

# **CHAPTER II**

## **FINANCIAL MANAGEMENT AND BUDGETARY CONTROL**

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#### 2.1 Introduction

**2.1.1** Appropriation Accounts are accounts of the expenditure, voted and charged, of the Government for each financial year, compared with the amounts of the voted grants and appropriations charged for different purposes as specified in the schedules appended to the Appropriation Acts. These Accounts list the original budget estimates, supplementary grants, surrenders and re-appropriations distinctly and indicate actual capital and revenue expenditure on various specified services *vis-à-vis* those authorised by the Appropriation Act in respect of both charged and voted items of budget. The Appropriation Accounts thus facilitate the management of finances and monitoring of budgetary provisions and are therefore, complementary to the Finance Accounts.

**2.1.2** Audit of appropriations by the Comptroller and Auditor General of India seeks to ascertain whether the expenditure actually incurred under various grants is within the authorisation given under the Appropriation Acts and whether the expenditure required to be charged under the provisions of the Government of Union Territories Act, 1963 is so charged. It also ascertains whether the expenditure so incurred is in conformity with the law, relevant rules and regulations and instructions.

#### 2.2 Summary of Appropriation Accounts

The summarised position of actual expenditure during 2010-11 against 41 grants/appropriations is as given in **Table 2.1**.

**Table 2.1: Summarised Position of Actual Expenditure vis-à-vis Original/Supplementary provisions**

(₹ in crore)

	Nature of expenditure	Original grant/ appropriation	Supplementary grant/ appropriation	Total	Actual expenditure <sup>1</sup>	Saving (-)/ Excess (+)
<b>Voted</b>	I Revenue	3198.03	509.48	3707.51	3208.42	-499.09
	II Capital	781.15	0	781.15	389.28	-391.87
	III Loans and Advances	3.05	0	3.05	2.03	-1.02
<b>Total Voted</b>		<b>3982.23</b>	<b>509.48</b>	<b>4491.71</b>	<b>3599.73</b>	<b>-891.98</b>
<b>Charged</b>	IV Revenue	300.07	43.49	343.56	343.47	-0.09
	V Capital	0	0	0	0	0
	VI Public Debt-Repayment	147.70	0	147.70	147.70	0
<b>Total Charged</b>		<b>447.77</b>	<b>43.49</b>	<b>491.26</b>	<b>491.17</b>	<b>-0.09</b>
<b>Grand Total</b>		<b>4430.00</b>	<b>552.97</b>	<b>4982.97</b>	<b>4090.90</b>	<b>-892.07</b>

(Source: Appropriation Accounts and Budget documents)

The overall savings of ₹ 892.07 crore was the result of savings of ₹ 499.18 crore in 30 grants and six appropriations under the Revenue Section and ₹ 391.87 crore in 10 grants under the Capital Section and ₹ 1.02 crore in one grant and one appropriation under the Loan Section.

## 2.3 Financial Accountability and Budget Management

### 2.3.1 Appropriations vis-à-vis Allocative Priorities

The outcome of appropriation audit revealed that savings of more than ₹ 10 crore in each case, amounting to ₹ 848.82 crore (95.15 per cent of total savings of ₹ 892.07 crore) occurred in 10 grants and the percentage of savings ranged between 10 and 63 as indicated in **Table 2.2**.

**Table 2.2: List of Grants with Savings of ₹ 10 crore and above**

(₹ in crore)

Sl. No.	Name of the Grant	Original	Supple- mentary	Total	Actual Expenditure	Savings	Percentage
<b>Revenue-Voted</b>							
1.	6 - Revenue and Food	136.82	0.00	136.82	123.76	13.06	9.54
2.	9 - Secretariat	67.40	0.00	67.40	26.25	41.15	61.05
3.	10 - District Administration	397.43	0.00	397.43	185.12	212.31	53.42
4.	19 - Information and Publicity	124.07	0.00	124.07	77.25	46.82	37.74
5.	21 - Social Welfare	456.69	0.00	456.69	326.11	130.58	28.59
6.	28 - Industries	94.02	0.00	94.02	72.64	21.38	22.74
<b>Total</b>		<b>1276.43</b>	<b>0.00</b>	<b>1276.43</b>	<b>811.13</b>	<b>465.30</b>	

<sup>1</sup> Excludes recoveries shown as reduction of expenditure

Sl. No.	Name of the Grant	Original	Supple- mentary	Total	Actual Expenditure	Savings	Percentage
<b>Capital-Voted</b>							
7.	16 - Public Works	398.67	0.00	398.67	229.46	169.21	42.44
8.	22 - Co-operation	56.83	0.00	56.83	23.04	33.79	59.46
9.	29 - Electricity	144.79	0.00	144.79	54.16	90.63	62.59
10.	32 - Building Programmes	150.38	0.00	150.38	60.49	89.89	59.78
	<b>Total</b>	<b>750.67</b>	<b>0.00</b>	<b>750.67</b>	<b>367.15</b>	<b>383.52</b>	
	<b>Grand Total</b>	<b>2027.10</b>	<b>0.00</b>	<b>2027.10</b>	<b>1178.28</b>	<b>848.82</b>	

(Source: Appropriation Accounts)

It was noticed that in 141 cases, savings exceeded ₹ 50 lakh in each case and by more than 20 per cent of the total provision (**Appendix 2.1**). Further in respect of 81 out of the 141 cases no expenditure was incurred against the provision of ₹ 806.99 crore. Shortfall in availing of negotiated loans for funding the Plan schemes resulted in savings.

### 2.3.2 Persistent savings

In 11 grants, during the last five years, there were persistent savings of more than ₹ 10 lakh as indicated in **Table 2.3**.

**Table 2.3: List of Grants having Persistent Savings during 2006-11**

(₹ in crore)

Sl. No.	Grant number and name of the Grant		Amount of Savings				
			2006-07	2007-08	2008-09	2009-10	2010-11
		<b>Revenue – Voted</b>					
1.	6	Revenue and Food	55.53	95.04	42.28	53.07	13.05
2.	9	Secretariat	11.89	9.00	0.13	15.72	41.15
3.	10	District Administration	104.32	2.34	31.75	125.48	212.31
4.	16	Public Works	0.42	0.62	0.35	6.22	1.13
5.	17	Education	2.16	2.54	5.00	6.67	1.88
6.	18	Medical	0.86	0.67	0.20	0.44	0.68
7.	19	Information and Publicity	0.74	0.48	0.51	58.45	46.82
8.	21	Social Welfare	1.34	1.94	131.53	146.23	130.57
9.	24	Agriculture	0.20	0.42	0.20	7.86	0.39
10.	26	Fisheries	0.13	0.43	0.17	3.04	1.52
11.	32	Building Programmes	2.61	2.15	3.34	3.70	2.12
		<b>Total</b>	<b>180.20</b>	<b>115.63</b>	<b>215.46</b>	<b>426.88</b>	<b>451.62</b>
		<b>Capital – Voted</b>					
12.	16	Public Works	243.24	279.97	88.36	190.82	169.20
13.	32	Building Programmes	14.81	3.40	61.09	99.51	89.89
		<b>Total</b>	<b>258.05</b>	<b>283.37</b>	<b>149.45</b>	<b>290.33</b>	<b>259.09</b>

(Source: Appropriation Accounts)

The pattern of Plan funding for the approved Plan size of ₹ 2500 crore for the Annual Plan 2010-11 comprised negotiated loan of ₹ 400 crore. However, during 2010-11, the UT Government could avail loans for ₹ 76.65 crore only from HUDCO and NABARD. GOI had notified in May 2006 that for availing loans, the consolidated debt of UT Government should be below 20 per cent of GSDP. As the consolidated debt of UT Government was more than 20 per cent (39.30 per cent) of the GSDP<sup>2</sup>, approval of GOI had to be obtained before availing any such loans. However, during the past three years 2008-11, provisions were made in the budget for various schemes anticipating availing of the proposed negotiated loans in full without getting approval of GOI in time and as a result loans could not be availed as proposed and the plan outlay was downsized as listed in the **Table 2.4**.

**Table 2.4 : Details of Negotiated loan availed during 2008-11**

(₹ in crore)

Year	Budget estimate	Revised Estimate	Loan availed
2008-09	693.79	663.29	--
2009-10	321.50	206.28	49.43
2010-11	400.00	285.00	76.65
<b>Total</b>	<b>1415.29</b>	<b>1154.57</b>	<b>126.08</b>

(Source: Draft Annual Plan 2011-12 and Budget documents)

Due to short availing of the negotiated loans, huge savings occurred in the budget provisions originally made and consequently various Plan schemes proposed could not be implemented.

During 2010-11, Plan schemes under the sectors - Urban Development, Panchayati Raj Development, Water Supply and Sanitation, Roads and Bridges etc. (Grant 10), Creation of infrastructure (Grant 16), Various information/tourism promotional activities (Grant 19), Construction of houses for Scheduled Caste people (Grant 21), Creation of infrastructural facilities for Co-operatives and for Animal Husbandry (Grant 22 and 25), Financial assistance for working capital for various textile mills and Voluntary Retirement Scheme (Grant 28), setting up of power sub-stations and erection of transmission lines (Grant 29) and Construction of buildings (Grant 32) could not be implemented due to shortfalls in availing of the negotiated loans.

### 2.3.3 Excess expenditure

In 122 sub-heads, expenditure aggregating ₹ 771.98 crore exceeded the approved provisions by ₹ 50 lakh or more in each case and by more than 20 per cent of the total provision resulting in excess expenditure of ₹ 402.68 crore (**Appendix 2.2**).

<sup>2</sup> GSDP of 2009-10 (₹ 11,255 crore)

#### **2.3.4 Excessive supplementary provision**

Supplementary provisions aggregating ₹ 51.25 crore obtained in four cases, proved excessive as the savings in each case exceeded ₹ 50 lakh as detailed in **Appendix 2.3**.

#### **2.3.5 Excessive/unnecessary re-appropriation of funds**

Re-appropriation is transfer of funds within a grant from one unit of appropriation, where savings are anticipated, to another unit where additional funds are needed. It was noticed that during 2010-11 reappropriation order was issued on 31 March 2011 for ₹ 180.75 crore. Issue of reappropriation order on the last day of the financial year dilutes the process of budget making and expenditure control. Further it also indicates that reappropriation order was issued ex post facto to cover the expenses already incurred during the year without necessary provisions in the respective heads. As a result, in 32 cases where there was no provision, expenditure of ₹ 10.07 crore was incurred towards payment of the Sixth Pay Commission arrears and on major works under CSS like establishment of fishing harbour, riverside beach development and construction of SC girls hostel without obtaining the Legislature approval. Further the re-appropriations made were proved unnecessary or excessive in 34 sub-heads, which resulted in savings of over ₹ 20.59 crore as detailed in **Appendix 2.4**. Out of this, in respect of 10 cases, no expenditure was incurred resulting in a saving of ₹ 18.30 crore.

#### **2.3.6 Substantial surrenders**

Substantial surrenders (cases where more than 50 *per cent* of the total provision was surrendered) were made in 44 sub-heads on account of either non-implementation or slow implementation of schemes/programmes. Out of the total provision amounting to ₹ 693.45 crore in these 44 sub-heads, ₹ 548.29 crore (79.05 *per cent*) were surrendered, which included *per cent* surrender under 21 sub-heads (₹ 144.78 crore) as given in **Appendix 2.5**, mainly due to shortfall in obtaining negotiated loans for funding the Plan schemes.

#### **2.3.7 Anticipated savings not surrendered**

As per Rule 56 (2) of the General Financial Rules, spending departments are required to surrender the grants/appropriations or portions thereof to the Finance Department as and when savings are anticipated. During 2010-11 no part of the savings occurred in ten grants (₹ 13.92 crore) had been surrendered by the departments concerned. The details are given in **Appendix 2.6**. Similarly, out of the total savings of ₹ 746.09 crore under seven grants/appropriations (savings of ₹ one crore and above), ₹ 221.18 crore (29.65 *per cent* of total savings) were not surrendered, details of which are given in **Appendix 2.7**. This indicated inadequate financial control and non-utilisation of funds for other development purposes since the surrenders were made on the last day of the financial year.

### **2.3.8 Rush of expenditure**

According to Rule 56 (3) of the General Financial Rules, rush of expenditure, particularly in the closing months of the financial year, should be avoided. Contrary to this, in respect of 11 sub-heads listed in **Appendix 2.8**, expenditure exceeding ₹ 10 lakh and by more than 50 *per cent* of the total expenditure for the year was incurred in March 2011. Uniform flow of expenditure, which is a primary requirement of budgetary control mechanism and sound financial management, was not maintained.

Appropriate action needs to be taken to regulate and systematise the procedure to avoid heavy expenditure in the closing month of the financial year.

### **2.3.9 Expenditure on Centrally sponsored schemes**

Though the UT Government had an unspent balance of ₹ 42.28 crore under Centrally Sponsored Schemes (CSS) at the beginning of the year and ₹ 52.24 crore was received from GOI during the year, only ₹ 29 crore was provided in the budget for CSS during 2010-11. Taking into account the amount of ₹ 28 crore provided by Re-appropriation in March 2011, the total provision stood at ₹ 57 crore for 101 CSS schemes. Out of this, in respect of 73 CSS schemes which had a provision of ₹ 52.66 crore, ₹ 44.55 crore (84.60 *per cent*) was spent. It was, however, noticed that the expenditure was less than 50 *per cent* of the provisions in respect of eleven schemes and no expenditure was incurred in respect of balance 28 schemes, which had provisions amounting to ₹ 4.34 crore. Provision of funds through re-appropriation at the fag end of the financial year, despite availability of funds at the budget/supplementary stages, had led to non-implementation of schemes resulting in savings.

### **2.3.10 Short allocation for amortization of loan**

The Union Territory Government, under the guidance of the Reserve Bank of India, set up 'The Puducherry Consolidated Sinking Fund Scheme, 2009' during November 2009 for redemption of the outstanding liabilities. As per the scheme guidelines a yearly provision of not less than 0.5 *per cent* of the total liabilities at the end of the previous year was to be made towards the fund. However during 2010-11, an allocation of ₹ 8.28 crore only was made against the actual requirement of ₹ 18.37 crore. Such short allocation of fund towards amortization would pose a great strain on finances of the Union Territory Government during repayment of loans on their maturity.

## **2.4 Advance drawal of funds**

As per Rule 100(2) of the Receipts and Payments Rules 1983, no money should be drawn from the Government account unless it is required for immediate disbursement. Further, it is not permissible to draw money from the

Government account in anticipation of demands or to prevent the lapse of budget grants. Moreover, as per Rule 56(2) of GFRs, the savings as well as provision which could not be utilised should be surrendered to the Government immediately.

Test check of records of the Co-operation department (Grant No.22) revealed advance drawal of funds on 31 March 2011 and parking them outside the Government account as discussed below:

(a) An amount of ₹ 1.38 crore was provided in the Budget 2010-11 under Scheduled Caste Sub Plan for setting up of an Industrial Training Institute (ITI) by Pondicherry State Co-operative Union (PSCU). The amount was released to PSCU only on 30 March 2011 and as of December 2011 it was not utilized and kept in fixed deposits. Scrutiny of records revealed that ₹ 1.38 crore had already been released to PSCU for the same purpose on 31 March 2010. As the land identified for setting up of ITI was Government Poramboke land marked for educational institution, PSCU was awaiting for 'No objection certificate' (NOC) from the Education Department. In view of the delay in getting NOC, PSCU kept the amount of ₹ 1.38 crore released on 31 March 2010 in fixed deposits and the fact of non-utilisation has been intimated to the Department through Utilisation certificate dated 24 March 2011. However, the Department released further amount of ₹ 1.38 crore on 30 March 2011 without taking cognizance of non-utilisation of the amount released earlier. This indicates that the amount was drawn in advance to avoid lapse of grant and kept outside the Government account in violation of the provisions of GFR.

(b) A provision of ₹ 40 crore was made in the budget 2010-11 towards creation of infrastructure facilities for Co-operatives by availing Negotiated loans. Scrutiny of the records revealed that no proposal was made by the Department while forwarding the budget proposal for the year 2010-11. However, the Planning and Research Department had made the provision which was later downsized to 13.58 crore. As none of the cooperative societies came forward with necessary proposals for utilizing the provision and in view of non-materialisation of the negotiated loan as discussed in the paragraph 2.3.2, no expenditure could be incurred resulting in savings/surrender of the entire provision. Thus, provision of funds even when there were no approved proposals led to surrender/savings.

## 2.5 Conclusion and Recommendations

During 2010-11, expenditure of ₹ 4,090.90 crore was incurred against total grants and appropriations of ₹ 4,982.97 crore, resulting in a savings of ₹ 892.07 crore. There were persistent savings of more than ₹ 10 lakh in 11 grants during 2006-11. Savings of ₹ 13.92 crore effected in ten grants were not surrendered and out of the total savings of ₹ 746.09 crore in seven grants, only ₹ 524.91 crore was surrendered. In 122 cases, the expenditure exceeded the



approved provisions, resulting in excess of ₹ 402.68 crore. Even though there was no immediate requirement, ₹ 1.38 crore was drawn by the Registrar of Co-operative Societies on 30 March 2011 and kept outside the Government account in violation of the financial rules.

*Budgetary controls need to be strengthened to avoid such deficiencies in financial management, especially where savings have been observed for the last five years regularly. Drawal of money from the Government account without immediate requirement and keeping it outside the Government account should be avoided.*