working of these legislative Committees are contained in Chapter XXIV of the "Rules of Procedure and Conduct of Business in the Kerala Legislative Assembly".

⁹¹ Around 6,736 organizations / institutions spread across Kerala.

⁹² Section 23 of the Kerala Local Fund Audit Act read with Rule 25 of the Kerala Local Fund Audit Rules.

15. **The consolidated annual audit report⁹³ issued by KSAD covers both performance and fiduciary aspects.** As part of the Program fiduciary assessment the annual audit reports for FY 2017-18 and FY 2018-19 were reviewed⁹⁴. The observations on local bodies in the consolidated report are institution specific and does not present an executive summary on the risk (systemic and/or transactions specific) and recommendations for improvement. Some observations pertaining to FY 2018-19 have been shared below to illustrate the performance and fiduciary aspects:

- (a) **Observations on the functioning of local bodies:** Out of 49 Fish market stalls constructed for Rs. 25 million, 22 were given to traditional fishmongers and 27 was auctioned, out of which only 2 was occupied; Aerobic compost unit constructed using Rs.3.6 Million is not used by public because of positioning; Gas crematorium constructed with Rs7.874 million, funded by World Bank was not used; 38 cents of land was purchased for housing projects for SC Population, while Government guidelines state that 50 cents has to be purchased. Railways have stake in part of the property; Prescribed guidelines were not followed for LIFE mission in Wayanad. SC/STs were not given due consideration. Payments were made in advance before work completion; Roads without connectivity had interlocking / re-surfacing done; Office building constructed in revenue land.
- (b) **Observations having financial implications on the local bodies:** Cheques had not been submitted for collection for over 1.5 years leading to loss in interest. This was also in contravention to the government order 1699/2017/NSGD in this regard; Interest free loans were erroneously given as subsidy to MSMEs of Kudumbasree. Also, some of the recipients could not be tracked subsequently. Moreover, the government guidelines detailing the eligibility of the beneficiary entities were not followed in letter and spirit; Some dues had been written off without proper authorisation; Certain amounts received for the betterment of SCs had been invested in FDs; Double payments had been made to some beneficiaries under toilet construction scheme; Frauds in bills submitted for repair and maintenance expenses by submission of erroneous claims were pointed out; Ineligible amounts of travelling allowance were paid to beneficiaries of skill development programmes.

16. **Audit of LSGI is also conducted by the C&AG in accordance with provision of C&AG's DPC Act and the report is examined by the legislative committee on Local Fund Accounts.** Separate report on LSGI is submitted containing significant results of the audit of the PRIs and ULBs in Kerala including the administrative departments concerned. The latest available audit report is for the FY 2016-17. The report for FY 2016-17 includes observations on aspects of finances and financial reporting in LSGIs, performance audit on planning and implementation of women component plan by LSGIs and compliance audit of selected Projects (Kerala Local Government Service Delivery Project and Project on Solid Waste Management in PRIs).

17. **Audit Monitoring Committees⁹⁵** have been constituted by the GoK in each district and at the State level for strengthening monitoring and timely settlement/clearance of audit paras under all categories of audits of LSGIs.

⁹³ Remedial Action: Section 16 of the Local Fund Audit Act empowers the auditor to surcharge illegal payments and loss caused by negligence and misconduct.

⁹⁴ The reports are issued in vernacular language hence for review purpose the reports were locally interpreted.

⁹⁵ GO (Rt.) No.2121/2007/LSGD dated August 04, 2007 issued by the Local Self Government (AC) Department.

**ANNEXURE 2: BUDGET OTRUN FOR BUDGET HEADS FORMING PART OF
THE PROGRAM EXPENDITURE FRAMEWORK**

Sl. No.	Budget Codes	Budget Particular	YEAR 2017-18			YEAR 2018-19			YEAR 2019-20		
			Budget Estimate	Actual Expenditure	Budget Out turn	Budget Estimate	Actual Expenditure	Budget Out turn	Budget Estimate	Actual Expenditure	Budget Out turn
Agriculture											
1	2401-00-001-86	Office Automation & IT Infrastructure	0.00	0.00	0.00	0.00	0.00	0.00	430.00	213.85	49.73
2	2401-00-104-91	Augmenting production of Planting Material through Departmental Farm	1340.00	1201.95	89.70	1690.00	1227.93	72.66	1825.00	1004.97	55.07
3	2401-00-109-60	Krishi Pathshala - Approach to AEU based cultivation	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
4	2401-00-113-83	Agro Service Centre & Service Delivery	2035.00	1152.58	56.64	2327.00	1291.57	55.50	1810.00	915.96	50.61
5	2401-00-800-28	Soil health Management & Productivity Improvement	2700.00	2682.86	99.37	2833.00	2704.00	95.45	2933.00	1786.46	60.91
6	2435-01-800-94	Value Addition	2700	2504.07	92.74	2531	372.85	14.73	1910	635.32	33.26
		Total	8775.00	7541.46	85.94	9381.00	5596.35	59.66	8908.00	4556.56	51.15
Finance											
7	2052-00-090-90	Modernisation of Finance Deptt & Training of Staff	90.00	61.58	68.42	110.00	95.98	87.25	100.00	110.59	110.59
8	2052-00-090-96-01	Salaries	5577.79	5578.45	100.01	5889.12	5695.22	96.71	5988.11	5550.86	92.70
9	2052-00-090-96-02	Wages	51.22	41.39	80.81	57.26	62.35	108.89	60.15	108.17	179.83
10	2049-01-305-98	Expenditure connected with the issue of new loans and sale of security held in the Cash Balance Investment Account	2619.78	2422.52	92.47	2854.44	2751.32	96.39	3095.82	3000.89	96.93

		Total	8338.79	8103.94	97.18	8910.82	8604.87	96.57	9244.08	8770.51	94.88
	Health										
11	2210-06-101-45	Prevention of non-communicable diseases	1000.00	934.66	93.47	1400.00	1068.7	76.34	1400.00	945.43	67.53
12	2210-06-101-49	Surveillance and Control of communicable diseases	1000.00	1003.61	100.36	1100.00	1116.15	101.47	1225.00	934.07	76.25
13	2210-06-101-80	Development of Primary Health Centers	1478.62	1412.67	95.54	1581.69	1391.22	87.96	1531.02	1367.53	89.32
14	2210-06-101-89	Control of sexually transmitted diseases	130.89	114.91	87.79	120.11	166.39	138.53	125.47	127.43	101.56
15	2210-06-101-91	Laproxyl Control Scheme	2047.02	1805.51	88.20	2081.63	1636.52	78.62	1896.71	1492.01	78.66
16	2210-06-101-94	Control of communicable diseases - TB	407.74	376.45	92.33	438.92	414.86	94.52	398.81	463.83	116.30
17	2210-06-101-98	Malaria eradication	8278.71	7604.34	91.85	8319.13	7465.57	89.74	8239.94	7261.41	88.12
18	2210-06-003-89	Para Medical Institute	90.63	118.35	130.59	107.27	131.92	122.98	111.27	107.32	96.45
19	2210-06-003-90	State Institute of Health & Family Welfare Training Centre, Thiruvananthapuram	400.00	390.21	97.55	450.00	416.04	92.45	450.00	244.04	54.23
20	2210-06-003-97	Training of Multi purpose workers	11159.34	11128.84	99.73	12070.31	11426.09	94.66	11866.71	11477.43	96.72
21	2210-06-003-99	Public Health Training School	161.84	156.61	96.77	159.59	159.98	100.24	182.48	143.85	78.83
22	2210-06-107	Medical & Public Health-Public Health-Public Health Laboratories	6074.75	5490.21	90.38	5201.56	4890.75	94.02	5734.36	4856.98	84.70
		Total	32229.54	30536.37	94.75	33030.21	30284.19	91.69	33161.77	29421.33	88.72
	WRD										
23	2701-80-001-92-99	Modernization of Department and E-governance - Information Technology	93.00	33.45	35.97	90.00	34.48	38.31	90.00	63.56	70.62
24	2701-80-005-92	Modernization of Hydrology information system	130	27.44	21.11	150	2.31	1.54	150	8.07	5.38
25	2701-80-005-93	Modernization of Design Wing.	130	11.84	9.11	150	33.81	22.54	150	56.52	37.68
		Total	353.00	72.73	20.60	390.00	70.60	18.10	390.00	128.15	32.86
	PWD										

26	5054-80-004-98	Establishment of quality control and upgradation of KHRI as quality control unit	1214	396.69	32.68	1515	384.89	25.41	950	591.62	62.28
27	5054-04-337-89	Subrimala Road Project	823.72	36.6	4.44	906.1	5434.12	599.73	906.1	6176.81	681.69
28	3054-03-337-97	Special Repairs to communications	5000	4502.19	90.04	5000	3511.59	70.23	5000	4436.44	88.73
29	5475-00-115-94-03	Post flood projects under the RKI (World Bank added)	0	0	0.00	0	0	0.00	25000	0	0.00
		Total	7037.72	4935.48	70.13	7421.1	9330.6	125.73	31856.1	11204.87	35.17
	LSGD										
30	2515-00-001-92	Engineering Wing for Local Self Government Institutions - Execution	21318.17	20072.01	94.15	21460.71	20763.24	96.75	21047.37	21755.03	103.36
		Total	21318.17	20072.01	94.15	21460.71	20763.24	96.75	21047.37	21755.03	103.36

ANNEXURE 3: STATEMENT OF PROGRAM EXPENDITURE BUDGET HEADS IN ANNUAL STATE BUDGET

S. No.	Budget Head of Account	Budget Particulars	Percentage inclusion in Big P
Finance Department - Demand for Grant No. II (Heads of States, Minsters & Headquarter Staff)			
2052-00-090		Secretariat - General Services – Secretariat	
1.	2052-00-090-90	Modernization of Finance Department and Training of Staff	100% of budget allocation
2.	2052-00-090-96 – 01	Salaries	40% of budget allocation
3.	2052-00-090-96 – 02	Wages	40% of budget allocation
Finance Department - Demand for Grant No. IX (Debt Charges)			
2049-01-305		Interest Payment – Interest on Internal Debt - Management of Debt	
4.	2049-01-305-98	Expenditure connected with the issue of new loans and sale of security held in the Cash Balance Investment Account	50 % of budget allocation
RKI - Demand for Grant No. -----			
5.	<i>New Head to be allotted under RKI</i>	<i>RKI – New Budget head for consultancy under PforR</i>	100% of budget allocation
Public Works Department – Demand for Grant No. XV (Public Works)			
5054-80-004		Capital Outlay on Roads and Bridges – General – Research	
6.	5054-80-004-98	Establishment of quality control and upgradation of KHRI as quality control unit	100% of budget allocation
5054-04-337		Capital Outlay on Roads and Bridges – District and Other Roads – Road Works	
7.	5054-04-337-89	Sabarimala Roads Project	100% of budget allocation
3054-03-337		Roads and Bridges – State Highways - Road Works	
8.	3054-03-337-97	Special Repairs to Communications (OPBRC)	100% of budget allocation
Public Works Department – Demand for Grant No. XXVIII (Miscellaneous Economic Services)			
5475-00-115		Capital Outlay on Other General Economic Services – Financial Support for Infrastructure Development	
9.	5475-00-115-94-03	Post Flood Projects under RKI (World Bank added) – PWD Roads and Bridges (RKI)	30 percent of budget allocation
Department of Health & Family Welfare – Demand for Grant No. XVIII (Medical and Public Health)			
2210-06-101		Medical & Public Health - Public Health - Prevention & Control of diseases	
10.	2210-06-101-98	Malaria Eradication	100 % of budget allocation
11.	2210-06-101-94	Control of Communicable Diseases - TB	100 % of budget allocation
12.	2210-06-101-91	Leprosy Control Scheme	100 % of budget allocation
13.	2210-06-101-89	Control of Sexually Transmitted Diseases	100 % of budget allocation
14.	2210-06-101-80	Development of Primary Health Centres	100 % of budget allocation
15.	2210-06-101-49	Surveillance and Control of Communicable Diseases	100 % of budget allocation
16.	2210-06-101-45	Prevention of Non-Communicable Diseases	100 % of budget allocation
Finance Department - Demand for Grant No. II (Heads of States, Minsters & Headquarter Staff)			
2052-00-090		Secretariat - General Services - Secretariat	
1.	2052-00-090-90	Modernization of Finance Department and Training of Staff	100% of budget allocation
2.	2052-00-090-96 – 01	Salaries	40% of budget allocation

S. No.	Budget Head of Account	Budget Particulars	Percentage inclusion in Big P
3.	2052-00-090-96 - 02	Wages	40% of budget allocation
Finance Department - Demand for Grant No. IX (Debt Charges)			
2049-01-305		Interest Payment – Interest on Internal Debt - Management of Debt	
4.	2049-01-305-98	Expenditure connected with the issue of new loans and sale of security held in the Cash Balance Investment Account	50 % of budget allocation
RKI - Demand for Grant No. -----			
5.	<i>New Head to be allotted under RKI</i>	<i>RKI – New Budget head for consultancy under PforR</i>	100% of budget allocation
Public Works Department – Demand for Grant No. XV (Public Works)			
5054-80-004		Capital Outlay on Roads and Bridges – General - Research	
6.	5054-80-004-98	Establishment of quality control and upgradation of KHRI as quality control unit	100% of budget allocation
5054-04-337		Capital Outlay on Roads and Bridges – District and Other Roads – Road Works	
7.	5054-04-337-89	Sabarimala Roads Project	100% of budget allocation
3054-03-337		Roads and Bridges – State Highways - Road Works	
8.	3054-03-337-97	Special Repairs to Communications (OPBRC)	100% of budget allocation
Public Works Department – Demand for Grant No. XXVIII (Miscellaneous Economic Services)			
5475-00-115		Capital Outlay on Other General Economic Services – Financial Support for Infrastructure Development	
9.	5475-00-115-94-03	Post Flood Projects under RKI (World Bank added) – PWD Roads and Bridges (RKI)	30 percent of budget allocation
Department of Health & Family Welfare – Demand for Grant No. XVIII (Medical and Public Health)			
2210-06-101		Medical & Public Health - Public Health - Prevention & Control of diseases	
10.	2210-06-101-98	Malaria Eradication	100 % of budget allocation
11.	2210-06-101-94	Control of Communicable Diseases – TB	100 % of budget allocation
12.	2210-06-101-91	Leprosy Control Scheme	100 % of budget allocation
13.	2210-06-101-89	Control of Sexually Transmitted Diseases	100 % of budget allocation
14.	2210-06-101-80	Development of Primary Health Centres	100 % of budget allocation
15.	2210-06-101-49	Surveillance and Control of Communicable Diseases	100 % of budget allocation
16.	2210-06-101-45	Prevention of Non-Communicable Diseases	100 % of budget allocation
2210-06-003		Medical & Public Health - Public Health - Training	
17.	2210-06-003-99	Public Health Training School	100 % of budget allocation
18.	2210-06-003-97	Training of Multipurpose Workers	20% of budget allocation
19.	2210-06-003-90	State Institute of Health and Family Welfare Training Centre	100 % of budget allocation
20.	2210-06-003-89	Paramedical Institutes	100 % of budget allocation
21.	2210-06-107	Public Health Laboratories	100 % of budget allocation
Department of Agriculture Development and Farmers Welfare – Demand for Grant No. XXIX (Agriculture)			
2401-00-001		Crop Husbandry-Direction & Administration	
22.	2401-00-001-86	Office Automation & IT Infrastructure	100 % of budget allocation
2401-00-104		Crop Husbandry - Agricultural Farms	
23.	2401-00-104-91	Augmenting production of Planting Material through Departmental Farm	100 % of budget allocation
2401-00-109		Crop Husbandry - Extension & Farmers Training	
24.	2401-00-109-60	Krishi Pathshala - Approach to AEU based cultivation	100 % of budget allocation
2401-00-113		Crop Husbandry - Agricultural Engineering	
25.	2401-00-113-83	Agro Service Centre & Service Delivery	100 % of budget allocation
2401-00-800		Crop Husbandry - Other Expenditure	

S. No.	Budget Head of Account	Budget Particulars	Percentage inclusion in Big P
26.	2401-00-800-28	Soil Health Management & Productivity Improvement	10% of budget allocation
	2435-01-800	Other Agricultural Programs – Marketing and Quality Control – Other Expenditure	
27.	2435-01-800-94	Value Addition	100 % of budget allocation
Local Self Government Department – Demand for Grant No. XXXV (Panchayat)			
	2515-00-001	Other Rural Development Programs – Direction and Administration	
28.	2515-00-001-92	Engineering Wing for Local Self Government Institutions – Execution	28% of budget allocation
29.	<i>New Head to be allotted</i>	<i>Performance Incentive Grant</i>	100% of budget allocation
Irrigation Department (WRD) – Demand for Grant No. XXXVIII (Irrigation)			
	2701-80-001	Medium Irrigation – General – Direction and Administration	
30.	2701-80-001-92-99	Modernization of Department and E-governance - Information Technology	100 % of budget allocation
	2701-80-005	Medium Irrigation – General – Survey and Investigation	
31.	2701-80-005-92	Modernization of Hydrology information system	100 % of budget allocation
32.	2701-80-005-93	Modernization of Design Wing	100 % of budget allocation
33.	5475-00-115-94	<i>RKI – Implementation of WRM PforR program</i>	100 % of budget allocation

ANNEXURE 4: AVERAGE HOLDING-PERIOD OF BILLS OUTSTANDING FOR PAYMENTS IN TREASURY

Sl. No.	Name of Program Implementing Department	Program Expenditure Budget Head of Account	Average holding-period of bills outstanding for payments (days)	Departmental-wise average holding-period of bills outstanding for payments (days)
1	Agriculture	2401-00-001-86	8	14.25
		2401-00-104-91	30	
		2401-00-109-60	7	
		2401-00-113-83	12	
2	Health	2210-06-101-49	145@	77.50
		2210-06-101-91	10	
3	WRD	2701-80-005-92	2	42.50
		2701-80-005-93	83	
4	PWD	5054-04-337-89	4	56.67
		3054-03-337-97	70**	
		5475-00-115-94-03	96*	

*sample only had one bill; **sample size of eight bills of which three bills had a holding period of 181 days; @ sample size of two bills with a holding period of 211 days and 78 days respectively.

Note:

- Sample data for assessment was provided by the State Treasury Department and has been relied upon for determining the assessment conclusion. The sample covered bills submitted in the treasury during FY 2020-21 in respect of 9 out of the 33 budget-head of accounts of four implementing departments which are included in Program expenditure framework.
- The budget head-wise information provided by the treasury included treasury-bill wise details of amount of the bill and date of bill submission in treasury.
- Holding period of bills outstanding for payments in treasury is the difference between the date of submission and the current date (10-02-2021).
- The average holding-period is the simple average of the holding-period of each sample bill.

ANNEXURE 5: AVERAGE HOLDING-PERIOD OF BILLS OUTSTANDING FOR PAYMENTS IN TREASURY

Sl. No.	Name of Program Implementing Department	Program Expenditure Budget Head of Account	Average holding-period of bills outstanding for payments (days)	Total number of sample bills	Departmental-wise average holding-period of bills outstanding for payments (days)
1	Agriculture	2401-00-001-86	8	7	14.25
		2401-00-104-91	30	14	
		2401-00-109-60	7	40	
		2401-00-113-83	12	60	
2	Health	2210-06-101-49	145@	2	77.50
		2210-06-101-91	10	2	
3	WRD	2701-80-005-92	2	9	42.50
		2701-80-005-93	83*	1	
4	PWD	5054-04-337-89	4	5	56.67
		3054-03-337-97	70**	8	
		5475-00-115-94-03	96*	1	

*sample only had one bill; **sample size of eight bills of which three bills had a holding period of 181 days while the remaining five bills were outstanding for less than 6 days; @ sample size of two bills with a holding period of 211 days and 78 days respectively.

Note:

- Sample data for assessment was provided by the State Treasury Department and has been relied upon for determining the assessment conclusion. The sample covered bills of FY 2020-21 which were outstanding for payments in the treasury in respect of 11 out of the 33 budget head of accounts of four implementing departments which are included in Program expenditure framework.
- The budget head-wise information provided by the treasury included treasury-bill wise details of amount of the bill and date of bill submission in treasury.
- Holding period of bills outstanding for payments in treasury is the difference between the date of submission and the current date (10-02-2021).
- The average holding-period is the simple average of the holding-period of each sample bill.
- Details of instance of prolonged delays are as under:
 - Directorate of Health Services (Budget Head 2210-06-101-49): sample size of two bills with a holding period of 211 days and 78 days respectively.
 - WRD (Budget Head 2701-80-005-93) and PWD (Budget Head 5475-00-115-94-03): each budget head had only one sample.
 - PWD (Budget Head 3054-03-337-97): sample size of eight bills of which three bills had a holding period of 181 days while the remaining five bills were outstanding for less than 6 days.