

CHAPTER-II
FINANCIAL MANAGEMENT AND BUDGETARY CONTROL

CHAPTER – II

FINANCIAL MANAGEMENT AND BUDGETARY CONTROL

2.1 Introduction

2.1.1 Appropriation Accounts are accounts of the expenditure, voted and charged, of the Government for each financial year compared with the amounts of 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 authorized by the Appropriation Act in respect of both charged and voted items of budget. Appropriation Accounts, thus, facilitate management of finances and monitoring of budgetary provisions and are, therefore, complementary to 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 authorization given under the Appropriation Act and that the expenditure required to be charged under the provisions of the Constitution is so charged. It also ascertains whether the expenditure so incurred is in conformity with the law, relevant rules, regulations and instructions.

2.2 Summary of Appropriation Accounts

The summarized position of actual expenditure during 2011-12 against 29 grants/appropriations was as given in **Table 2.1** below:

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

(₹ in crore)

	Nature of expenditure	Original grant/appropriation	Supplementary grant/appropriation	Total	Actual expenditure ¹	Saving (-)/ Excess (+)
Voted	I-Revenue	20665.19	1777.20	22442.39	20581.16	(-) 1861.23
	II-Capital	7938.49	589.86	8528.35	6682.13	(-) 1846.22
	III-Loans and Advances	70.11	-	70.11	65.61	(-) 4.50
Total voted		28673.79	2367.06	31040.85	27328.90	(-) 3711.95
Charged	IV-Revenue	2392.15	179.91	2572.06	2410.80	(-)161.26
	V-Capital	-	-	-	-	-
	VI-Public Debt Repayment	1174.41	-	1174.41	5647.76	(+) 4473.35
Total charged		3566.56	179.91	3746.47	8058.56	(+)4312.09
Appropriation to Contingency Fund (if any)		-	-	-	-	-
Grand Total		32240.35	2546.97	34787.32	35387.46	(+)600.14

¹ These are gross figures without taking into account the recoveries adjusted in accounts as reduction of expenditure under revenue (₹ 311.47 crore) and capital (₹ 783.29 crore)

The overall excess of ₹ 600.14 crore was the result of excess of ₹ 5,638.79 crore in eight grants under Revenue Section and six grants under Capital Section and one appropriation under Public Debt-Repayments (Loan Section), offset by saving (shortfall in utilization) of ₹ 5,038.65 crore in 21 grants and four appropriations under Revenue Section and 23 grants under Capital Section.

The savings (shortfall in utilization)/ excesses reflected in the detailed Appropriation Accounts were intimated to the Controlling Officers requesting them to intimate significant variations. Their replies were not received (September 2012).

2.3 Financial Accountability and Budget Management

2.3.1 Savings

The outcome of the appropriation audit reveals that in 44 cases, savings exceeded ₹ one crore in each case or by more than 20 per cent of the total provision (*Appendix 2.1*). Against the total savings of ₹ 5,038.65 crore, savings of ₹ 4,453.96 crore (88 per cent)² occurred in 18 cases relating to 14 grants as indicated in **Table 2.2** below:

Table-2.2

List of Grants with savings of ₹ 50 crore and above

(₹ in crore)

Sl. No	Name of Grant/ Appropriation/	Original	Supplementary	Total grant	Actual expenditure	Savings
I-Revenue voted						
1.	02-Home	2727.70	297.37	3025.07	2739.39	285.68
2.	07-Education	2784.40	251.06	3035.46	2828.61	206.85
3.	08-Finance	4847.67	-	4847.67	3475.96	1371.71
4.	10-Law Department	124.15	78.76	202.91	125.74	77.17
5.	14-Revenue	655.52	-	655.52	387.24	268.28
6.	17-Health &Medical Education	1205.91	139.66	1345.57	1271.66	73.91
7.	21-Forest Department	455.55	23.53	479.08	418.10	60.98
8.	23-Public Health Engineering	648.43	153.55	801.98	739.90	62.08
Total-Revenue (Voted)		13449.33	943.93	14393.26	11986.60	2406.66
II-Capital (Voted)						
9.	01-General Admn Department	100.11	-	100.11	20.31	79.80
10.	03-Planning and Dev. Deptt.	1254.93	-	1254.93	450.93	804.00
11.	06-Power Dev. Department	816.51	-	816.51	534.18	282.33
12.	07-Education	465.11	6.28	471.39	343.20	128.19
13.	08-Finance	225.61	-	225.61	17.93	207.68
14.	12-Agriculture	368.68	-	368.68	271.09	97.59
15.	14-Revenue	103.45	-	103.45	50.73	52.72
16.	17-Health &Medical Edu.	313.29	16.09	329.38	268.62	60.76
17.	19-Housing & Urban Dev.	607.11	-	607.11	344.73	262.38
18.	25-Stationary & Printing	74.11	-	74.11	2.26	71.85
Total-Capital (Voted)		4328.91	22.37	4351.28	2303.98	2047.30

Reasons for substantial savings (shortfall in utilization) against each grant were not assigned (September 2012) by the State Government.

² Exceeding ₹ 50 crore in each case.

2.3.2 Persistent Savings by certain Departments

In eleven cases, persistent savings of more than ₹ one crore in each case and also by 10 per cent or more of the total grant were noticed during the last five years as indicated in **Table 2.3** below:

Table-2.3
List of Grants indicating Persistent Savings during 2007-12

(₹ in crore)

Sl. No	Grant number and name	Amount of Savings				
		2007-08	2008-09	2009-10	2010-11	2011-12
Revenue (Voted)						
1.	03-Planning and Development	17.90 (26)	41.74 (43)	98.31 (72)	38.88 (56)	20.48(14)
2.	04-Information	3.22 (17)	3.78 (18)	3.21 (12)	6.04 (19)	6.13(15)
3.	10-Law	34.23 (42)	25.34 (19)	43.00 (38)	22.31 (17)	77.17(38)
Revenue charged						
4.	10-Law	2.58(26)	1.97 (19)	5.32 (29)	2.18 (14)	6.51(28)
Capital (Voted)						
5.	07-Education	28.77 (21)	57.59(30)	121.95(43)	317.82(59)	128.18(27)
6.	08-Finance	291.26 (90)	432.23 (82)	222.22 (27)	387.82 (74)	207.67(92)
7.	13-Animal Husbandry	5.03(41)	8.49(48)	8.87(36)	13.54(35)	5.70(16)
8.	14-Revenue	105.81 (88)	145.22 (88)	72.05 (53)	45.64 (42)	52.71(51)
9.	19-Housing and Urban Development	60.40 (15)	279.90 (63)	96.10 (26)	156.78 (38)	262.38(43)
10.	21-Forest	18.25 (34)	24.00 (35)	47.94 (50)	50.69 (52)	39.41(46)
11.	25-Labour, Stationery and Printing	34.70 (96)	74.44 (95)	69.80 (97)	140.44 (99)	71.84(97)

Reasons for persistent savings under these heads were not intimated (September 2012) by the State Government.

2.3.3 Anticipated savings not surrendered

As per the State Budget Manual, the spending departments are required to surrender the grants/appropriations or portion thereof to the Finance Department as and when the savings are anticipated. At the close of the year 2011-12, there were, however, 28 grants and four appropriations in which savings occurred but no part of which had been surrendered by the concerned departments. The savings in these cases was of the order of ₹ 5,038.65 crore which includes ₹ 5,036.81 crore in 43 cases (involving 27 grants and three appropriation) where savings involved were ₹ one crore and above. Relevant details are indicated in **Appendix-2.2**. Non-surrender of funds (savings) deprived the Government to transfer these funds to other needy sectors.

2.3.4 Expenditure in Excess of legislative approval by certain Departments

In 15 cases, expenditure aggregating ₹ 15,418.52 crore exceeded by ₹ 5,638.79 crore the total approved provisions, and in each case by ₹ one crore or by more than 20 per cent of the provision. Details are given in **Appendix 2.3**. Of these, excess expenditure by more than 20 per cent has been observed consistently for the last five years in respect of one appropriation as given in **Table 2 4** below:

Table-2.4

List of Grant indicating Persistent Excess expenditure during 2007-12

(₹ in crore)

Grant number and name	Years				
	2007-08	2008-09	2009-10	2010-11	2011-12
Capital (Charged)					
08-Finance	1233.79 (231)	2740.40 (448)	2765.44 (342)	4820.49 (503)	4473.35 (381)

Reasons for persistent excesses under the head were not explained (September 2012) by the State Government.

2.3.5 Expenditure without Provision

As per the Budget Manual, expenditure should not be incurred on a scheme/service without provision of funds. It was, however, noticed that expenditure of ₹ 1,408.38 crore was incurred in 66 Major heads of account (detailed in **Appendix-2.4**) without any provision in the original estimates/ supplementary demand and without any re-appropriation orders to this effect.

2.3.6 Regularization of excess expenditure

As per Section 82 of the Constitution of J&K, it is mandatory for the State Government to get the excess over a grant/ appropriation regularized by the State Legislature. Although no time limit for regularization of expenditure has been prescribed under the Section, the regularization of excess expenditure is done after the completion of discussion of the Appropriation Accounts by the Public Accounts Committee (PAC). As the Appropriation Accounts had not been discussed in PAC, the excess expenditure aggregating to ₹ 84,559.38 crore for the years 1980-2011 needs to be regularized by the State Legislature as detailed in **Appendix 2.5**. After including further excess expenditure of ₹ 5,638.79 crore during 2011-12 as brought out in the succeeding sub-section, the aggregate excess expenditure requiring regularization by the Legislature stands at ₹ 90,198.17 crore as on 31 March 2012.

2.3.7 Excess over provisions requiring regularization

Table 2.5 contains the summary of total excess in 14 grants and one appropriation amounting to ₹ 5,638.79 crore over authorization from the Consolidated Fund of the State during 2011-12 and requires regularization under Section 82 of the Constitution of J&K.

Table-2.5

Excess over provisions requiring regularization during 2011-12

(₹ in crore)

Sl. No	Grant/Appropriation number and name	Total Grant/Appropriation	Expenditure	Excess
I- Revenue (Voted)				
1.	01-General Administration	159.24	170.86	11.62
2.	06-Power Development	3495.79	3861.80	366.01
3.	12-Agriculture	558.03	569.16	11.13
4.	16-Public Works	695.38	752.36	56.98
5.	18-Social Welfare	307.54	450.18	142.64
6.	19-Housing & Urban Development	311.88	340.69	28.81
7.	25-Labour Stationery & Printing	67.50	110.23	42.73
8.	27-Higher Education	432.04	493.34	61.30
Total Revenue (Voted)		6027.40	6748.62	721.22
II-Revenue (Charged)				
	-	-	-	-
Total Revenue (Charged)		-	-	-
Total Revenue (Section)		6027.40	6748.62	721.22
III-Capital (Voted)				
9	11-Industries & Commerce	132.07	159.01	26.94
10	15-Consumer Affairs & Distribution	949.93	1137.46	187.53
11	16-Public Works	1179.89	1344.08	164.19
12	20-Tourism	146.18	178.83	32.65
13	23-Public Health Engineering	155.76	187.44	31.68
14	26-Fisheries	14.09	15.32	1.23
Total Capital (Voted)		2577.92	3022.14	444.22
IV-Capital (Charged)				
15	08-Finance	1174.41	5647.76	4473.35
Total Capital (Charged)		1174.41	5647.76	4473.35
Total Capital (Section)		3752.33	8669.90	4917.57
Grand Total		9779.73	15418.52	5638.79

As can be seen, in the Revenue section, there was excess expenditure of ₹ 721.22 crore in eight grants while in the Capital section, excess expenditure amounted to ₹ 4,917.57 crore in six grants and one appropriation. The excess expenditure of ₹ 5,638.79 crore was mainly due to repayment of public debt of ₹ 4,473.34 crore in excess of budget provisions. A similar excess expenditure of ₹ 6,130.76 crore was incurred in 2010-11 also, indicating that it is not one-off occurrence. Although repayment of public debt is an expenditure charged on the Consolidated Fund of the State, the Legislative approval is nevertheless required for any outgo from the Consolidated Fund.

2.3.8 Unnecessary/ Excessive/ Inadequate supplementary provisions

In 13 cases, involving 11 grants and one appropriation (*Appendix-2.6*), supplementary provision of ₹ 118.96 crore was obtained in excess of the original provision in anticipation of expenditure. However, the final expenditure of ₹ 2,089.74 crore was even less than the original grant of ₹ 2,483.27 crore. The savings of ₹ 393.53 crore

thus, exceeded the entire supplementary provision indicating defective fund projection system leading to unnecessary allotment of additional funds.

In 17 other cases relating to 14 grants and one appropriation, supplementary grants aggregating ₹ 1,649.20 crore were obtained against the requirement of ₹ 670.05 crore resulting in saving of ₹ 979.15 crore (*Appendix-2.7*).

Apart from these cases, supplementary provision of ₹ 766.83 crore proved insufficient in eight cases relating to eight grants leaving an uncovered aggregate excess expenditure of ₹ 764.33 crore (*Appendix-2.8*).

2.3.9 Rush of expenditure

According to Jammu and Kashmir Financial Code, rush of expenditure in the closing month of a financial year should be avoided. Contrary to this, in respect of 12 major heads listed in **Table 2.6**, expenditure exceeding ₹ 10 crore for the year was incurred during the last quarter of the financial year 2011-12. The percentage of expenditure in the last quarter ranged between 46 and 98 *per cent* of the total expenditure.

Table-2.6

Cases of rush of expenditure towards the end of the financial year 2011-12

(₹ in crore)

Sl. No.	Grant number and name	Total expenditure during the year	Expenditure during the last quarter of the year	
			Amount	Percentage of total expenditure
1	03-Planning and Development	578.56	442.31	76
2	05-Ladakh Affairs	524.79	512.18	98
3	08-Finance	5872.95	2687.40	46
4	11-Industries and Commerce	292.47	152.58	52
5	12-Agriculture	833.47	398.56	48
6	16-Public Works	1878.67	1054.74	56
7	18-Social Welfare Department	624.40	306.48	49
8	19-Housing & Urban Development	684.98	338.12	49
9	22-Irrigation	772.46	360.52	47
10	27-Higher Education	652.08	357.21	55
11	28-Rural Development	501.88	285.83	57
12	29-Transport	41.53	19.45	47
	Total		6915.38	

2.4 Non-reconciliation of Departmental figures

2.4.1 Pendency in submission of Detailed Countersigned Contingent (DC) Bills against Abstract Contingent (AC) Bills

As per rules (Chapter-VIII of the Jammu and Kashmir Financial Code Volume-I), every drawing officer has to certify in each abstract contingent bill that detailed bills for all contingent charges drawn by him prior to the first of the current month have been forwarded to the respective Controlling Officers for countersignature and transmission to the Accountant General (A&E), Jammu and Kashmir. In contravention thereto, against a total amount of ₹ 1,837.91 crore (*Appendix-2.9*) drawn on AC bills by various Drawing and Disbursing Officers (DDOs) (41

departments) during 1995-2012, corresponding DC bills have not been submitted (June 2012) to the Accountant General (A&E), Jammu and Kashmir. Non-remission of DC bills for such a huge amount over a very long period is fraught with the risk of misappropriation and requires close monitoring.

Further, reasons for non-settlement of the outstanding AC bills that are more than two years old may be investigated and action may be initiated for their immediate settlement.

The matter has continually been brought to the notice of the Government/ Finance Department from time to time. Despite issuance of instructions in this regard by the State Finance Department, the DDOs did not furnish the pending DC bills.

2.4.2 Un-reconciled Expenditure

To enable Controlling Officers of the Departments to exercise effective control over spending to keep it within the budget grants and to ensure accuracy of their accounts, the State Financial Rules stipulate that expenditure during the financial year recorded in their books be reconciled by them every month with that recorded in the books of the Accountant General (A&E), Jammu and Kashmir. Though non-reconciliation of Departmental figures is being pointed out regularly in Audit Reports, lapse on the part of Controlling Officers in this regard continued to persist. Out of 346 Controlling Officers, 56 did not reconcile expenditure amounting to ₹ 6,572.44 crore which constituted 23 per cent of the total net revenue and capital expenditure.

2.5 Errors in budgeting process

Scrutiny of Demand of Grants for the year 2011-12 showed following inherent flaws in preparation:

- Lump sum budgetary provisions are being placed with Controlling Officers in various Demands for Grants instead of detailed head-wise/ scheme-wise provisions which are in contravention of the State Financial Rules.
- Detailed head 'subsidy' is not being provided under relevant major/ minor head/ sub head of accounts in the Demand for Grants.
- The Capital heads of accounts are being closed at sub head level in the demand for grants. No detailed breakup below thereto up to object head level is available in the approved demand for grants.

These deficiencies make the budgeting process erroneous thereby, making reconciliation of departmental figures with those adopted by the Accountant General (A&E), Jammu and Kashmir difficult. The above matter had been reported to the State Government from time to time. Further action in the matter is awaited (October 2012).

2.6 Review of Grant

2.6.1 Grant No. 12 - Review of Grant for Agriculture Department

Agriculture is the main stay of the economy of the State and more than 80 per cent of the State's population derives its livelihood from this sector. The net cultivable area of the State was 10.79 hectares in 2010-11. A review of the Grant No 12 during 2011-12 revealed as under.

Composition

Table-2.7

GRANT NO. 12 – AGRICULTURE DEPARTMENT

MAJOR HEADS	DEPARTMENTS
2029 Land Revenue	Agriculture
2236 Nutrition	Horticulture
2250 Other Social Services	Agriculture
2401 Crop Husbandry	Agriculture
2402 Soil and Water Conservation	Agriculture
2403 Animal Husbandry	Animal Husbandry
2406 Forestry and Wild Life	Floriculture
2415 Agriculture Research and Education	Agriculture
2425 Cooperation	Cooperation
2435 Other Agricultural Programmes	Horticulture (P&M)
2705 Command Area Development	Command Area Development
2851 Village and Small Industries	Agriculture
4401 Capital Outlay on Crop Husbandry	Agriculture Production
4402 Capital Outlay on Soil and Water Conservation	Agriculture
4406 Capital Outlay on Forestry and Wild Life	Floriculture
4415 Capital Outlay on Agricultural Research and Education	Agriculture
4425 Capital Outlay on Co-operation	Cooperation
4705 Capital Outlay on Command Area Development	Command Area Development
4851 Capital Outlay on Village and Small Industries	Sericulture

2.6.2 Financial Outlay

The financial outlay during the year 2011-12 and expenditure incurred there against are given in **Table 2.8** below:

Table-2.8

(₹ in crore)

	Nature of Expenditure	Original grant / appropriation	Supplementary grant / appropriation	Total	Actual expenditure	Excess (+) / Savings (-)
Voted	Revenue	558.03	Nil	558.03	569.16	(+) 11.13
Voted	Capital	368.68	Nil	368.68	271.09	(-) 97.59

A comparative position of the allocation/ expenditure under the Grant for the last three years is tabulated in **Table 2.9** below:

Table-2.9

(₹ in crore)

		Total Grant	Actual expenditure	Excess (+) / Savings (-)
Year 2009-10				
Revenue Voted				
Original	400.25	400.25	365.51	(-) 34.74
Supplementary	-			
Capital Voted				
Original	182.97	228.91	169.35	(-) 59.56
Supplementary	45.94			
Total	629.16	629.16	534.86	
Year 2010-11				
Revenue Voted				
Original	458.89	458.89	454.10	(-) 4.79
Supplementary	-			
Capital Voted				
Original	241.73	313.89	151.45	(-) 162.44
Supplementary	72.16			
Total	772.78	772.78	605.55	
Year 2011-12				
Revenue Voted				
Original	558.03	558.03	569.16	(+) 11.13
Supplementary	-			
Capital Voted				
Original	368.68	368.68	271.09	(-) 97.59
Supplementary	-			
Total	926.71	926.71	840.25	

As can be seen from the above, the allocation has been on the increase over the years. The overall increase in allocation in 2011-12 over the figures of 2009-10 was 47 per cent. The increase is indicative of the seriousness of the Government for development of agricultural activities in the State aimed at increasing agricultural production and productivity.

2.6.3 Excess expenditure

The Controlling Officer of the department administering the grant is responsible for watching the progress of expenditure on public service under its control and for keeping the expenditure within a Grant. The Controlling Officers are also kept informed about the excess expenditure noticed under any head/ activity by the Accountant General (A&E), Jammu and Kashmir through issue of monthly expenditure statements.

Significant excesses were noticed under certain heads of accounts which are indicated in **Appendix 2.10**. It was observed that the concerned Heads of Departments continued to incur expenditure in excess of budgetary provisions despite being intimated through monthly Appropriation Accounts and warning slips.

2.6.4 Un-utilized Grants

As per the provisions of the Budget Manual, the grants should be appropriated only after the estimates are examined by the administrative department of the Secretariat concerned. It was noticed that the appropriations/ grants remained unutilized during 2011-12 indicating that these were either not required or not examined by the administrative department as indicated in **Table 2.10** below:-

Table-2.10

(₹ in lakh)

Sl. No.	MH/SM/MI/GH/SH	Total Grant	Expenditure	Saving
1	2401/119/0099/1485/NAEP	229.70	0.00	229.70
2	2401/800/0011/0222/Horticulture Construction Programme	7.00	0.00	7.00
3	2406/02/800/0011/1135/Provincial and District Offices (KMR)	17.50	0.00	17.50
4	2705/603/0031/0125/Command Area Development (CSS) Jammu	210.00	0.00	210.00
5	4401/103/0099/0061/Director Agriculture (Kashmir)	40.00	0.00	40.00
	Total	504.20	0.00	504.20

2.6.5 Expenditure without provision

It was noticed that no budgetary provisions were kept in respect of certain Heads of account but expenditure (as per detailed appropriation account) was booked against the said heads of accounts. These are indicated in **Appendix 2.11**.

It was observed that the State Government has placed the lump sum budget provisions at the disposal of Controlling Officers without providing schematic break-up and drawing and disbursing officers incurred the expenditure under various schemes not contemplated in the Demand for Grants.

2.6.6 Significant savings not surrendered

As per the provisions of the budget manual all the anticipated savings should be surrendered to the Government immediately as and when they are foreseen without waiting till the end of the year, unless they are required to meet excesses under some other units which are definitely foreseen at that time. However, significant savings were noticed under various schemes where provisions were distinctly/ separately placed in approved demand for grants as detailed in **Appendix 2.12**. Thus, the significant savings in the above mentioned schemes must have deprived the beneficiaries/ areas of the benefits for which the amount were provided.

2.7 Conclusion

The excess expenditure of ₹ 600.14 crore over the approved provision registered in 14 grants and one appropriation during the year would require regularization under Section 82 of the Constitution of Jammu and Kashmir. Besides, expenditure of ₹ 1,408.38 crore was incurred without provision of funds in 66 Major heads of accounts.

Education, Health and Medical Education, Public Health Engineering, Agriculture, Housing and Urban Development and Finance Department Grants posted large savings during the year. Persistent savings in Law, Animal Husbandry, Housing and Urban Development, Planning Development, Information, Forest, Finance and Labour and Stationery and Printing Grants posted large savings persistently during the last five years. There were also instances of inadequate, excessive and unnecessarily supplementary provisions made in a number of Grants besides rush of expenditure in the last quarter of the financial year.

2.8 Recommendations

The Government may ensure:

- preparing realistic budget estimates to avoid large savings/ excesses.
- surrendering of savings by stipulated date for their effective utilization by needy departments.
- regularization of excess expenditure incurred.
- monitoring of expenditure against the allocations by all departments.
- keeping in place a monitoring mechanism in the departments to adjust the advances drawn on Abstract Contingent Bills within the stipulated period, as required under the extant rules.