

## 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 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 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 2008-2009 against 29 grants/appropriations was as given in Table 2.1:

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

*(Rs in crore)*

	Nature of expenditure	Original grant/ appropriation	Supplementary grant/ appropriation	Total	Actual expenditure <sup>1</sup>	Saving (-)/ Excess (+)
<b>Voted</b>	I Revenue	10,647.42	649.35	11,296.77	10,650.25	(-) 646.52
	II Capital	6,426.34	307.43	6,733.77	5,665.10	(-) 1068.67
	III Loans and Advances	59.17	-	59.17	42.42	(-) 16.75
<b>Total Voted</b>		<b>17,132.93</b>	<b>956.78</b>	<b>18,089.71</b>	<b>16357.77</b>	<b>(-) 1731.94</b>
<b>Charged</b>	IV Revenue	1,616.95	2.89	1,619.84	1,593.87	(-) 25.97
	V Capital	-	-	-	-	-
	VI Public Debt- Repayment	611.20	-	611.20	3,351.61	(+) 2740.41
<b>Total Charged</b>		<b>2,228.15</b>	<b>2.89</b>	<b>2,231.04</b>	<b>4,945.48</b>	<b>(+) 2714.44</b>
<b>Appropriation to Contingency Fund (if any)</b>		-	-	-	-	-
<b>Grand Total</b>		<b>19,361.08</b>	<b>959.67</b>	<b>20,320.75</b>	<b>21,303.25</b>	<b>(+) 982.50</b>

<sup>1</sup> These are gross figures without taking into account the recoveries adjusted in accounts as reduction of expenditure under revenue (Rs. 196.66 crore) and capital (Rs. 700.86 crore)

The overall excess of Rs. 982.50 crore was the result of excess of Rs. 3,277.38 crore in eight grants under Revenue Section and nine grants and one appropriation under Public Debt-Repayments (Loan Section), offset by saving of Rs. 2,294.88 crore in 21 grants and five appropriations under Revenue Section and 19 grants under Capital Section.

The savings/excesses reflected in the detailed Appropriation Accounts were intimated (September 2008 to September 2009) to the Controlling Officers requesting them to explain the significant variations. Reasons thereof were not explained (October 2009).

## 2.3 Financial Accountability and Budget Management

### 2.3.1 Appropriation vis-à-vis Allocative Priorities

The outcome of the appropriation audit reveals that in 39 cases, savings exceeded Rupees one crore in each case or by more than 20 per cent of total provision (*Appendix 2.1*). Against the total savings of Rs. 2,294.88 crore, savings of Rs. 1,936.21 crore (84 per cent)<sup>2</sup> occurred in 13 cases relating to 11 grants as indicated in **Table 2.2**.

**Table 2.2: List of Grants with savings of Rs. 50 crore and above**

(Rs in crore)

Sl. No	Name of Grant/ Appropriation/	Original	Supple-mentary	Total grant	Actual expenditure	Savings
<b>I-Revenue (voted)</b>						
1.	2-Home	1,431.49	290.19	1,721.68	1,634.23	87.45
2.	6-Power Development	2,267.45	116.63	2,384.08	2,188.71	195.37
3.	7-Education	1,378.65	20.22	1,398.87	1,182.65	216.22
4.	17-Health and Medical Education	721.59	-	721.59	646.93	74.66
	<b>Total-Revenue (voted)</b>	<b>5,799.18</b>	<b>427.04</b>	<b>6,226.22</b>	<b>5,652.52</b>	<b>573.70</b>
<b>II-Capital (voted)</b>						
5.	3-Planning and Development	395.00	-	395.00	247.11	147.89
6.	7-Education	189.11	5.13	194.24	136.65	57.59
7.	8-Finance	447.75	81.35	529.10	96.87	432.23
8.	14-Revenue	155.15	9.13	164.28	19.06	145.22
9.	17-Health and Medical Education	238.00	-	238.00	166.94	71.06
10.	19-Housing and Urban Department	446.00	-	446.00	166.10	279.90
11.	25-Labour, Stationery and Printing	78.04	-	78.04	3.61	74.43
12.	27-Higher Education	113.73	55.75	169.48	89.73	79.75
13.	28-Rural Development	140.03	-	140.03	65.59	74.44
	<b>Total-Capital (voted)</b>	<b>2,202.81</b>	<b>151.36</b>	<b>2,354.17</b>	<b>991.66</b>	<b>1,362.51</b>
	<b>Grand total</b>	<b>8,001.99</b>	<b>578.40</b>	<b>8,580.39</b>	<b>6,644.18</b>	<b>1,936.21</b>

<sup>2</sup> Exceeding Rs. 50 crore in each case.

Reasons for excessive savings against each grant were not explained by the State Government (October 2009)

### 2.3.2 Persistent Savings

In eight cases, during the last five years there were persistent savings of more than Rupees one crore in each case and also by 10 *per cent* or more of the total grant (Table 2.3).

Table 2.3: List of Grants indicating Persistent Savings during 2004-09

(Rs in crore)

S.No	Grant number and name	Amount of Savings				
		2004-05	2005-06	2006-07	2007-08	2008-09
<b>Revenue (Voted)</b>						
1.	4-Information	1.72 (14)	2.05 (14)	2.37 (14)	3.22 (17)	3.78 (18)
2.	10-Law	24.30 (41)	20.28 (33)	25.57 (40)	34.23 (42)	25.34 (19)
<b>Capital(Voted)</b>						
3.	1-General Administration	6.91 (46)	17.19 (69)	13.73 (38)	20.46 (41)	9.59 (27)
4.	3-Planning and Development	240.25 (88)	166.97 (32)	260.64 (76)	300.35 (66)	147.89 (37)
5.	7-Education	14.98 (26)	23.80 (29)	29.42 (27)	28.77 (21)	57.59 (30)
6.	13-Animal Husbandry	4.59 (46)	3.74 (38)	7.03 (52)	5.03 (41)	8.49 (48)
7.	18-Social Welfare	36.65 (80)	70.70 (83)	107.59 (88)	79.97 (51)	39.00 (22)
8.	25-Labour, Stationery and Printing	19.12 (97)	15.33 (92)	15.48 (93)	34.70 (96)	74.44 (95)

Reasons for persistent savings under these heads were not explained by the State Government (October 2009).

### 2.3.3 Excess Expenditure

In 16 cases, expenditure aggregating Rs. 9,712.64 crore exceeded the approved provisions by Rs. 3,276.84 crore or more in each case or by more than 20 *per cent* of the total provisions. Details are given in **Appendix 2.2**. Of these, in the following appropriation (**Table 2.4**), excess expenditure by more than 20 *per cent* has been observed consistently for the last five years:

Table 2.4: List of Grants indicating Persistent Excess expenditure during 2004-09

(Rs in crore)

S.No	Grant number and name	Amount of Excess Expenditure				
		2004-05	2005-06	2006-07	2007-08	2008-09
<b>Capital (Charged)</b>						
1.	8-Finance	1,585.89 (451)	11,839.58 (3526)	997.35 (233)	1,233.79 (231)	2,740.40 (448)

Reasons for persistent excesses under this head were not explained by the State Government (October 2009)

#### ***2.3.4 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 Rs. 31,809.09 **lakh** was incurred in 41 Major heads of account as detailed in *Appendix-2.3* without any provision in the original estimates/supplementary demand and without any re-appropriation orders to this effect.

#### ***2.3.5 Drawal of funds to avoid lapse of budget grant***

Rule 2.33 of Jammu and Kashmir Financial Code Volume-I, envisaged that no money shall be drawn from the treasury unless it is required for immediate disbursement. In respect of the cases mentioned below the amounts drawn were neither fully spent for the specific purposes nor remitted to Government Accounts before closure of financial year 2008-09. In disregard to the provisions of the rule, an amount of Rs. 0.42 crore (*Appendix-2.4*) was drawn from treasury by various Public Works Divisions on account of pending contractors bills or procurement of material and had parked the money in deposits without actually disbursing to contractors or effecting the actual purchase, which resulted in gross violation of rules and regulations, besides incurring a loss to the State exchequer. Reasons for drawal of funds without actual requirement had not been intimated (October 2009).

#### ***2.3.6 Excess over provisions relating to previous years requiring regularization***

As per Article 205 of the Constitution of India, it is mandatory for a 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 Article, the regularization of excess expenditure is done after the completion of discussion of the Appropriation Accounts by the Public Accounts Committee (PAC). However, the excess expenditure amounting to Rs. 71,088.66 crore for the years 1980-2008 was yet to be regularized as detailed in *Appendix 2.5*.

#### ***2.3.7 Excess over provisions during 2008-09 requiring regularization***

**Table 2.5** contains the summary of total excess in 15 grants and one appropriation amounting to Rs. 3,277.38 crore over authorization from the Consolidated Fund of State during 2008-09 and requires regularization under Article 205 of the Constitution.

Table 2.5: Excess over provisions requiring regularization during 2008-09

(Rs in crore)

Sl. No	Grant/Appropriation number and name	Total Grant/Appropriation	Expenditure	Excess
<b>I- Revenue( Voted)</b>				
1	5-Ladakh Affairs	198.23	199.57	1.34
2.	8- Finance	1,284.52	1,343.17	58.65
3.	15- Consumer Affairs and Public Distribution	3.61	4.02	0.41
4.	19-Housing and Urban Development	192.44	199.41	6.97
5.	20- Tourism	62.26	91.38	29.12
6.	23- Public Health Engineering	426.91	434.11	7.20
7.	25- Labour, Stationery and printing	32.07	41.80	9.73
8.	27- Higher Education	202.57	241.61	39.04
<b>Total Revenue (Voted)</b>		<b>2,402.61</b>	<b>2,555.07</b>	<b>152.46</b>
<b>II-Capital (Voted)</b>				
9.	6- Power Development	1,176.23	1,182.22	5.99
10.	11-Industries and Commerce	112.46	128.22	15.76
11.	12-Agriculture	94.52	108.30	13.78
12.	15- Consumer Affairs and Public Distribution	838.31	916.24	77.93
13.	16- Public Works	870.35	1,036.08	165.73
14.	20-Tourism	110.16	142.60	32.44
15.	22-Irrigation and Flood Control	223.57	282.09	58.52
16.	24-Hospitality, Protocol and Toshkhana	-	14.23	14.23
17.	26- Fisheries	9.69	9.82	0.13
<b>Total (Capital Voted)</b>		<b>3,435.29</b>	<b>3,819.80</b>	<b>384.51</b>
<b>III-Capital (Charged)</b>				
18.	8-Finance Department	611.20	3,351.61	2,740.41
<b>Total Capital (Charged)</b>		<b>611.20</b>	<b>3351.61</b>	<b>2,740.41</b>
<b>Total Capital (Section)</b>		<b>4,046.49</b>	<b>7,171.41</b>	<b>3,124.92</b>
<b>Grand Total</b>		<b>6,449.10</b>	<b>9,726.48</b>	<b>3,277.38</b>

In the Revenue section, there was excess expenditure of Rs. 152.46 crore in eight grants while in the Capital section, excess expenditure amounted to Rs. 3,124.92 crore in nine grants and one appropriation as detailed above. The excess expenditure of Rs. 3,277.38 crore was mainly due to part clearance of overdraft of Rs. 2,648.45 crore obtained during the current year by the State Government from the Jammu and Kashmir Bank Limited.

### 2.3.8 Unnecessary/Excessive/Inadequate supplementary provision

In 11 cases, involving 8 grants and one appropriation (*Appendix-2.6*), supplementary provision of Rs. 310.99 crore was obtained in anticipation of expenditure in excess of the original provision. However, the final expenditure of Rs. 4,272.42 crore was even less than the original grant of Rs. 5,172.62 crore. The savings of Rs. 900.20 crore thus exceeded the entire supplementary provision indicating defective fund projection system leading to unnecessary allotment of additional funds.

In nine other cases relating to six grants and two appropriations, supplementary grants aggregating Rs. 450.21 crore were obtained against the requirement of Rs. 293.18

crore resulting in saving of Rs. 157.03 crore (*Appendix-2.7*).

Apart from these cases, supplementary provision of Rs.198.08 crore proved insufficient in eight cases relating to eight grants in each leaving an uncovered aggregate excess expenditure of Rs. 320.16 crore (*Appendix-2.8*).

### **2.3.9 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 2008-09, there were, however, 27 grants and five 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 Rs. 2,294.88 crore which includes Rs. 2,292.35 crore in 39 cases (involving 26 grants and two appropriation) where savings involved were Rupees one crore and above. Relevant details are indicated in *Appendix-2.9*. Non-surrender of funds deprived the Government of the opportunity to transfer these funds to other needy sectors.

### **2.3.10 Rush of expenditure**

According to Jammu and Kashmir Financial Code, rush of expenditure in the closing month of the financial year should be avoided. Contrary to this, in respect of 11 major heads listed in **Table 2.6**, expenditure exceeding Rs. 10 crore and also more than 50 per cent of the total expenditure for the year was incurred either during the last quarter or during the last month of the financial year 2008-09.

**Table 2.6: Cases of rush of Expenditure towards the end of the financial year 2008-09**

(Rs in lakh)

Sl. No.	Grant number and name	Major head	Total expenditure during the year	Expenditure during the last quarter of the year		Expenditure during March 2009	
				Amount	Percentage of total expenditure	Amount	Percentage of total expenditure
1.	01-General Administration	4075	1,705.80	1,439.04	84	1,098.26	64
2.	03-Planning	3451	1,795.60	1,465.14	82	1,350.56	75
3.	10-Law	2015	6,582.30	5,161.34	78	4,842.65	74
4.	11-Industries and Commerce	4851	10,438.00	7,463.78	72	6,436.63	62
5.	12-Agriculture	4401	3,697.90	3,038.22	82	2,474.74	67
6.		4415	2,220.00	2,070.00	93	1,320.00	59
7.		4425	2,489.30	2,182.50	87	2,163.50	87
8.	16-Public Works	5054	90,875.00	61,050.14	67	45,593.17	51
9.	18-Social Welfare	2225	3,190.50	2,377.24	75	1,827.17	57
10.	19-Housing and Urban Development	4217	16,281.00	14,454.34	89	11,148.93	68
11.	27-Higher Education	4202	8,972.60	8,378.82	93	6,109.97	68
	<b>Total</b>			<b>1,09,080.56</b>		<b>84,365.58</b>	



## 2.4 Non-reconciliation of Departmental figures

### 2.4.1 Pendency in submission of Detailed Countersigned Contingent Bills against Abstract Contingent 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. In contravention of the above rules, against a total amount of Rs. 2,725 crore (*Appendix-2.10*), DC bills drawn by various DDOs (26 departments) during March 1996-2009 have not been submitted (June 2009) to the Principal Accountant General, despite lapse of period ranging from two months to eleven years. 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 should be investigated and action should be initiated for immediate settlement.

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

Non-observance of codal provisions with regard to furnishing of DC bills and failure to comply with the instructions issued by the Finance Department by the concerned DDOs have rendered expenditure of Rs. 2,725 crore doubtful.

### 2.4.2 Un-reconciled Expenditure

To enable Controlling Officers of Departments to exercise effective control over expenditure to keep it within the budget grants and to ensure accuracy of their accounts, State Financial Rules stipulate that expenditure recorded in their books be reconciled by them every month during the financial year with that recorded in the books of the Accountant General. Though non-reconciliation of Departmental figures is being pointed out regularly in Audit Reports, lapses on the part of Controlling Officers in this regard continued to persist during 2008-09 also. 141 Controlling Officers did not reconcile expenditure amounting to Rs. 5,791.00 crore as of October 2009 which constituted 34 per cent of the total net revenue and capital expenditure.

## 2.5 Errors in budgeting process

Scrutiny of Demand of Grants for the year 2008-09 showed following inherent flaws in preparation:

- The schematic break-up of lump-sum provisions had not been indicated.
- Provisions, which should have appeared under 'Revenue section', had been given under 'Capital section' and vice-versa in some cases.

- In most of the cases no provision for Centrally Sponsored Schemes had been shown distinctly in the Demand for Grants for the year 2008-09.
- In a few cases, Major Heads of Account had been shown as Sub-Heads.
- Charged expenditure has been shown against 'Voted' in case of High Court.
- Coding pattern as advised by the Principal Accountant General, had not been adopted by the State Finance Department and even Demand for Grants of some departments did not have a code number to identify them.

These deficiencies make the whole budgeting process erroneous, making reconciliation of departmental figures with those adopted by the Principal Accountant General, difficult. The above matter had been reported to the State Government from time to time. Further action in the matter is awaited (October 2009).