Chapter 4

APPROPRIATION ACCOUNTS: COMMENTS ON ACCOUNTS

4.1 Breach of Article 114(3) of the Constitution of India

4.1.1 Expenditure incurred on interest on refunds of taxes

Article 114(3) of the Constitution stipulates that no money shall be withdrawn from the Consolidated Fund of India except under appropriation made by law.

Payment of interest on refunds of excess tax is a charge on the Consolidated Fund of India and is, therefore, payable only after having been authorised under the due appropriation made by law. Rule 8 of the Delegation of Financial Powers Rules, 1978, describes 'Interest' as primary unit of appropriation for classification of interest expenditure.

The Department of Revenue/Central Board of Direct Taxes has been classifying the interest on refunds of excess tax as reduction in revenue and this incorrect practice has been commented upon in the last two years' CAG's Report on Union Accounts as well as in CAG's Report on Direct Taxes for the year 2008 and in earlier years also, but no corrective action has been taken by the department.

The expenditure on interest on refunds of taxes for the last five years is as follows:

Table 4.1: Expenditure on interest on refunds of taxes

Years	Expenditure on interest on refunds of taxes (₹ in crore)
2006-07	3693
2007-08	4444
2008-09	5778
2009-10	12951
2010-11	10499
Total	**37365**

Audit scrutiny revealed, that as in the past, no budget provision for interest on refunds was made in the Budget Estimates for the financial year 2010-11 and an expenditure on interest on refunds amounting to ₹ 10,499 crore was incurred by the Department, in contravention of Article 114(3) of the Constitution. Expenditure of the order of ₹ 37,365 crore on interest payments had been incurred over a period of the last five years without obtaining approval of the Parliament through the necessary appropriations.

The Department, in their reply (March 2012) have sought to continue with the existing practice of treating interest payments on the refunds as a reduction from gross tax collection. The reasons advanced by the Department are that providing for such expenditure through the budget would be administratively burdensome, apart from the fact that the amounts to be paid as interest is of a highly variable nature leading to inaccuracies in estimation. It has further stated that interest on refunds, being a statutory obligation, is not an operational expenditure like salary, office expenses, etc.

The reply of the Department is not tenable in view of the fact that the classification of transactions relating to expenditure as laid down in the Delegation of Financial Powers Rules, 1978 clearly defines interest as an item of expenditure. It is also notable that in the Budget of 2001-02, under the Demand No.34-Direct Taxes, a provision of ₹ 92 crore was obtained under the 'interest on refunds of excess tax'. The expenditure on this item has since increased to 114 times in the financial year 2010-11, to ₹ 10,499 crore.

4.1.2 Expenditure incurred without legislative approval by the Department of Posts

Article 114(3) of the Constitution of India provides that no money shall be withdrawn from the Consolidated Fund of India except under appropriation made by law. Department of Posts in two instances incurred expenditure without obtaining any authorisation of the Parliament.

(a) In the first instance, an expenditure of ₹ 65.71 crore[1] was incurred without any budget provision/supplementary provision on the implementation of the Mahatma Gandhi National Rural Employment Guarantee scheme (MGNREGS).

On this being pointed out in Audit, the Department stated (January 2012) that the expenditure of ₹ 65.71 crore on account of MGNREGS was incurred by them 'on operational cost for payment of wages to workers under the scheme through Post Office Savings Bank Account'. It further stated that the Ministry of Finance, while conveying its approval (January 2010), advised the Department that the entire fund will come from the administrative expenses part of the budget of Ministry of Rural Development. Accordingly, the Department is incurring expenditure under MGNREGS on behalf of Ministry of Rural Development, which would reimburse the expenditure. It further stated that it is vigorously pursuing the reimbursement.

The reply of the Department is not tenable in view of the fact that the expenditure on MGNREGS has been booked by the Department of Posts

[1] Sub-head 3201.02.104.05-Other Items

under the head 3201-Postal Services, which is meant for accounting expenditure on postal services and not for the said scheme.

(b) In the second instance, an expenditure of ₹ 0.28 crore[2] was incurred without any budget provision/supplementary provision under the scheme Work of Consumer Price Index Rural Data Collection.

On this being pointed out by Audit, the Department stated that the work was done on behalf of the Ministry of Statistics and Programme Implementation under an agreement that the expenditure on this score will be borne by them. Further, while enclosing a copy of authorisation letter (2 February 2011) from the Ministry of Statistics and Programme Implementation, the Department of Post stated that they had received the amount due in this regard from the Ministry of Statistics and Programme Implementation.

The reply of the Department needs to be viewed in the context of the fact that it correctly incurred an expenditure of ₹ 6.31 crore under the scheme on behalf of the Ministry of Statistics and Programme Implementation. However, it also spent an amount of ₹ 0.28 crore from the head 3201-Postal Services, for which there was no legislative authorisation.

4.1.3 Expenditure incurred without legislative approval by the Defence Services-Air Force

During examination of Grant No.24-Defence Services-Air Force, it was observed that an expenditure of ₹ 11 crore[3] was incurred on grants-in-aid to Kendriya Sainik Board for Armed Forces Flag Day Funds without any parliamentary authorisation, which was in violation of Article 114(3) of the Constitution.

4.1.4 Expenditure on payment of interest without authorisation of Parliament

In Grant No. 34-Interest Payments for the year 2010-11, a sum of ₹ 95.13 lakh under the following two sub-heads were incurred for which neither any provisions were available in the Detailed Demands for Grant nor were any supplementary demands for grants obtained. Thus, the expenditure of ₹ 95.13 lakh was incurred without any authorisation of the Parliament.

[2] Sub-head 3201.02.101.15-Work of Consumer Price Index Rural Data Collection
[3] Head 2078.00.800-Other Expenditure (P-Grants-in-aid to Institutions)

Table 4.2: Cases of expenditure without authorisation of Parliament

(₹ in lakh)

Sl. No.	Minor/sub-head	Budget Provision	Actual Expenditure
1.	2049.05.105.07-Interest on National	Nil	93.64
	Fund for Control of Drug Abuse		
2.	2049.01.111-Interest on Gold Bonds 1998	Nil	1.49

The matter was referred to the Department in December 2011. The Department, in its reply, stated (December 2011) that the opening of the sub-head was sanctioned by the Ministry of Finance in June 2011 and that the expenditure was incurred due to payment of interest on demand which could not be raised at revised estimate stage. As regards expenditure of ₹ 1.49 lakh, it was made against the delayed claims raised by the investors. The provision was not made in the Detailed Demands for Grants, as the scheme was no more in operation.

The reply of the Department is not tenable in view of the fact that no Department is allowed to incur any expenditure without the authorisation of the Parliament.

4.1.5 Expenditure incurred on establishment expenditure on Regional Pay and Accounts Office, Dhanbad

In para No.2.8 of CAG's Audit Report No.1 for the year 2010-11, Audit had pointed out an unauthorised expenditure of ₹ 10.43 crore on establishment related expenditure of Regional Pay and Accounts Office, Dhanbad, out of Coal Mines Labour Housing and General Welfare Fund.

Scrutiny of Appropriation Accounts of Grant No.10-Ministry of Coal for the financial year 2010-11 revealed that an expenditure of ₹ 16.76 lakh was incurred on establishment related expenditure of Regional Pay and Accounts Office, Dhanbad, for which no budgetary provision was obtained by the Ministry. Instead of obtaining parliamentary authorisation through the budgetary process, the expenditure of ₹ 16.76 lakh was met from the Coal Mines Labour Housing and General Welfare Fund, lying in the Public Account. Although, the Coal Mines Labour Housing and General Welfare Fund established by an Act of Parliament in 1947, was repealed by an Act passed by the Parliament in 1986, the balance in the Fund was not transferred to the Consolidated Fund of India as envisaged in the Act of 1986. Instead, on a year to year basis, it was being utilised by the Regional Pay and Accounts Office, Dhanbad to meet its establishment expenditure.

4.2 Failure to obtain legislative approval for augmenting provision

4.2.1 Augmentation of provision to object head 'Grants-in-aid'

In accordance with instructions issued by the Ministry of Finance in May 2006, augmentation of provision by way of re-appropriation to the object head

‘Grants-in-aid’ to any body or authority from the Consolidated Fund of India in all cases could only be made with the prior approval of Parliament.

Scrutiny of Appropriation Accounts revealed that in 25 cases, across 14 grants/appropriations, funds aggregating ₹ 698.82 crore were provided through re-appropriation by various Ministries/Departments during the financial year 2010-11 for augmenting of provision under ‘grants-in-aid’ to various bodies/authorities without obtaining prior approval of the Parliament. **Table 4.3** below gives detail of sub-heads where augmentation was made under various grants/appropriations without approval of the Parliament.

Table 4.3: Augmentation of provision without prior approval of the Parliament under Grants-in-aid to Bodies/Authorities

Sl. No.	Description of Grant	Head of Account	Amount (*₹ in crore*)	Reply of the Department	Remarks
1.	5-Nuclear Power Scheme	2801.03.800.03-Rajasthan Atomic Power Station	0.30	Department replied that a supplementary of ₹ 3.88 crore was obtained in second supplementary. Of this, ₹ 3.58 crore was for the scheme ‘operation and maintenance’ and ₹ 0.30 crore was for Rajasthan Atomic Power Station.	The reply of the Department is not tenable because the supplementary of ₹ 3.88 crore was obtained for ‘establishment related expenditure’ and not for ‘grants-in-aid’. Thus, the object head ‘grants-in-aid’ was irregularly augmented without prior approval of the Parliament.
2.	17-Department of Food & Public Distribution	2408.02.800.03-Construction of Food Storage Godowns in NE Region by State Government	0.71	Ministry replied that the amount had been spent on Arunachal Pradesh and was less than ₹ one crore hence prior approval of the Parliament was not required in terms of note below item II(E) of the Annexure to OM dated 25.5.2006.	The reply is not tenable since any augmentation in grants-in-aid provision to a body/ authority requires prior approval of the Parliament.
3.	19-Ministry of Culture	2205.00.107.20-Modernization of Museums in Metro Cities	1.20	Initially the Ministry had accepted the lapse, but later on stated that it had delegated powers with regard to the re-appropriation to grants-in-aid, under schemes operated by it.	Reply of the Ministry is not tenable, as there exist several examples in this grant, where prior approval of the Parliament had been obtained through supplementary grants for augmenting grants-in-aid.

Sl. No.	Description of Grant	Head of Account	Amount (₹ *in crore)*	Reply of the Department	Remarks
4.	20-Ministry of Defence	2052.00.090.01-Department of Defence	0.88	Ministry replied that supplementary grant of ₹ 55.21 crore was obtained under the head 2052 adding that Ministry of Finance never conveys object head wise supplementary grant.	The reply is not tenable since supplementary of ₹ 55.21 crore was obtained for salaries and other establishment related expenditure, and not for grants-in-aid.
5.		2052.00.090.03-Defence Estate Organisation (DEO)	36.79	No reply has been received.	
6.	28-Ministry of Development of North Eastern Region	2552.00.489.01-Preservation and Promotion of Art and Culture in NE States	1.13	No reply has been received.	
7.		2552.00.800.23-Disaster Management System for NER (NEC-DOS) and Earthquake Risk Evaluation/Awareness /Studies	0.19		
8.		2552.00.800.36-Partial Support for construction of Working Women's Hostel in New Delhi	0.42		
9.	33-Department of Financial Services	2416.00.800.01-Grants to National Bank for Agricultural and Rural Development	30.00	Department stated that approval of Secretary (Expenditure) was obtained. However, prior approval of the Parliament could not be taken inadvertently.	
10.	35-Transfers to State and Union Territory Governments	2245.80.103.01-Assistance to State from NCCF for calamity of severe nature	500.00	No reply has been received.	
11.	45-Ministry of Food Processing Industries	2408.01.103.08-Technology Upgradation, Establishment, Modernisation of Food Processing Industries	0.74	Ministry had admitted the lapse.	
12.		2408.01.103.13-Scheme for Infrastructure Development	2.00		

Sl. No.	Description of Grant	Head of Account	Amount (₹ in crore)	Reply of the Department	Remarks
13.		2408.01.103.10-Milk Based Industries-Scheme for Quality Assurance, Codex Standards, Research & Development and other Promotional Activities	1.64		
14.		2408.01.103.07-Horticulture Based Industries-Scheme for Human Resources Development	0.27		
15.	46-Department of Health & Family Welfare	2210.06.003.11-Development of Nursing Services	4.47	Ministry replied that the re-appropriations have been reported to the Parliament. Further, the amount was less than ₹ one crore, hence prior approval of the Parliament was not required	The reply is not tenable since any augmentation in grants-in-aid provision to a body/ authority requires the prior approval of the Parliament.
16.		2552.00.284.04-Mission Flexible Pool	15.00		
17.		2552.00.288.01-National Vector Borne Disease Control Programme	78.03		
18.	56-M/o Housing and Urban Poverty Alleviation	2215.02.105.18-Development/Improvement of Sewerage System in North Eastern State	0.15	Ministry replied that funds were re-appropriated from the budget provision under Major Head 2552 and in both the cases it is less than 10% or ₹ one crore of the available fund.	The amount objected was over and above the provision available in Major Head 2552.
19.		3475.00.108.03-Employment Promotion/Poverty Alleviation	0.32		
20.	89-Department of Space	3402.00.101.39-Semi Conductor Laboratory	4.15	Department has admitted the lapse.	
21.	96-Chandigarh	2202.03.104.03-Grants-in-aid to Private Colleges	0.14	No reply has been received.	
22.	98-Daman & Diu	2202.01.196.01-Panchayats	1.93	No reply has been received.	
23.		3054.04.196.04-Panchayats	1.34		

Sl. No.	Description of Grant	Head of Account	Amount (₹ in crore)	Reply of the Department	Remarks
24.	100-Department of Urban Development	2217.05.800.24-Urban Infrastructure Development Project	15.74	Ministry stated that under the Major Head 2552, total fund available was ₹ 92 crore. Re-appropriation to the functional head was made from Major Head 2552.	The reply is not acceptable in view of the fact that under the corresponding scheme in the Major Head 2552, only ₹ 47 crore was available. Against this availability, ₹ 62.74 crore was spent on a similar scheme under the Major Head 3601 and Major Head 2217.
25.		2217.80.001.05-Grants to Delhi Metro Rail Corporation	1.28	Ministry stated that in second supplementary a sum of ₹ 2.56 crore was projected to meet 50 *per cent* of the cost of metro tickets.	The reply is not acceptable because supplementary of only ₹ 1.28 crore was obtained to meet 50 *per cent* of the cost of metro tickets.
Total			**698.82**		

4.2.2 Augmentation of provision to object head 'Subsidy'

In accordance with instructions issued by the Ministry of Finance in May 2006, for augmentation of provision in the existing appropriation under the object head 'subsidies' through re-appropriation, prior approval of the Parliament is required, if the additionality is more than 10 *per cent* of the appropriation already voted by the Parliament or ₹ 10 crore, whichever is less.

Scrutiny of Appropriation Accounts revealed that in four cases, across four grants/appropriations, funds aggregating ₹ 935.52 crore were provided through re-appropriation by the various Ministries/Departments during the Financial Year 2010-11 for augmenting the provision under the object head 'subsidy' in violation of the extant provisions, without obtaining prior approval of the Parliament, thereby attracting the limitations of New Service/New Instrument of Service. **Table 4.4** gives details of sub-heads where augmentation was made under various grants/appropriations without approval of the Parliament.

Table 4.4: Augmentation of provision on 'subsidy' without prior approval of the Parliament

Sl. No.	Description of Grant	Head of Account	Amount (₹ in crore)	Reply of the Department	Remarks
1.	7-Department of Fertilisers	2401.00.106.02-Import of Urea	895.95	Department stated that the expenditure was incurred on the advice of Ministry of Finance and	Prior approval of Parliament through Supplementary Demands for Grants in cases where financial limits of NS/NIS are attracted, and reporting of cases of re-appropriation of funds through executive orders to the Parliament

				reported to Parliament.	are different from each other. The instant case required the prior approval of the Parliament.
2.	32– Department of Economic Affairs	3075.60.101.02-Reimbursement of Losses of Railways on Operating Strategic Railway Lines	34.38	No reply has been received.	
3.	54-Other Expenditure of the Ministry of Home Affairs	3053.01.191.01-Payment for Helicopter Services in North Eastern Region	4.99	Ministry replied that re-appropriation was made after obtaining prior approval of the Parliament through Supplementary.	The maximum expenditure that could have been incurred was ₹ four crore, being 10 *per cent* of the appropriation. In the instant case, the additional amount spent was ₹ 4.99 crore.
4.	99-Lakshadweep	3456.00.103.01-Transport subsidies	0.20	No reply has been received.	
Total			**935.52**		

4.3 Incorrect classification of expenditure under Revenue account instead of Capital account and vice versa

Article 112(2) of the Constitution of India stipulates that the Annual Financial Statement shall distinguish expenditure on revenue account from other expenditure. The principles for classifying the expenditure on Revenue account and Capital account should accordingly be adhered to.

4.3.1 Misclassification of capital expenditure as revenue expenditure in Department of Space

(a) Rule 8 of the Delegation of Financial Powers Rules, 1978, categorises the object head 'Other Capital Expenditure' under the Object Class-6 (acquisition of Capital Assets and other Capital Expenditure). Further, Department of Space's order dated 16 April 2007 also specified that expenditure on 'Supplies and Materials' and 'Other Charges', in the case of satellites, having life of more than one year, was classifiable as 'Other Capital Expenditure' under the Capital account.

However, examination of expenditure booked in the 'e-lekha' database under Grant No. 89-Department of Space, revealed that in six cases[4], an aggregate amount of ₹ 522.06 crore had been incorrectly accounted for as revenue

[4] 3402.00.101.04.00.21 (₹ 225.25 crore); 3402.00.101.06.00.21(₹ 80.48 crore); 3402.00.101.33.00.21(₹ 197.15 crore); 3402.00.101.34.00.21(₹ 4.47 crore); 3402.00.101.38.00.21(₹ 2.30 crore); and 3402.00.101.43.00.21(₹ 12.41 crore).

expenditure under the object head '21-Supplies and Materials', which should have been correctly classified as '60-Other Capital Expenditure' under capital account in terms of extant instructions.

On this being pointed out, the Department replied (March 2012) that expenditure incurred on procured launch services[5] were classified as 'Capital'. It added that the expenditure incurred towards 'supplies and materials' and 'other charges' incurred on Indian Space Research Organisation's (ISRO) launch vehicle programme such as PSLV, GSLV, which are not specific to any satellite, were continued under revenue account.

The reply is not acceptable due to the fact that the department itself stated in its reply that the expenditure incurred on procured launch vehicle was to be classified as capital expenditure. Therefore, the expenditure incurred on the ISRO's launch vehicle programme which was meant for launching the satellites, was also to be capitalized, in conformity with the guidance as contained in the Delegation of Financial Power Rules.

(b) The Department's order ibid further specified that all machinery and equipment (including software, etc.) shall be classified as capital under the object head 'Machinery and Equipment' irrespective of the value. However, under the revenue head, the operation of object head 'Machinery and Equipment' would be limited only for 'office equipments'.

Examination of Grant No.89-Department of Space, revealed that amounts of ₹ 32.75 crore and ₹ 0.10 crore had been incorrectly classified as 'Machinery and Equipment' and 'Motor Vehicles' respectively under the revenue head, which should have been classified under the Capital account.

On this being pointed out by Audit, the Department, while partially accepting the audit contention, replied (February 2012) that expenditure booked under the object head 'Machinery and Equipment' in the revenue section mainly consisted of procurement of tools, spares, canteen & medical equipments, personal computers, etc., which were of capital nature but of short term use. It further stated that at a few places, items of capital nature were also booked, and it would issue suitable instructions to the Department of Space/ISRO centre/units/projects for booking expenditure appropriately under the revenue and capital sections. As regards booking of expenditure incurred on motor vehicles under revenue heads, the department stated that some of its centres had inadvertently made the budget provision in the year 2010-11 in the

[5]Expenditure incurred on foreign launch vehicles such as 'Arianspace' to launch ISRO's satellites

Revenue Plan portion, which would be rectified in the budget estimates of 2012-13.

4.3.2 Misclassification of capital expenditure as revenue expenditure in Department of Atomic Energy

As per Rule 8 of the Delegation of Financial Powers Rules, 1978, object heads such as Motor Vehicles, Machinery and Equipment, Major Works, Investment, Loans and Advances and Other Capital Expenditure fall under Object Class-6 (Acquisition of Capital assets and other capital expenditure). However, on review of detailed Head-wise Appropriation Accounts of Grant No.4-Department of Atomic Energy, it was observed that an aggregate expenditure of ₹ 49.72 crore, had been incorrectly classified as revenue expenditure, which should have been correctly classified under the capital account, as detailed in the table below:

Table 4.5: Expenditure of capital nature booked in revenue head

Sl. No.	Object Head	Amount (₹ in crore)
1.	Machinery and Equipment	19.51
2.	Motor Vehicles	13.10
3.	Other Capital Expenditure	17.11
Total		**49.72**

On this being pointed out, the Department stated (February 2012) that the capital nature of expenditure booked under revenue heads, were mainly for functional requirement for maintenance and upkeep of the capital assets and hence, the accounts maintained in the Department were in order.

The reply of the Department is not acceptable in view of the fact that the object heads mentioned in the table above, pertained to expenditure on acquisition of capital assets and other capital expenditure as per Rule 8 of Delegation of Financial Powers Rules, 1978, and accordingly should have been classified under capital account.

4.3.3 Misclassification of revenue expenditure as capital expenditure in Department of Atomic Energy

Rule 79 of the General Financial Rules, 2005, provides that subsequent charges on maintenance, repair, upkeep and working expenses, which are required to maintain the assets in a running order and also all other expenses incurred for the day to day running of the organisation, including establishment and administrative expenses, shall be classified as revenue expenditure. However, examination of Grant No. 4-Atomic Energy revealed that an aggregate expenditure of ₹ 2,066.83 crore had been incorrectly classified as capital expenditure as against revenue expenditure, in violation of the extant rules. The details of such expenditure classified incorrectly in the capital account were as under:

Table 4.6: Expenditure of revenue nature booked under capital head

Sl No	Object Head	Amount (*₹in crore)*
1.	Salaries	148.55
2.	Wages	1.04
3.	Overtime Allowance	4.33
4.	Domestic Travel Expenses	6.05
5.	Foreign Travel Expenses	1.18
6.	Office Expenses	68.71
7.	Rent, Rates and Taxes	1.69
8.	Supplies and Materials	1512.33
9.	P.O.L.	2.06
10.	Advertising and Publicity	1.56
11.	Minot Works	77.11
12.	Professional Services	152.58
13.	Grants-in-Aid General	4.63
14.	Scholarship/Stipend	0.27
15.	Contributions	11.34
16.	Other Contractual Services	73.40
Total		**2066.83**

On this being pointed out, the Department stated (February 2012) that the expenditure of revenue nature booked under capital side for the object heads, like, salaries, foreign travel expenses, office expenses, professional services, etc., were the expenditure incurred for the approved Plan projects and these object heads under the Plan projects were sanctioned as per financial/functional requirements.

The reply of the Department is not acceptable as the bookings made were in contravention of Rule 79 of General Financial Rules, 2005. Since the expenditure was incurred for maintenance of assets/projects which were already commissioned and operational from the last several years, the expenditure should have been classified as revenue expenditure.

Impact of misclassification:

Any deviation by the departments to follow the principles of classification as specified in Article 112(2) of the Constitution of India would have the effect of either understatement or overstatement of revenue deficit of the Government.

The impact of incorrect classification of revenue expenditure as capital expenditure and vice versa was an overstatement of capital expenditure by ₹ 2,066.83 crore in one case and understatement of capital expenditure by

₹ 604.63 crore in three cases. The overall impact on Government expenditure was an overstatement of capital expenditure of ₹ 1,462.20 crore. Correspondingly revenue deficit was understated by an equivalent amount of ₹ 1,462.20 crore during the financial year.

4.4 Misclassification of expenditure under object heads and deficient sanction orders

4.4.1 Expenditure booked under 'Investments' instead of 'Major Works/Machinery and Equipment'

Rule 8 of the Delegation of Financial Powers Rules, 1978, prescribes standard primary units of appropriation with the descriptions/definitions for the purpose of classification of expenditure up to the sixth tier, i.e., 'object head'. As per description/definition of object head '52-Machinery and Equipment', it includes machinery, equipment, apparatus, etc. other than those required for the running of an office and special tools and plants acquired for specific works. Further, as per description/definition of the object head '53-Major Works', this also includes cost of acquisition of land and structures. No description/definition exists for the object head '54-Investments'.

Scrutiny of Appropriation Accounts of Grant No. 42-Direct Taxes and Grant No.43-Indirect Taxes for the year 2010-11 revealed that in four cases involving expenditure of more than ₹ 20 crore, instances of incorrect classification of provision and expenditure was observed. In these cases, the expenditure related to 'Acquisition of Ready-built Accommodation/Flats' and 'Acquisition of Ships and Fleets'. As per the extant Rule, the correct classification in the above two cases should have been '53-Major Works' and '52-Machinery and Equipment' instead of '54-Investments'. This resulted in misclassification of ₹ 1,681.43 crore. The details are shown in **Table 4.7.**

Table 4.7: Expenditure booked under 'Investment' instead of 'Major Works/Machinery and Equipment'

(₹ in crore)

Sl. No.	Description of Grant	Description of expenditure	Budget Allocation	Actual expenditure	Reply of the Department
1.	42-Direct Taxes	4059.01.800.01.00.54-Acquisition of Ready-built Accommodation-Investments	1663.00	1527.23	The Department replied (January 2012) that the practice of classification of provision for 'Acquisition of Ships and Fleets', Ready built office accommodation and Ready built residential accommodation' under the object head '54-Investments' had been ongoing in the past. Action has been initiated to correct this depiction
2.		4216.01.111.01.00.54-Acquisition of Ready-built Flats-Investments	15.01	43.41	
3.	43-Indirect Taxes	4047.00.037.03.01.54-Acquisition of Ships and Fleets-Investments	48.00	21.87	
4.		4059.01.800.01.00.54-Acquisition of Ready-built	132.00	88.92	

(₹ in crore)

Sl. No.	Description of Grant	Description of expenditure	Budget Allocation	Actual expenditure	Reply of the Department
		Accommodation-Investments			and from the financial year 2012-13 for all new works regarding purchase of land or construction thereon, acquisition of ships and fleets, the object head 'Investments' will be replaced by 'Major Works' and 'Machinery and Equipment'.
Total			**1858.01**	**1681.43**	

4.4.2 Incorrect booking of expenditure of ₹ 1,434 crore under the object head 'Interest'

Examination of Grant No.33-Department of Financial Services revealed that an expenditure on relief/waiver of loans through lending institutions against Agricultural Debt Waiver and Debt Relief Scheme 2008 had been classified under the object head 'Other Charges'. However, expenditure on account of payment of interest to lending institutions amounting to ₹ 1,434 crore had been classified incorrectly under the object head 'Interest'.

Rule 8 of the Delegation of Financial Powers Rules, 1978, provides that the object head 'Interest' will include interest on capital and discount of loans. Since the major head servicing the relief/waiver is a revenue major head- '2235-Social Security and Welfare', providing an amount of ₹ 1,434 crore under the object head 'Interest' did not appear to conform to the provisions of Delegation of Financial Powers Rules and amounted to misclassification of expenditure of ₹ 1,434 crore under 'Interest'.

In reply, the Department of Expenditure stated (January, 2012) that the head of account along with classification of the expenditure as 'interest' was duly approved by the Budget Division of the Department as well as by the office of the Controller General of Accounts and expenditure from this head of account was also incurred in 2008-09 and 2009-10.

The reply of the Department is not tenable in view of the fact that the object head 'interest' should include 'interest on capital and discount of loans' only.

4.4.3 Incorrect operation of object heads 'Other Charges' and 'Scholarship/Stipends' instead of 'Grants-in-aid'

The Department of Atomic Energy provides grants-in-aid for 'Assistance to Universities Research Institutions, Societies and Non-Government Institutions'. Expenditure booked under Grant No. 4-Department of Atomic

Energy revealed that in three[6] cases, an amount of ₹ 10.59 crore was incorrectly incurred towards payment to Bodies/Institution and was booked under the object heads 'Other Charges' and 'Scholarship/Stipends' instead of operating the object head 'Grants-in-aid'.

Since under the scheme of 'Assistance to Universities Research Institutions, Societies and Non-Government Institutions', the entities involved were grantee bodies, the provisioning and booking of expenditure under the heads 'Other Charges' and 'Scholarship/Stipends' was incorrect.

On this being pointed out, the Department replied (February 2012) that expenditure on exhibition, fellowships, symposia, etc., were not of the nature of grants-in-aid and were part of the Government expenditure.

The reply of the Department is not acceptable as under the scheme of 'Assistance to Universities Research Institutions, Societies and Non-Government Institutions', the entities receiving Government funds were grantee bodies. Hence, provisioning of expenditure under the heads 'Other Charges' and 'Scholarship/Stipends' was not correct.

4.4.4 Incorrect operation of object head 'Contributions' for booking expenditure under the programme- 'Technical and Economic Cooperation with Other Countries'

As per Rule 8 of the Delegation of Financial Powers Rules, 1978, the object head 'Contributions' is generally intended to record expenditure on membership of international bodies. The definition of 'Contributions' provides that 'this will also include expenditure on membership of International bodies'.

Examination of Grant No.31-Ministry of External Affairs revealed that in 18 sub-heads under the Major Head '3605-Technical and Economic Cooperation with Other Countries', an expenditure of ₹ 2,539.07 crore had been incorrectly booked and classified at primary unit of appropriation as 'Contributions'. Since the nature of expenditure of ₹ 2,539.07 crore was grants to foreign Governments for general/specific purpose, it should appropriately had been classified as 'Grants-in-aid General' at primary unit of appropriation. Incidentally, the Ministry had correctly classified an expenditure of ₹ 181.73 crore as 'Contributions' to various international bodies/authorities under the minor head 2061.00.798-International Cooperation.

[6] Head 3401.00.004.08.03.50 (₹ 1.44 crore); 3401.00.004.08.05.34 (₹ 5.71 crore); and 3401.00.004.08.07.50 (₹ 3.44 crore)

This aspect was highlighted in para No. 2.12 in the CAG's Audit Report on the Accounts of the Union for the financial year 2008-09, but no corrective measure has been taken by the Ministry to rectify this misclassification.

The Ministry replied (February 2012) that financial assistance extended by Ministry under this head went beyond simple arrangement of funds to extending technical and other kind of assistance to the beneficiary wherever possible, which could not be entirely confined under 'Grants-in-aid-General' and could not be equated with contributions.

The reply of the Ministry is not acceptable because the funds released by the Ministry were in the form of grants-in-aid to foreign countries and not as contribution.

4.5 Lack of accounting integrity in Department of Posts and Department of Space

Fiscal data – both expenditure and receipts, reported by the Government, should meet certain qualitative benchmarks so as to provide assurance to the Parliament and the public about the integrity of the figures. In the case of the Department of Posts and the Department of Space, there were major issues relating to quality of data, thereby raising various issues of transparency and integrity. These are detailed in the succeeding paragraphs.

4.5.1 Department of Posts: Non-depiction of re-appropriation of provisions obtained for 'North-Eastern Region and Sikkim' to the 'functional head'

The Department of Posts, in its Plan budget, had provided for ₹ 121.15 crore under the head 2552-North-Eastern Areas and ₹ 39.30 crore under the head 4552-Capital Outlay on North-Eastern Areas towards lump-sum provision during the financial year 2010-11, to be re-appropriated during the course of the year to functional heads for incurring expenditure.

Examination of Detailed Appropriation Accounts and Grant No.13-Postal Services of Department of Posts for the financial year 2010-11 revealed that although the provisions for 'North-Eastern Region and Sikkim' were obtained and break-ups reflected up to the primary units of appropriation in the Detailed Demands for Grants, the augmentation of provisions under the concerned functional heads were effected without the issue of any re-appropriation order. Instead, provisions for 'North-Eastern Region and Sikkim' were merged with the provisions obtained under the functional heads of the Department of Posts.

This irregular practice, besides being in contravention of extant instructions, also led to variations in the provisions already approved by the Parliament under the concerned functional heads. There was also no assurance that expenditure had indeed been incurred for the purpose intended, in absence of any authorised re-appropriation.

On this being pointed out by Audit, the Department of Posts stated (January 2012) that the provisions obtained for 'North-Eastern Region and Sikkim' under Major Heads 2552-North Eastern Areas/4552-Capital Outlay on North Eastern Areas were already merged with departmental functional heads viz. Major Heads 3201-Postal Services/5201-Capital Outlay on Postal Services as per Ministry of Finance direction dated 21 April 2010. The Department also issued a re-appropriation order dated 12 January 2012, conveying approval of the Secretary (Posts) for re-appropriation of funds of ₹ 120.75 crore from Major Head '2552-North-Eastern Areas' to Major Head 3201-Postal Services and ₹ 8.28 crore from Major Head '4552-Capital Outlay on North-Eastern Areas' to Major Head '5201-Capital Outlay on Postal Services'.

The reply of the Department is contradictory to the clarification obtained by them from the Ministry of Finance, which had reiterated the correct procedure.

Further, the 'lump-sum' re-appropriation order dated 12 January 2012 issued by the Department was *ab initio* invalid as it was issued after the close of the financial year. This was in contravention of Rule 59(1) of the General Financial Rules, 2005, which stipulated that re-appropriation of funds could be sanctioned by a competent authority at any time before the close of the financial year to which such grant or appropriation related.

Thus, in the absence of specific re-appropriation orders to augment the functional head of expenditure, there was lack of assurance on the expenditure of ₹ 129.03 crore, which was shown to have been spent on North-Eastern Areas during the financial year 2010-11

4.5.2 Department of Posts: Incorrect depiction of amounts of saving/excess under the sub-heads in the Appropriation Accounts

Examination of Appropriation Accounts of Grant No.13-Postal Services of Department of Posts for the financial year 2010-11 disclosed that below 'Notes and Comments', while explaining the saving/excess in a sub-head, the amount of such saving/excess was being worked out on the basis of the final provision [(Original + Supplementary +/- Re-appropriation) – Expenditure]. This practice was at variance with the accepted practices followed in respect of civil grants. Since the Demands for Grants, Detailed Demands for Grants and Supplementary Demands for Grants are the only documents approved by

Parliament, the saving/excess are required to be worked out on the basis of legislative authorisation only (Original + Supplementary - Expenditure).

On this being point out in Audit, the Department of Posts stated (January 2012) that explanations for saving/excess in a sub-head and final provision there under were recorded on the basis of provision (Original + Supplementary +/- Re-appropriation), as per procedure laid down in Rule 6.41 of the Postal Accounts Manual, Volume I.

The reply of the Department of Posts is not acceptable in view of the fact that Para 6.41 of the Postal Accounts Manual, clearly stipulates that the Postal Appropriation Accounts are accounts of expenditure of the Government for each financial year compared with the amount of voted grants and charged appropriation, as specified in the schedules appended to the Appropriation Act, passed by the Parliament. This being the case, the accounts should have explained savings/excesses with reference to the provisions that had been passed by the Parliament, viz., the Original and Supplementary amounts.

4.5.3 Issue of deficient sanction orders by Department of Space

Examination of Detailed Demands for Grants for the year 2010-11 of Grant No.89-Department of Space revealed that they were prepared by showing the estimates of expenditure on Revenue and Capital accounts separately under Plan and Non-Plan up to the sixth tier of classification, i.e. up to the object head level, as was the practice obtaining in other Ministries/Departments of the Government.

On examination of the sanction orders issued by the Department of Space, it was observed that they did not distinctly specify the amount of expenditure to be debited to revenue and capital accounts, i.e., show the amounts to be debited to revenue account and capital account separately. Even the Plan and Non-Plan bifurcation of the expenditure to be booked under revenue and capital accounts was not specified in the sanction orders. Further, the sanction orders specified the amount of expenditure to be classified only up to the fourth tier of classification, i.e. the sub-head level, instead of giving comprehensive direction up to the sixth tier of classification. Thus, the sanction orders issued by the authorities in the Department of Space were deficient, as they did not give clear directions with regard to proper booking/classification of expenditure.

In the absence of the details of classification in the sanction orders, it was not clear how the accounts were prepared and compiled by showing classification upto the sixth tier and Plan/Non-Plan segregation in revenue and capital accounts.

The matter was taken up with the Department and their reply is awaited (February 2012).

4.6 Obtaining irregular lump sum provision

Para 4 of Appendix-3 (containing instructions for preparation of Budget) below Rule 48 of General Financial Rules, 2005, provides that no lump-sum provision will be made in the Budget except where urgent measures are to be provided for meeting emergent situations or for meeting preliminary expenses on a project/scheme, which has been accepted in principle for being taken up in the financial year.

During the examination of Appropriation Accounts, it was observed that in the following four cases, across three grants of Civil Ministries/Departments, lump-sum supplementary provisions totaling ₹ 12,400 crore were obtained in the Supplementary Demands for Grants for the year 2010-11, instead of obtaining scheme-wise itemized amounts of parliamentary approval, as was incumbent, under the extant rules.

Table 4.8: Lump sum provision obtained in the supplementary demands for grants

(₹ in crore)

Sl. No.	Description of Grant	Head of Account	Funds allocated	Remarks
1.	14-Department of Telecommunications	2071-Pension and Other Retirement Benefits	1200	₹ 1200 crore was distributed among six sub-heads (four under 'Ordinary Pensions' and one each under 'Family Pensions' and 'Government Contribution'). The segregation of amount could have been explained by nomenclature in respect of minor head, viz. Superannuation & Retirement Allowances, Commuted Value of Pension, Gratuities and Leave Encashment Benefits (where the sub-head is Ordinary Pensions) and separately for sub-heads 'Family Pensions' and 'Government Contribution' in the Supplementary Grant.
2.	21-Defence Pensions	2071-Pensions and other retirement benefits	9000	Supplementary grant was obtained for meeting additional expenditure on account of increased requirement for payment of pension, family pension, gratuity, etc. and for implementation of Government's orders on improvement in pension of pre 1.1.2006 Personnel Below Officers Rank pensioners and also increase in number of new retirees.
3.	53-Police	2055-Police	2000	Additional salary related expenditure of Central Para Military Forces (CPMFs) without giving the break-up of

(₹ in crore)

Sl. No.	Description of Grant	Head of Account	Funds allocated	Remarks
				requirement for each CPMF.
4.		4055-Capital Outlay on Police	200	For meeting additional requirement of office buildings without giving the specific details of requirement sub-head-wise.
Total			**12400**	

The Ministry of Defence (MoD) in its reply stated (December 2011) that additional requirement was projected to the Ministry of Finance minor/sub-head-wise, but the Ministry of Finance obtained the supplementary grant omitting item-wise detail, from the Parliament.

Department of Telecommunications, in its reply, stated (January 2012) that the requirement of Supplementary Demand for Grants was submitted to the Ministry of Finance in certain prescribed proforma wherein the requirements of funds were to be proposed Major Head-wise. Since 'Pension and other Retirement Benefits' came under the Major Head 2071, the requirements under different minor heads were clubbed under the Major Head 2071 and proposed to Ministry of Finance.

The Ministry of Home Affairs (MHA) stated (December 2011) that they had sent the requirement forces-wise to Ministry of Finance, indicating the amounts separately in respect of each object head. The Ministry of Finance, however, omitted item-wise details of additional salaries/office buildings related expenditure of Central Para Military Forces.

The matter was referred (January 2012) to the Ministry of Finance by Audit in view of replies received from MoD and MHA. Ministry of Finance in their reply stated (February 2012) that the supplementary for ₹ 9,000 crore in respect of MoD was obtained indicating the requirement for payment under the various schemes falling under pensions. The reply of the Ministry of Finance is not tenable in view of the fact that amount specific requirements under various schemes of pensions were not obtained from the Parliament, as projected by the MoD in their requirement.

4.7 Incorrect booking of expenditure under Non-functional head

As per extant instructions of the Ministry of Finance, unless specifically exempted from doing so, all Ministries/Departments are required to make a provision of 10 *per cent* of their 'Central Plan' allocation for projects/schemes in the 'North-Eastern Region and Sikkim'. The funds for development of the 'North Eastern Region and Sikkim' are to be provided for under the Major

Heads '2552-North-Eastern Areas', '4552-Capital Outlay on North-Eastern Areas' and '6552-Loans for North-Eastern Areas'. These funds are subsequently re-appropriated to the functional heads of accounts for the purpose of incurring the expenditure. Further, instructions issued by Controller General of Accounts in January 2011 provide that no expenditure is to be booked directly under the major heads meant for North-Eastern Areas.

During the examination of Appropriation Accounts, it was observed that in following two cases across two grants of Ministry of Home Affairs, a total expenditure of ₹ 180.41 crore was incorrectly booked under the non-functional major heads meant for North-Eastern Areas directly in contravention of extant instructions instead of re-appropriating the funds to the functional heads of accounts and incurring the expenditure therefrom.

Table 4.9:Cases showing expenditure booked in the Major Heads meant for North-Eastern Areas

(₹ in crore)

Sl. No.	Description of Grant	Description of Head	Budget Allocation	Actual expenditure	Reply of the Ministry
1.	51-Ministry of Home Affairs	2552- North-Eastern Areas	92.00	83.07	The Ministry in its reply stated that the expenditure was booked under the newly opened sub-head 2552.00.501.01-'Registrar General of India' to book the expenditure incurred on account of census related work in the North-Eastern Areas.
2.	53-Police	4552-Capital Outlay on North-Eastern Areas	98.00	97.34	The Ministry stated (February 2012) that expenditure was incurred on residential building schemes in North-Eastern Areas and conforms to the instruction of Ministry of Finance.
Total				**180.41**	

Thus, direct booking of expenditure was incorrectly made to the non-functional heads in contravention of the extant instructions issued by the Ministry of Finance.

4.8 Excess expenditure without adequate provision of funds

4.8.1 A review of Head-wise Appropriation Accounts of Grant No. 98-Daman and Diu and relevant re-appropriation orders revealed that the Ministry of Home Affairs, in the course of third Supplementary Demands for Grants, obtained approval of the Parliament for incurring additional expenditure of ₹ two crore, against the initial provision of ₹ 484.50 crore, for operation, maintenance/repairs of electricity sub-station, under the Major Head 2801-Power. However, the Head-wise Appropriation Accounts incorrectly reflected the supplementary amount as ₹ 79 crore. The total expenditure incurred against the line item[7] was ₹ 563.20 crore, against the legislative authorisation of ₹ 486.50 crore. Thus, incurrence of an expenditure of ₹ 76.70 crore was without the appropriate authority.

The matter was brought to the notice of the Ministry and their reply is awaited (February 2012).

4.8.2 Review of Grant No.103-Ministry of Water Resources for the financial year 2010-11 revealed that on the last day of the financial year, the Ministry had issued a consolidated re-appropriation order, superseding all previous re-appropriation orders issued during the course of the year. From the 'e-lekha' database of the Ministry, it was observed that in 76 instances, up to 30 March 2011, an aggregate expenditure of ₹ 33.60 crore was incurred over and above the available provisions, but funds for the same were provided only on 31 March 2011, by issuing the consolidated re-appropriation order. Thus, excess expenditure of ₹ 33.60 crore was incurred as on 30 March 2011 without any provision of funds.

The matter was brought to the notice of the Ministry and their reply is awaited (February 2012).

4.9 Write-off of Government loan without the approval of Parliament

As on 31 March 2010, a sum of ₹ 219.44 crore of loan and ₹ 646.60 crore of interest were outstanding as arrears (earliest period of arrears related to the year 1985-86) from the National Projects Construction Corporation Ltd. (NPCC), a Public Sector Undertaking under the Ministry of Water Resources.

The arrears of loan and interest outstanding from NPCC were converted into equity, based on a decision (December 2008) taken by the Cabinet Committee on Economic Affairs. As per sanction order dated 2 February 2011, an amount of ₹ 646.90 crore (₹ 219.44 crore loan and ₹ 427.46 crore interest as on 5 February 2009) was to be converted into equity by writing down to 10 *per cent* of value. Out of ₹ 866.04 crore outstanding as on 31 March 2010, only ₹ 646.90 crore was converted into equity, leaving an outstanding amount of ₹ 219.14 crore (₹ 866.04 crore – ₹ 646.90 crore). However, as per Statement No. 3 of the Finance Accounts for the year 2010-11, only ₹ 8.46 crore was shown as outstanding, without any explanation as to the remaining amount of ₹ 210.68 crore. Thus, equity of ₹ 64.69 crore was created out of an

[7] Head 2801.05.800.01-Maintenance and Repairs

outstanding amount of ₹ 646.90 crore and balance amount of ₹ 582.21 crore was written off.

Although, the Ministry had taken approval of the Parliament for a token provision of ₹ one lakh in the demand for grants of 2009-10 under the head '4701.80.190.01.02.54-Investments' for conversion of loan into equity in respect of NPCC in pursuance to provision contained in Rule 96 of General Financial Rules, 2005, no approval of the Parliament was obtained by the Ministry to write off the loan and interest amounting to ₹ 582.21 crore. In terms of Ministry of Finance's order dated 25 May 2006, enunciating guidelines on financial limits for determining cases relating to New Service/New Instrument of Service, for write off of Government Loans above ₹ one lakh, prior approval of Parliament was necessary. However, neither was prior approval of Parliament obtained through supplementary nor budgetary provision obtained in the financial year 2010-11, yet loan and interest amounting to ₹ 582.21 crore due from NPCC were written off by the Ministry.

The matter was brought to the notice of the Ministry and their reply is awaited (February 2012).

4.10 Failure to obtain prior approval of Ministry of Finance

Rule 10(6)(a) of Delegation of Financial Powers Rules, 1978, provides that no re-appropriation shall be made from and to the provision for secret expenditure without the previous consent of the Ministry of Finance.

Examination of Appropriation Accounts of Grant No.53-Police and related records in the Ministry of Home Affairs revealed that during the year 2010-11, the Ministry had augmented provision of Secret Service Expenditure under NE Division from ₹ 2.35 crore (RE) to ₹ 3.35 crore by diverting the funds of J&K Division without the approval of Ministry of Finance, as is required under Rule 10(6)(a) of Delegation of Financial Powers Rules, 1978.

The matter was brought to the notice of the Ministry of Finance (August 2011) and Ministry of Home Affairs (January 2012) and their reply is awaited (February 2012).

4.11 Deficient budgeting

4.11.1 Provisioning under withdrawn object head

Examination of Detailed Demands for Grants of the following Grants/Ministry revealed that budget provisions under the object head '17-Banking Cash Transaction Tax' were made by the Ministries during the year 2010-11, although the Banking Cash Transaction Tax had been withdrawn in April 2009 by the Central Board of Direct Taxes. However, no expenditure was incurred against the budget provision under this object head.

Table 4.10: Provisioning under Banking Cash Transaction Tax

(₹in lakh)

Grant No.	Budget provision made	Actual expenditure	Saving
19-Ministry of Culture	5.00	-	5.00
51-Ministry of Home Affairs	0.03	-	0.03
53-Police	24.00	-	24.00
105-Ministry of Youth Affairs and Sports	0.30	-	0.30

The matter was brought to the notice of the Ministries concerned. The Ministries, in their replies, stated that the information regarding withdrawal of Banking Cash Transaction was not received by them, hence the requirement was projected and the Ministry of Finance allocated the fund. They further stated that no provision would be made under this head during the year 2012-13.

4.11.2 Provisioning of expenditure for dissolved organisations

Examination of Grant No. 18-Ministry of Corporate Affairs for the year 2010-11 revealed that although the MRTP Commission and the Director General of Investigation & Registration (DGI&R) were dissolved by the Government of India in October 2009, in the budget estimates of 2010-11, provisions of ₹ 3.72 crore and ₹ 1.56 crore respectively were got authorised from the Parliament, which were eventually re-appropriated/surrendered.

On this being point out in audit, the Ministry stated that while the matter of dissolution of the office of MRTP Commission and DGI&R was under consideration of the Government, the status of their officers and employees was not made clear as to where they will be adjusted. Further, decision about the utility of office premises and other infrastructure like staff cars, computers, electrical installation etc. was also not taken. In view of these uncertainties, the Budget Estimates for 2010-11 were proposed to the Ministry of Finance in November 2009.

4.12 Obtaining incorrect supplementary

Examination of Grant No. 32-Department of Economic Affairs for the year 2010-2011 revealed that a supplementary provision was obtained under Major Head '2052-Secretariat-General Services' for making a payment of ₹ 2.40 crore towards India's contribution to South-South Experience Exchange Trust

Fund (SEETF). However, in Head-wise Appropriation Accounts, ₹ 2.26 crore was booked as expenditure under the Major Head '3466-International Financial Institutions', because the sub-head 'Contribution to South-South Experience Exchange Trust Fund (SEETF)' existed under Major Head 3466.

Thus, Ministry incorrectly obtained the supplementary of ₹ 2.40 crore under the Major Head '2052-Secretariat-General Services', while the scheme existed under the Major Head '3466-International Financial Institutions'.

The matter was brought to the notice of the Ministry (December 2011) and their reply is awaited (February 2012).