



**CHAPTER-II:
FINANCIAL
MANAGEMENT AND
BUDGETARY CONTROL**

CHAPTER II

FINANCIAL MANAGEMENT AND BUDGETARY CONTROL

2.1 Introduction

2.1.1 Effective financial management ensures that policy decisions are implemented at the administrative level without wastage or diversion of funds and with reasonable assurance about successful implementation of policy at the ground level. This Chapter reviews the appropriations and allocative priorities of the State Government and comments on the transparency and effectiveness of its budgetary processes.

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

Audit of appropriations seeks to ascertain whether the expenditure actually incurred under various grants is within the authorisation 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 summarised position of actual expenditure during the year 2018-19 against 47 grants/appropriations is given in **Table 2.1**.

Table 2.1: Summarised position of actual expenditure *vis-à-vis* budgetary provision for the year 2018-19

(₹ in crore)

Nature of expenditure		Original grant/ appropriation	Supplementary grant/ appropriation	Total	Actual expenditure	Saving (-)/ Excess (+)	Amount surrendered	Amount surrendered on 31 March	Percentage of savings surrendered (Col. 7/6)
1		2	3	4	5	6	7	8	9
Voted	I Revenue	4911.60	763.32	5674.92	4829.64	(-) 845.28	749.99	623.84	88.73
	II Capital	1329.08	529.69	1858.77	1392.68	(-) 466.09	400.58	288.39	85.94
	III Loans/ advances	0.55	0	0.55	0.55	0.00	0.00	0	0
Total Voted		6241.23	1293.01	7534.24	6222.87	(-) 1311.37	1150.57	912.23	87.74
Charged	I Revenue	517.27	0.55	517.82	484.66	(-) 33.16	30.97	29.11	93.40
	II Capital	375.32	0.57	375.89	375.88	(-) 0.01	0.00	0.01	0
	III Public Debt- Repayment	0.00	0.00	0	0	0.00	0	0.00	0
Total Charged		892.59	1.12	893.71	860.54	(-) 33.17	30.97	29.12	93.40
Grand Total		7133.82	1294.13	8427.95	7083.41	(-) 1344.54	1181.54	941.35	87.88

Source: Appropriation Accounts 2018-19

During the year 2018-19, savings amounted to 15.95 per cent of total grants and appropriations. The overall savings of ₹ 1344.54 crore was net result of total savings of ₹ 1344.86 crore in 41 grants and three appropriations under Revenue Section and 25 grants and one appropriation under Capital Section, offset by excess of ₹ 0.32 crore in one grant (₹ 0.12 crore -Grant No. 39) and one appropriation (Governor ₹ 0.20 crore) under Revenue Section.

Further, against the overall savings of ₹ 1344.54 crore, an amount of ₹ 1181.54 crore (87.88 per cent) was surrendered during 2018-19, of which ₹ 941.35 crore (79.67 per cent) was surrendered on the last day of the year i.e., 31 March 2019. Thus, this surrendered amount were not available for other needy departments who could have used it.

The savings/excess were intimated (3 July 2019) to the Controlling Officers requesting them to explain the significant variations. Out of 726 sub-heads, explanations in respect of 493 savings and 195 excess cases were received up to 31 July 2019 and explanations regarding the balance one saving and 22 excess cases were received after 31 July 2019.

2.3 Financial Accountability and Budget Management

2.3.1 Appropriation vis-à-vis Allocative Priorities

Audit scrutiny revealed that in 26 cases, savings exceeded one crore and was also more than 20 per cent of total provision (**Appendix 2.1**). Against the total savings of ₹ 1,344.86 crore, savings of ₹ 454.43 crore (33.79 per cent)¹ occurred in five cases (three Revenue and two Capital) relating to four grants, where in each case savings were ₹ 50 crore and above. Details are indicated in the following **Table 2.2**.

Table 2.2: List of Grants with Savings of ₹ 50 crore and above

(₹ in crore)							
Sl. No.	Grant No.	Name of Grant/Appropriation	Original	Supplementary	Total	Actual expenditure	Saving
REVENUE - VOTED							
1	15	Horticulture & Cash Crops Department- Revenue Voted	156.62	7.69	164.31	101.71	62.60
2	19	Irrigation & Flood Control Department- Revenue Voted	120.94	2.00	122.94	31.15	91.79
3	35	Rural Management and Development Department- Revenue Voted	277.44	194.68	472.12	339.17	132.95
CAPITAL - VOTED							
4	33	Water Security and Public Health Engineering Department-- Capital	108.63	0.93	109.56	57.37	52.19
5	35	Rural Management and Development Department-- Capital Voted	455.41	65.51	520.92	406.02	114.90
Total							454.43

Source: Appropriation Accounts

It may be seen from the above table that in four cases, Supplementary Grants were obtained even though the Actual expenditure was less than Original Provision. Further, out of total

¹ Exceeding ₹ 50 crore in each case.

savings of ₹ 454.43 crore, ₹ 247.85 crore (54.55 per cent) related to Grant No. 35 (Rural Development Department) only.

Savings were mainly due to i) non-receipt and less receipt of funds from Government of India (GoI), ii) non-receipt of anticipated medical bills for payment, iii) non-progress of works and non-submission of bills, and iv) non-release of resources by the Finance Department. The savings indicate not only unrealistic budget estimation but also lack of monitoring of fund flow as well as execution of works.

2.3.2 Surrenders up to 100 per cent

Substantial surrenders (cases where more than 50 per cent of total provision were surrendered) were made in respect of 82 sub-heads. Out of the total provisions amounting to ₹ 711.90 crore in those 82 sub-heads, ₹ 594.15 crore constituting 83.46 per cent of total budget provision were surrendered, which included 36 sub-heads under which 100 per cent allocation (₹ 152.76 crore) was surrendered. Out of 82 sub-heads, 78 sub-heads pertained to developmental works, which got hampered due to non-utilisation of budgetary allocation. The details of such cases as well as reasons thereof are given in **Appendix 2.2 (A)** and **Appendix 2.2 (B)**.

2.3.3 Unnecessary Supplementary Provision

Supplementary provision aggregating ₹231.83 crore obtained in 26 cases (18 Revenue Grants and eight Capital Grants) with ₹10 lakh or more in each case during July, September and December 2018 proved unnecessary as the total expenditure did not come up to the level of original provision as detailed in **Appendix 2.3**.

2.3.4 Excess over Provisions requiring Regularisation

Excess expenditure over grants approved by the Legislature is in violation of the will of the Legislature and is against the basic principle of democracy that not a rupee can be spent without the approval of the House of the People/State Legislative Assembly, and, therefore needs to be viewed seriously.

As per Articles 204 and 205 of the Constitution of India, it is mandatory for a State Government to get the excess over a grant/appropriation regularised by the State Legislature. Although no time limit for regularisation of expenditure has been prescribed under the Article, the regularisation of excess expenditure is done after the completion of discussion of the Appropriation Accounts by the Public Accounts Committee (PAC).

During 2018-19 there was excess expenditure aggregating ₹ 0.32 crore relating to one grant and one appropriation, as depicted in **Table 2.3**.

Table 2.3: Excess over Provisions of 2018-19 Requiring Regularisation

					(₹ in crore)	
Sl. No.	Number and title of Grant/Appropriation		Total grant/appropriation	Expenditure	Excess	
VOTED Grants -						
1	39	Sports and Youth Affairs	14.19	14.31	0.12	
CHARGED – Appropriation						
1		Governor	9.06	9.26	0.20	
Total			23.25	23.57	0.32	

Source: Appropriation Accounts

Moreover, Appropriation Accounts up to 2011-12 had been discussed by the PAC. It was observed that the State Government had yet to get regularised the excess expenditure amounting to ₹ 82.96 crore covering 39 grants and one appropriation pertaining to the years 2012-13 to 2017-18 (November 2019) as detailed in **Table 2.4**.

Table 2.4: Excess over Provision Requiring Regularisation

(₹ in crore)

Year	Number of		Amount of excess over provision	Status of Regularisation
	Grants	Appropriations		
2012-13	17 Grants and 1 Appropriation- Grant Nos. 3,5,9,16,17,24,25,26,27,31,32,33,34,35,36,40,42	Governor	22.10	Under examination by PAC
2013-14	15 Grants - Grant Nos. 3,5,7,8,9, 10, 16,24,26,30, 31,32,34,35,42	-	55.77	Under examination by PAC
2014-15	05 Grants- Grant Nos 3,8,31,33,42	-	4.28	Under examination by PAC
2015-16	01 Grant - Grant no 36	-	0.05	Under examination by PAC
2017-18	01 Grant - Grant no 34	-	0.76	Under examination by PAC
Total			82.96	

Source: Appropriation Accounts

2.3.5 Persistent Savings

Review of overall utilisation of budget provisions relating to 45 grants and two appropriations during 2014-15 to 2018-19 revealed that the Government had substantial savings ranging between 15.95 per cent and 29.73 per cent of total budget allocation as shown in **Appendix 2.4**.

In 18 cases involving 14 grants, it was noticed that there were persistent savings of more than one crore and 10 per cent or more of the total grant in each case. The savings ranged between one crore and ₹ 161.61 crore during 2014-15 to 2018-19, as detailed in **Appendix 2.5**.

Savings were mainly due to i) non-payment of salary to the newly appointed Marketing Assistants for non-submission of 14 digit id numbers, ii) late release of funds by GoI, iii) non-payment of pay arrear, iv) slow progress of civil works, v) non-implementation of various schemes, vi) delayed approval of various schemes, vii) non-clearance of proposal by Finance Department, viii) non-receipt of anticipated bills for payment, ix) non-utilisation of funds due to release of funds in the end of the year, x) non-receipt of claim, xi) non-occurrences of major calamity during the years, xii) due to austerity measures adopted, xiii) delay in land acquisition process and in some cases, reasons were not intimated by the departments.

Although the issue of persistent savings is being highlighted in the Reports of the CAG on State Finances every year, no corrective measure has been taken by the departments. This shows that there is complete lack of monitoring, especially as the savings are taking place year after year. The Finance Department should take serious measures to eliminate persistent savings.

2.3.6 Anticipated savings not surrendered

As per Rule 84 of SFR, the spending departments are required to surrender the grants/appropriations or portion thereof as and when savings are anticipated.

Against the overall savings of ₹ 1344.54 crore, an amount of ₹ 1181.54 crore (87.88 per cent) was surrendered during 2018-19, of which ₹ 941.35 crore (79.67 per cent) was surrendered on the last day of the year i.e., 31 March 2019. Thus, this surrendered amount were not available for other departments who could have productively used it.

Further, in 18 grants (with savings of ₹ one crore and above), out of total savings of ₹ 753.93 crore, only ₹ 615.36 crore was surrendered leaving ₹ 138.57 crore (18.38 per cent) un-surrendered, details of which are given in **Appendix 2.6**. Besides, in 53 Major Heads under 25 grants/ appropriations, (with surrender in excess of one ₹ crore or more), ₹ 934.01 crore (details given in **Appendix 2.7**) was surrendered on the last working day of 2018-19, which was in total disregard of financial rules. Rural Development Department surrendered ₹ 233.28 crore (₹ 126.95 crore Revenue and ₹ 106.33 crore Capital) on last working day of the financial year.

Non-surrendering or surrendering of savings on the last day of financial year shows lax financial control, as surrendered funds could have been utilised fruitfully for other purposes.

2.3.7 Excessive/ unnecessary re-appropriation of funds

Re-appropriation is transfer of funds within a grant from one unit of appropriation, where savings are anticipated, to another unit where additional funds are needed. As per the Appropriation Accounts, re-appropriations under 21 sub-heads proved excessive or insufficient and resulted in saving/ excess of over ₹10 lakh as detailed in **Appendix 2.8**.

The main reasons for re-appropriation were payment of pay and allowances, payment of arrears of revised pension in one instalment, payment of arrears of pay and allowances. Reasons for excess was due to payment of arrears arising out of re-fixation of pay.

2.3.8 Major Announcements made in the Budget Speech for Financial Year 2018-19

The Government in its Budget for the financial year 2018-19 made several announcements for which no provisions were made in the Budget. Some of instances are highlighted below.

- ‘Chief Minister’s Start-up Scheme (CMSS)’ with a commitment to creating job opportunities and facilitating generation of employment to unemployed youth or school dropouts in various sector with a financial assistance upto ₹ 20 lakh with an announcement of a total allocation of ₹ 79.00 crore for the scheme.
- ‘Kisan Pension Scheme’ with the provision of pension for the farmers who are actively engaged in organic farming upon reaching the age of 50 years will be provided a monthly pension of ₹1000 per month.
- Construction of Transit Accommodation/ Labour Shed-cum-night shelter for the registered workers at the worksite.
- Construction of Jyestha Nagarik Sewa Samman Kendra at Namchi (Old Age Home), South Sikkim and one Old Age Home each in other Districts subsequently.
- Under Culture sector, construction of world-class Library, the Gyan Mandir in Gangtok, Ethnic Cultural Centre to be developed at Buriakhop, West Sikkim, Cultural Centre for

Magar Community of Sikkim, two Gaushalas one each at Rhenock and Buriakhop. Study Centres for communities of Tamang, Bhujel and Sherpa to be established in the State.

- Though the Budget announcement was made of ₹ 7 crore (Gyan Mandir in Gangtok); ₹ 7 crore (Ethnic Cultural Centre to be developed at Buriakhop); ₹ 2 crore (Cultural Centre for the Magar community); ₹ 3 crore for two Gaushalas one each at Rhenock and Buriakhop but it was seen that for various announcements made under the Culture Sector by the Government, only ₹ 8.45 lakh was allocated and spent on Gaushalas.
- It was also announced to establish a Drug Testing Laboratory at Chuwatar at a cost of ₹ 8.80 crore and Trauma Centres at Namchi, Singtam and Mangan. However, the Government had kept budget provision of ₹ 2.15 crore and ₹ 4.64 crore only for setting up of Drug Testing laboratory and Trauma Centres respectively and could spend only ₹ 1.16 crore towards establishment of Drug Testing laboratory and failed to utilise the fund allocated for setting up of Trauma Centres.

Thus, announcements made in Budget speech without allocating any funding in the budget, were mere hollow promises and vitiated the sanctity of the budget.

2.4 Conclusion

Against the total provision of ₹ 8,427.95 crore during 2018-19, an expenditure of ₹ 7,083.41 crore was incurred, resulting in overall savings of ₹ 1,344.54 crore, which stood at 15.95 per cent of total grants and appropriations. This shows poor financial management by the State. It also indicates that budget estimates were not prepared properly and that the activities were not executed in a well-planned manner. Further, excess expenditure of ₹ 83.28 crore during 2012-13 to 2018-19 required regularisation from the Legislature. During 2018-19 supplementary provision of ₹ 231.83 crore in 26 cases was unnecessary, ₹ 934.01 crore under 53 schemes was surrendered on the last working day of the financial year. Substantial surrenders aggregating to ₹ 594.15 crore constituting 83.46 per cent of total budget provision of ₹ 711.90 crore were noticed in 78 sub-heads. Fourteen departments had persistent savings of more than ₹ one crore or more during 2014-15 to 2018-19. Advances amounting to ₹ 120.77 crore remained unsettled as on March 2019 distorting the amount of expenditure being shown as spent.

2.5 Recommendations

- *The budget estimates should be prepared more realistically. Further, there is need to ensure that works are executed as per schedule and funds are released as per allocations.*
- *The government needs to examine the reasons of persistent and substantial savings, so that budgetary allocations as authorised by Appropriation Acts are utilised to maximum extent.*
- *All the existing cases of excess expenditure need to be regularised at the earliest and, in future, expenditure should be limited within budget allocations strictly.*
- *The utilisation of budget should be monitored closely, to ensure that all anticipated savings are surrendered promptly so that the funds can be utilised by other departments who are in need of funds.*