

## CHAPTER 2 FINANCIAL MANAGEMENT AND BUDGETARY CONTROL

The Comptroller and Auditor General of India performs the audit of appropriations to ascertain whether the expenditure actually incurred under various grants underlying the budget is within authorisations given under the Appropriation Act for the year, that expenditure required to be charged under provisions of the Constitution is so charged, and whether, expenditure is incurred in conformity with the law, relevant rules, regulations and instructions.

### 2.1 Summary of Appropriation Accounts

The Budget Manual of the Government of Uttar Pradesh stipulates that all final savings must be surrendered by Controlling Officers to the Finance Department by 25 March.

The summarised position of Actual Expenditure during 2016-17 against 93 grants/appropriations is given in **table 2.1**:

**Table 2.1: Summarised position of Actual Expenditure, against provision**

Nature of expenditure		Total Grant/ Appropriation	Actual Expenditure	Savings(-) /Excess(+)	Amount surrendered	Amount surrendered on 31 March 2017	(₹ in crore)
							Percentage of savings surrendered by 31 March 2017
1		2	3	4	5	6	Col.5/ Col.4
<b>Voted</b>	I- Revenue	2,30,390.06	2,01,665.78	(-)28,724.28	15,618.45	15,618.45	54
	II -Capital	95,670.33	82,444.94	(-)13,225.39	6,982.61	6,982.61	53
	III -Loans and Advances	7,644.69	6,741.09	(-) 903.60	460.14	460.14	51
	<b>Total Voted</b>	<b>3,33,705.08</b>	<b>2,90,851.81</b>	<b>(-)42,853.27</b>	<b>23,061.20</b>	<b>23,061.20</b>	<b>54</b>
<b>Charged</b>	IV -Revenue	38,582.41	38,072.27	(-) 510.14	27.23	27.23	05
	V- Capital	28.65	5.85	(-) 22.80	10.59	10.59	46
	VI- Public Debt- Repayment	15,512.49	20,302.67	(+) 4,790.18	00	00	--
	<b>Total Charged</b>	<b>54,123.55</b>	<b>58,380.79</b>	<b>(+)4,257.24</b>	<b>37.82</b>	<b>37.82</b>	<b>--</b>
<b>Grand Total</b>		<b>3,87,828.63</b>	<b>3,49,232.60</b>	<b>(-)38,596.03</b>	<b>23,099.02</b>	<b>23,099.02</b>	<b>60</b>

**Note:** Figures of actual expenditure include recoveries adjusted as reduction of expenditure under voted revenue expenditure (₹ 3,145.78 crore) and voted capital expenditure (₹ 12,661.68 crore).

(Source: Appropriation Accounts, Finance Accounts and Budget documents 2016-17)

There was an overall savings of ₹ 45,513.63 crore and excess of ₹ 6,917.60 crore which resulted in a net savings of ₹ 38,596.03 crore.

The savings under the voted section amounted to 11 *per cent* of total grants/appropriation. Departmental Controlling Officers allowed ₹ 15,497.01 crore (constituting 36 *per cent* of savings under the voted category) to lapse at the end of the financial year. Out of the balance savings, ₹ 23,061.20 crore was surrendered on 31 March 2017. In other words, out of total savings of ₹ 42,853.27 crore under the voted category, only ₹ 4,295.06 crore (10 *per cent*) was available to the Finance Department for re-appropriation during the year. This is a serious cause for concern and indicates the failure of the Finance Department to ensure effective budgetary control.

Under charged section, the overall excess of ₹ 4,257.24 crore due to an excess of ₹ 4,790.18 crore under Public Debt – Repayment and savings of ₹ 532.94 crore under Revenue and Capital section. Of the savings, ₹ 37.82 crore was surrendered on 31 March, 2017.

**Recommendation:** *The Finance Department should monitor trend of expenditure by Departmental Controlling Officers, so that funds are not retained unnecessarily and are surrendered at the earliest, without resorting to last minute surrenders and lapsing of allocations.*

## 2.2 Financial Accountability and Budget Management

### 2.2.1 Excess Expenditure

As per Rule 140 and 174 of the U.P. Budget Manual, any excess expenditure over a grant voted by the Legislature or over a charged appropriation constitutes a financial irregularity. However, it was observed that during 2016-17, there was an overall excess expenditure of ₹ 6,917.60 crore. It was further noticed that the Public Works Department (PWD) incurred excess expenditure of ₹ 2,122.53 crore against three grants<sup>32</sup> (₹ 348.02 crore under the revenue section and ₹ 1,774.51 crore under the capital section).

In 11 schemes pertaining to grant number 58, the PWD, which was provided ₹ 8,850.37 crore through budget provision during 2016-17, thereafter got the provision reduced by ₹ 352.05 crore, leaving total provision of ₹ 8,498.32 crore. Despite this, the PWD thereafter, incurred expenditure of ₹ 9,738.70 crore, i.e., an excess of ₹ 1,240.38 crore. Details are given in **Appendix 2.1**.

Additionally, it is of special interest to note that the Finance Department itself failed to correctly estimate the expenditure under repayment of debt and consequently incurred excess expenditure of ₹ 4,794.78 crore during the year.

It was also observed that the PWD has been exceeding the appropriations approved by the Legislature every year. Details of substantial excess expenditure relating to the PWD over the past five years are detailed in **table 2.2** below:

**Table 2.2: Grants indicating persistent excess expenditure**

(₹ in crore)

Sl. No.	Number and name of grant	Excess expenditure				
		2012-13	2013-14	2014-15	2015-16	2016-17
Revenue-Voted						
1.	58-PWD (Communications -Roads)	166.12	204.95	310.73	281.23	346.07
Capital-Voted						
2.	55-PWD (Buildings)	71.97	70.68	47.23	29.19	34.33
3.	58-PWD (Communications -Roads)	2,152.37	3,131.34	2,430.21	2,211.02	1,701.67

(Source: Appropriation Accounts of the respective years)

Such repeated excess expenditure over grants approved by the State Legislature are in violation of the will of the Legislature and the basic

<sup>32</sup>Grant no. 55-PWD (Buildings), Grant no. 57-PWD (Communications-Bridges), Grant no. 58-PWD (Communications-Roads).

principle of democracy that not a rupee can be spent without the approval of the House of the People/State Legislative Assembly, and, therefore, need to be viewed seriously.

**Recommendation:** *The Finance Department should ensure that no Departmental Controlling Officers, including the Finance Department itself, resort to excess expenditure over the regular allocations approved by the State Legislature.*

### 2.2.2 Excess expenditure requiring regularisation

As per Article 205 of the Constitution of India, it is mandatory for a State Government to get excess expenditure over a grant/ appropriation regularised by the State Legislature. It was observed however, that the State Government failed to get excess expenditure amounting to ₹ 24,144.20 crore covering 95 grants and 38 appropriations pertaining to the past decade (2005-16) regularised (**Appendix 2.2A**). During 2016-17, in five cases of grants/ appropriations amounting to ₹ 5,662.17 crore over and above the authorisation from the Consolidated Fund of the State were required to be regularised (**Appendix 2.2B**).

**Recommendation:** *All the existing cases of excess expenditure need to be got regularised at the earliest and, in future, such un-voted expenditure may be completely stopped, except in case(s) of dire and extreme emergency, the cost of which can not be met from the Contingency Fund.*

### 2.2.3 Savings

**Appendix 2.3** provides details of 60 cases where savings exceeded ₹ 10 crore in each case and by more than 20 per cent of total provisions. **Appendix 2.4** provides details of 59 cases relating to 41 grants/ appropriations exceeding ₹ 100 crore in each case wherein savings of ₹ 43,036.89 crore occurred.

Savings under revenue voted head of account exceeding ₹ 500 crore occurred in 15 grants under grant numbers: 7- Industries Department (Heavy and Medium Industries), 11-Agriculture and other Allied Department (Agriculture), 24- Cane Development Department (Sugar Industry), 26- Home Department (Police), 32-Medical Department (Allopathy), 35-Medical Department (Family Welfare), 37-Urban Development Department, 48-Minorities Welfare Department, 49- Women and Child Welfare Department, 51-Revenue Department (Relief on account of Natural Calamities), 52- Revenue Department (Board of Revenue and other Expenditure), 54-Public Works Department (Establishment), 71-Education Department (Primary Education), 83- Social Welfare Department (Special Component Plan for Scheduled Castes) and 95-Irrigation. Department (Establishment).

Similarly, savings under the capital voted head of account exceeding ₹ 500 crore occurred in six grants: 7- Industries Department (Heavy and Medium Industries), 13- Agriculture and other Allied Departments (Rural Development), 42- Judicial Department, 71-Education Department (Primary Education), 83-Social Welfare Department (Special Component Plan for Scheduled Castes) and 94- Irrigation Department (Works).

## Report on State Finances for the year ended 31 March 2017

Out of the above mentioned grants, savings (exceeding ₹ 500 crore) occurred in 14 cases involving 12 grants during 2015-16 also as detailed in **table 2.3**:

**Table 2.3: Grants indicating savings**

(₹ in crore)

Sl. No.	Grant No.	Name of the Grant	Savings (₹ 500 crore and above) during	
			2015-16	2016-17
1.	13	Agriculture and Other Allied Departments (Rural Development) – Capital Voted	1,669.11	3,300.96
2.	26	Home Department (Police) -Revenue Voted	1,346.41	886.34
3.	32	Medical Department (Allopathy) -Revenue Voted	938.53	1,088.42
4.	35	Medical Department (Family Welfare) -Revenue Voted	1,404.12	1,263.58
5.	37	Urban Development Department – Revenue Voted	1,390.72	2,751.47
6.	48	Minorities Welfare Department – Revenue Voted	852.81	973.77
7.	49	Women and Child Welfare Department – Revenue Voted	1,058.88	1,106.73
8.	51	Revenue Department (Relief on account of Natural Calamities) – Revenue Voted	1,318.61	4,132.50
9.	54	Public Works Department (Establishment)- Revenue Voted	1,384.03	1,778.37
10.	71	Education Department (Primary Education)- Revenue Voted	3,229.85	2,414.62
11.	71	Education Department (Primary Education)- Capital Voted	543.54	1,276.45
12.	83	Social Welfare Department (Special Component Plan for Scheduled Castes)- Revenue Voted	2,306.78	1,704.21
13.	83	Social Welfare Department (Special Component Plan for Scheduled Castes)- Capital Voted	1,357.70	2,477.98
14.	95	Irrigation Department (Establishment) – Revenue Voted	933.97	1,180.41

(Source: Appropriation Accounts 2015-16 & 2016-17)

### 2.2.4 Persistent savings

In 22 cases involving 17 grants, it was noticed that there were persistent savings (₹ 100 crore and above) ranging between ₹ 102.54 crore and ₹ 3,300.96 crore during the preceding five years, as detailed in **Appendix 2.5**.

**Recommendation:** All anticipated savings should be surrendered on time so that the funds can be utilised for other development purposes.

### 2.2.5 Unnecessary/inadequate supplementary provision

During 2016-17, in 56 cases, supplementary provisions amounting to ₹ 7,712.64 crore (₹ one crore or more in each case) proved unnecessary as the expenditure was not even up to the level of the original provision as detailed in **Appendix 2.6**.

### 2.2.6 Excessive/ unnecessary re-appropriation of funds

Despite re-appropriation, there was a savings of ₹ 2,294.89 crore in 109 sub-heads involving 43 grants and excess of ₹ 1,693.44 crore in 53 sub-heads involving 28 grants indicating injudicious re-appropriation without assessing actual requirements (**Appendix 2.7**).

### 2.2.7 Substantial surrenders

During 2016-17, substantial surrenders (50 per cent or more of the total provision) amounting to ₹ 9,280.48 crore (84 per cent of total provision of ₹ 11,086.84 crore) were made in 247 sub-heads, which included 100 per cent surrenders in 105 schemes/ programmes (₹ 5,196.55 crore). Details are given

in *Appendix 2.8*. Such substantial surrenders indicated that either the budgeting was done without due prudence or that there are serious slippages in programme implementation.

### **2.2.8 Surrender in excess of actual savings**

In six grants (₹ 50 lakh or more in each case) as against savings of ₹ 4,869.45 crore, ₹ 5,434.93 crore was surrendered resulting in excess surrender of ₹ 565.48 crore during 2016-17 as detailed in *Appendix 2.9*. Such surrenders in excess of actual savings indicated that the departments did not exercise adequate budgetary controls by watching flow of expenditure through monthly expenditure statements.

### **2.2.9 Anticipated savings not surrendered**

As per para 139 of the Budget Manual, spending departments are required to surrender grants/ appropriations or portion thereof to the Finance Department as and when savings are anticipated. At the end of 2016-17, though savings of ₹ 11,529.63 crore occurred in 41 cases of grants/ appropriations, no part of it was surrendered by the spending departments. Details are given in *Appendix 2.10*.

Similarly, out of savings of ₹ 35,507.05 crore in 90 cases (savings of ₹ one crore and above in each case), an amount of ₹ 24,143.67 crore (68 per cent) was not surrendered (*Appendix 2.11*), which forms 53 per cent of total savings of ₹ 45,513.63 crore. This is indicative of inadequate financial control and resultant blocking of funds.

**Recommendation:** *The Government should ensure that excessive, unnecessary supplementary provisions and injudicious surrenders are avoided.*

### **2.2.10 Misclassification of expenditure**

Revenue expenditure is recurring in nature and is intended to be met from revenue receipts. Further, as per Indian Government Accounting Standard-2 (IGAS-2), expenditure on grants-in-aid is recorded as revenue expenditure in the books of the grantor and as revenue receipt in the books of recipient. Capital expenditure is defined as expenditure incurred with the object of increasing concrete assets of a material of permanent character, or of reducing recurring liabilities.

However during 2016-17, the State Government provided and booked minor construction works amounting to ₹ 64.75 crore under various capital heads instead of revenue heads. Expenditure on grants-in-aid amounting to ₹ 0.46 crore has been incurred under capital section, whereas it should be expended as revenue expenditure.

Similarly, expenditure of ₹ 0.03 crore, ₹ 3.63 crore and ₹ 0.21 crore (total ₹ 3.87 crore) were also booked under the head – ‘maintenance of vehicles and purchase of petrol etc.’, ‘payment for commercial and special services’ and ‘maintenance of computer/purchase of related stationary’ respectively under capital section which were to be classified as revenue expenditure.

### 2.2.11 Advances from the Contingency Fund - Not recouped

Under the Constitutional provisions of Contingency Fund Act, 1950, GoUP maintains Contingency Fund with a corpus amount of ₹ 600 crore. As per the Uttar Pradesh Contingency Fund Rules, 1962, advances from the Fund shall be made only to meet unforeseen and emergent expenditure, pending its authorisation by the Legislature following which, it is recouped.

It was observed however, that ₹ 308.12 crore, drawn from the Contingency Fund during December 2016 to February 2017, was not recouped at the close of the financial year (March 2017).

It was further noticed that out of the advance, ₹ 300 crore was given to U.P. Jal Nigam during December 2016 to January 2017 as an interest free loan to meet salary and retirement commitments which does not constitute emergent and unforeseen expenditure and was also not recouped during the year in contravention to the U.P. Contingency Fund Rules.

**Recommendation:** *The State Government should ensure that no advances are drawn from the Contingency Funds except to meet expenditure of emergent and unforeseen nature.*

### 2.2.12 Rush of Expenditure

According to Rule 56 (3) of the General Financial Rules (GFR), rush of expenditure particularly in the closing months of financial year shall be regarded as a breach of financial propriety and shall be avoided. The last quarter expenditure must be limited to actual procurement of goods and services and reimbursement of expenditure already occurred. Ministry of Finance, GoI restricts last month (March) expenditure to ceiling 15 per cent. However, GoUP has not framed any rules with regard to limiting the rush of expenditure.

**Appendix 2.12** details cases where expenditure in March 2017 was more than 15 per cent of allocation for the entire year. Of these cases, against ₹ 13,409.89 crore actually spent under MH 2515 for grants to *Panchayati Raj*, ₹ 3,813.33 crore (27 per cent) was spent in March 2017 alone. It was also observed that GoUP issued sanction orders for ₹ 3,053.81 crore on a single day i.e., 30 March 2017 for different schemes such as Swachh Bharat Mission (₹ 80.82 crore) and grants-in-aid to Gram panchayats (₹ 2,972.99 crore).

**Recommendation:** *The State Government should frame rules to ensure that budget provisions are not unutilised and should control rush of expenditure during fag end of the financial year.*