

CHAPTER II

ALLOCATIVE PRIORITIES AND APPROPRIATION

2.1 Introduction

The Appropriation Accounts prepared annually indicate 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 the budget.

Audit of appropriation by the Comptroller and Auditor General of India seeks to ascertain whether the expenditure actually incurred under various Grants is within the authorisation given under the Appropriation 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 2004-05 against grants/appropriations was as follows:

(Rupees in crore)

Nature of expenditure	Original grant/ appropriation	Supplementary grant/ appropriation	Total	Actual expenditure	Savings(-)/ Excess(+)
Voted					
I Revenue	15305.56	1358.00	16663.56	13896.58	(-) 2766.98
II Capital	582.25	409.50	991.75	693.35	(-) 298.40
III Loans and Advances	139.99	87.66	227.65	196.49	(-) 31.16
Total Voted	16027.80	1855.16	17882.96	14786.42*	(-) 3096.54
Charged					
IV Revenue	3831.40	28.09	3859.49	3668.74	(-) 190.75
V Capital	1.84	3.08	4.92	3.22	(-) 1.70
VI Public Debt	6052.54	9.72	6062.26	11886.32	(+)5824.06
Total Charged	9885.78	40.89	9926.67	15558.28*	(+)5631.61
Appropriation to Contingency Fund	75.00		75.00	75.00 ^{\$}	
Grand Total	25988.58	1896.05	27884.63	30419.70**	(+)2535.07

\$ The corpus of the Contingency Fund was increased from Rs 25 crore to Rs 100 crore by the Kerala Contingency Fund (Amendment) Act, 2005.

* These are gross expenditure figures without taking into account the recoveries adjusted in accounts as reduction of expenditure (Revenue: Rs 395.91 crore and Capital: Rs 89.83 crore, Total: Rs 485.74 crore).

** The total expenditure was inflated at least to the extent of :

- Rs 32.78 lakh being amounts drawn on abstract contingent bills during the year for which detailed contingent bills were not received
- Rs 50.50 crore being amounts drawn during the year and deposited in Treasury Savings Bank account of the drawing officers

** The total expenditure was understated to the extent of :

- Rs 1.67 crore due to non-receipt of vouchers from treasuries
- Rs 15.04 crore on account of advances drawn from Contingency Fund remaining unrecouped at the end of the year

The overall excess of Rs 2535.07 crore was the result of excess of Rs 5839.93 crore in 2 grants and 3 appropriations (5 cases) offset by savings of Rs 3304.86 crore in 43 grants and 18 appropriations (87 cases). Reasons for excess/savings in respect of 74 per cent of sub heads required to be mentioned in the Appropriation Accounts had not been furnished by the Controlling Officers as of July 2005.

2.3 Fulfilment of Allocative Priorities

2.3.1 Appropriation by Allocative Priorities

Out of the savings of Rs 3304.86 crore, the major savings of Rs 2953.46 crore (89 per cent) occurred in 20 cases as indicated below:

<i>(Rupees in crore)</i>				
Sl. No	Number and Name of Grant/Appropriation	Total Grant/ Appropriation	Actual expenditure	Amount of savings
Revenue-Voted				
1	II Heads of States, Ministers and Headquarters Staff	294.47	151.63	142.84
2	VI Land Revenue	145.56	102.64	42.92
3	XII Police	645.28	558.19	87.09
4	XV Public Works	758.44	675.52	82.92
5	XVI Pensions and Miscellaneous	3047.40	2862.78	184.62
6	XVII Education, Sports, Art and Culture	3791.82	3314.89	476.93
7	XVIII Medical and Public Health	930.64	784.64	146.00
8	XX Water Supply and Sanitation	479.25	262.77	216.48
9	XXII Urban Development	442.68	319.29	123.39
10	XXIV Labour and Labour Welfare	217.99	173.53	44.46
11	XXV Social Welfare including Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes	733.61	600.57	133.04
12	XXIX Agriculture	530.02	424.41	105.61
13	XXX Food	171.37	43.50	127.87
14	XXXV Panchayat	1670.21	1154.23	515.98
15	XXXVI Community Development	263.06	171.44	91.62
16	XXXVIII Irrigation	169.57	126.27	43.30
Revenue-Charged				
17	Debt Charges	3797.70	3612.90	184.80
Capital-Voted				
18	XXVIII Miscellaneous Economic Services	135.05	0.04	135.01
19	XXIX Agriculture	46.01	17.90	28.11
20	XXXVII Industries	177.48	137.01	40.47
Total		18447.61	15494.15	2953.46

The savings under 'Heads of States, Ministers and Headquarters staff' was mainly due to delay in implementation of new schemes under 'Modernisation of Government Programmes', slow progress in 'Akshaya Schemes', cut in plan expenditure on the projects by the Kerala Information Technology Mission on account of resource crunch.

The savings under 'Debt Charges' was mainly due to less requirement of funds for payment of interest on share of small savings collections due to pre-payment of high cost loans through debt swap mechanism.

The savings under ‘Pension and Miscellaneous’ was mainly due to deficiency in accurate estimation and difficulty in accuracy of estimation on account of nature of expenditure.

The savings under ‘Water Supply and Sanitation’ was mainly due to non-release of funds by the State Government considering the slow progress of work under Japan Bank for International Co-operation (JBIC) assisted water supply schemes, release of Central assistance directly by the Central Government to Kerala Water Authority and non-release of funds set apart under Centrally sponsored schemes.

The savings under ‘Food’ was mainly due to non-payment of subsidy in view of the stability of prices of ration materials.

The major heads of account in which huge savings occurred in these 20 cases are given in **Appendix XII**.

In 36 cases savings exceeding Rs 5 crore or more in each case and also by more than 10 *per cent* of the total provision, amounted to Rs 2818.17 crore (**Appendix XIII**).

2.3.2 Persistent savings

In 11 cases, there were persistent savings in excess of Rs 50 lakh in each case and also 20 *per cent* or more of the provision during the last three years (**Appendix XIV**).

2.3.3 Excess requiring regularisation

Excess over provision relating to previous years requiring regularisation

As per Article 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. However, excess expenditure amounting to Rs 3472.14 crore for the years 1983-84 to 1985-86 and 1988-89 to 2003-04 was yet to be regularised as of August 2005 (**Appendix XV**). In addition, excess expenditure of Rs 5839.91 crore that occurred during 2004-05 which requires regularisation has been indicated below.

(Amount in Rupees)

Sl. No.	Number and Name of Grant/Appropriation	Total Grant/Appropriation	Actual expenditure	Excess
Revenue-Voted				
1	XIX Family Welfare	927000000	1075258936	148258936
Capital-Voted				
2	XV Public Works	2593204000	2603435142	10231142
Capital-Charged				
3	XXIX Agriculture	848000	872695	24695
4	Public Debt Repayment	60622619000	118863182898	58240563898
Total		64143671000	122542749671	58399078671

Though supplementary provision was obtained in the case of all these grants/appropriations during the year, this was inadequate to cover the excess

expenditure. This indicated deficiency in budget formulation and failure to obtain adequate supplementary demands.

Of the total excess of Rs 5839.91 crore, the major excess of Rs 5824.06 crore (99.73 *per cent*) occurred under 'Public Debt Repayment' was mainly due to availing of more ways and means advances and overdrafts during the year than anticipated, adjustment of Block loans through debt swap scheme by the Government of India at the fag end of the year (Rs 561.20 crore), adjustment of ways and means advances sanctioned to the State Government during the year (Rs 150 crore).

2.3.4 Original budget and supplementary provisions

Supplementary provisions (Rs 1896.05 crore) made during the year constituted 7.32 *per cent* of the original provision (Rs 25913.58 crore) as against 33.30 *per cent* in the previous year.

2.3.5 Unnecessary/excessive/inadequate supplementary provisions

- Supplementary provision of Rs 336.16 crore obtained in 29 cases proved unnecessary in view of aggregate savings of Rs 1878.23 crore (**Appendix XVI**).
- In 21 cases, against additional requirement of Rs 672.62 crore, supplementary grant of Rs 1079.40 crore was obtained resulting in savings in each case exceeding Rs 10 lakh, aggregating Rs 406.78 crore (**Appendix XVII**).
- In 3 cases supplementary provision of Rs 188.46 crore proved insufficient by more than Rs 10 lakh each leaving an aggregate uncovered excess expenditure of Rs 5839.91 crore (**Appendix XVIII**).

2.3.6 Excessive/unnecessary reappropriation of funds

Reappropriation is transfer of funds between primary units of appropriation within a grant or appropriation before the close of the financial year. Details of cases where withdrawal or augmentation of provision of funds in excess of Rs 50 lakh proved excessive or resulted in savings by over Rs 50 lakh in each case are mentioned in **Appendix XIX**.

2.3.7 Anticipated savings not surrendered

According to rules, the spending Departments are required to surrender the grants/appropriations or portion thereof, as and when the savings are anticipated, to the Finance Department. However, savings of an aggregate amount of Rs 1155.94 crore, in 19 cases savings of Rs 5 crore and above in each case, was not surrendered. Failure of these Departments to surrender such huge savings revealed improper monitoring of expenditure against budget provision and poor budgetary management. Details are given in **Appendix XX**.

Out of the total surrendered amount of Rs 2197.37 crore (85 cases), Rs 2066.90 crore (78 cases) was surrendered on 31 March 2005 indicating gross disregard of rules and procedures of financial control over expenditure.

2.3.8 Surrender in excess of actual savings

In 13 cases the amount surrendered was in excess of actual savings indicating inadequate budgetary control. As against the actual savings of Rs 381.77 crore in these cases the amount surrendered was Rs 430.85 crore, resulting in excess surrender of Rs 49.08 crore (**Appendix XXI**).

2.4 Budgetary Procedure and Control over expenditure

A review of the budgetary procedures and control over expenditure was conducted in respect of the Grants XV – ‘Public Works’ and XXV – ‘Social Welfare including Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes’. Some of the important points noticed during the review are detailed below:

2.4.1 Submission of budget proposals

There was delay of over one month in sending the budget proposals for 2004-05 by the Public Works and Social Welfare Departments to the Government. The delay was attributed to non-receipt of required details from the subordinate offices.

2.4.2 Defective budgeting and lack of control over expenditure

According to the provisions in the financial rules and manuals, the estimate of expenditure prepared by the Department should be those for the expenditure as anticipated in the ensuing financial year with reference to the existing sanctions and actual requirements. The Chief Controlling Officers should keep a constant watch over the current and anticipated expenditure. It was noticed that there were significant variations between the final grant and actual expenditure in many cases indicating that the budgeting was defective and monitoring by the Controlling Officers was inadequate.

(Rupees in crore)

Sl. No.	Head of Account	Final Grant	Expenditure	Variation Excess (+)/ Savings (-)
	XV Public Works			
1	3054-80-800-98 (NP)	85.69	74.64	(-) 11.05
2	3054-80-800-97 (NP)	44.18	24.59	(-) 19.59
	XXV Social Welfare including Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes			
3	2225-01-793-99 (P)	12.17	1.99	(-) 10.18
4	2225-01-800-57 (P)	59.24	38.47	(-) 20.77
5	2235-02-102-98 (P)	67.89	71.10	(+) 3.21
6	2235-02-198-50 (NP)	18.72	23.45	(+) 4.73

2.4.3 Non-utilisation of appropriations

The grants made by the Legislature had to be applied in the manner intended and to the purpose for which these are intended according to law/rules and regulations. In the following cases, the entire budgetary provision had been surrendered without incurring any expenditure mainly due to non-receipt of administrative sanctions from the Government, non-clearance of pending bills and non-sanctioning of works.

(Rupees in crore)

Sl. No.	Head of Account	Appropriation	Amount surrendered
	XV Public Works		
1	3054-05-800-99	1.57	1.57
2	5054-05-337-98	1.05	1.05
	XXV Social Welfare including Welfare of Scheduled Castes, Scheduled Tribes and Other Backward Classes		
3	2225-02-277-52	5.00	5.00
4	2235-02-102-72	2.70	2.70
5	2225-02-800-28	2.03	2.03
6	4225-02-800-93	2.50	2.50

2.4.4 Non-surrender of savings

All anticipated savings should be surrendered immediately when these were foreseen, without waiting till the end of the year unless these were required to meet excess under other units. Savings available under the following heads of account remained unsurrendered at the close of the year.

(Rupees in crore)

Sl.No.	Head of Account	Final Grant	Savings
	XV Public Works		
1	2059-80-001-99 (NP)	3.43	0.81
2	2059-80-799-99(NP) Stock	10.10	10.10
3	2059-80-799-97 (NP)	0.43	0.42

2.4.5 Pending work bills of contractors

In the Public Works Department, substantial portion of the budget was utilised for clearance of arrears of contractors' bills for work done in previous years. Necessary provision for clearing the pending liabilities for payment for the works done, was not being included in the annual budget.

In the Divisions under Chief Engineer, Roads and Bridges, Rs 267.43 crore were paid during 2004-05 for clearing pending bills for the period 1 April 2002 to 31 March 2003. Pending bills amounting to Rs 531.11 crore remained to be paid as of 31 March 2005.

In the Divisions under the Chief Engineer, Buildings and Local Works, bills amounting to Rs 145.94 crore were pending as of 31 March 2005.

2.5 Unreconciled expenditure

Departmental figures of expenditure are required to be reconciled every month with those in the books of Accountant General (Accounts and Entitlement) in order to enable the Departmental officers to exercise proper control over expenditure and to detect fraud and defalcations, if any, at an early stage. The reconciliation was in arrears in many Departments. Out of 157 Controlling Officers, who were required to reconcile their accounts for the year 2004-05, only 15 had reconciled the expenditure for the whole year and 142 have partially reconciled the expenditure for the year. As of August 2005, 2805 monthly reconciliation certificates were due for the period 1997-98 to 2004-05, as detailed in **Appendix XXII**.

2.6 Rush of expenditure

Under 20 Major Heads of accounts, the expenditure incurred during the last quarter of the financial year ranged between 50 *per cent* and 100 *per cent*. In these cases, 33 to 100 *per cent* of the expenditure was incurred only in the last month of the financial year which is indicative of deficient financial management. Details are given in **Appendix XXIII**.

2.7 Recovery of interest at the instance of audit

The District Co-Operative Bank, Kottayam had deposited Rs 35 crore in the District Treasury, Kottayam at special interest rate fixed at 15 *per cent* per annum during the resource mobilisation drive in 1999-2000. The rate of interest was reduced to 14 *per cent* from April 2000 to March 2001, 13 *per cent* from April 2001 to December 2001 and 11.5 *per cent* from January 2002. A scrutiny of the records (July 2004) in the District Treasury, Kottayam by the Accountant General (Accounts & Entitlement) revealed that interest was allowed at the rate of 15 *per cent* from April 2001 to December 2001 and 11.5 *per cent* thereafter. The interest paid in excess for the year 2001-02 was Rs 1.01 crore and interest allowed on this amount for subsequent period upto March 2005 was Rs 31 lakh, thus making an excess payment of Rs 1.32 crore. After the excess payment was pointed out by the Accountant General (A&E), the District Treasury Officer, Kottayam recovered Rs 1.11 crore in March 2005 and Rs 21 lakh in May 2005.