

CHAPTER 2

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 reappropriations 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, supplementary to Finance Accounts.

2.1.2 Audit of appropriation by the Comptroller and Auditor General (CAG) of India seeks to ascertain whether 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 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: Summarised position of actual expenditure *vis-à-vis* original/supplementary provisions

(Rupees in crore)

Nature of expenditure		Original grant/ appropriation	Supplementary grant/ appropriation	Total	Actual expenditure	Unspent provision
Voted	I Revenue	40,940.66	3,495.81	44,436.47	37,436.02	7,000.45
	II Capital	11,822.58	2,186.72	14,009.30	10,363.85	3,645.45
	III Loans and advances	1,007.09	537.51	1,544.60	731.34	813.26
Total Voted		53,770.33	6,220.04	59,990.37	48,531.21	11,459.16
Charged	IV Revenue	5,366.16	21.58	5,387.74	4,631.20	756.54
	V Public debt-repayment	3,157.18	---	3,157.18	1,777.90	1,379.28
Total Charged		8,523.34	21.58	8,544.92	6,409.10	2,135.82
Grand Total		62,293.67	6,241.62	68,535.29	54,940.31	13,594.98

Source: Appropriation Accounts.

The overall unspent provision of Rs 13,594.98 crore was the result of unspent provision of Rs 13,660.83 crore in 27 grants and nine appropriations under revenue section, 25 grants under capital section and 11 grants and one appropriation (public debt-repayments) under loans section, offset by excess expenditure of Rs 65.85 crore over provision in one grant and one appropriation under revenue section.

The unspent provision / excesses (Detailed Appropriation Accounts) were intimated (July 2009) to the Controlling Officers requesting them to explain the significant variations. No explanations were received (October 2009).

2.3 Financial accountability and budget management

2.3.1 Appropriation vis-à-vis allocative priorities

Out of total unspent provision of Rs 13,660.83 crore, unspent provisions of more than Rs 100 crore occurred in 24 cases relating to 18 grants / appropriations during 2008-09. Large unspent provisions were in areas like urban development, water resources, debt servicing, public works, finance, agriculture and horticulture, etc as indicated in **Table 2.2**.

Table 2.2: Grants/appropriations with unspent provision of Rs 100 crore and above (Rupees in crore)

Sl. No	Grant	Provision			Expenditure	Unspent provision
		Original	Supplementary	Total		
1	1-Agriculture and Horticulture Revenue Voted	2,083.25	62.65	2,145.90	1,316.27	829.63
2	2-Animal Husbandry and Fisheries Revenue Voted	623.05	16.19	639.24	479.94	159.30
3	3-Finance Revenue Voted	5,094.91	2,015.45	7,110.36	6,255.87	854.49
4	05-Home and Transport Revenue Voted	2,091.76	3.63	2,095.39	1,923.54	171.85
5	6-Infrastructure Development Capital Voted	495.89	--	495.89	369.26	126.63
6	07-Rural Development and Panchayat Raj Revenue Voted	1,759.53	87.87	1,847.40	1,484.12	363.28
	Capital Voted	1,599.51	286.02	1,885.53	1,501.88	383.65
7	9-Co-Operation Revenue Voted	546.20	3.79	549.99	362.44	187.55
8	10-Social Welfare Revenue Voted	1,501.93	27.56	1,529.49	1,318.93	210.56
9	16- Housing Capital Voted	381.18	--	381.18	240.95	140.23
10	17 - Education Revenue Voted	8,668.46	127.79	8,796.25	8,420.93	375.32
	Capital Voted	276.29	3.70	279.99	178.63	101.36
11	18 - Commerce and Industries Revenue Voted	1,362.86	55.98	1,418.84	855.05	563.79
12	19- Urban Development Revenue Voted	4,719.21	5.99	4,725.20	3,116.70	1,608.50
	Capital Voted	1,126.78	--	1,126.78	597.88	528.90

Sl. No	Grant	Provision			Expenditure	Unspent provision
		Original	Supplementary	Total		
13	20 – Public Works					
	Revenue Voted	1,521.11	136.17	1,657.28	1,343.25	314.03
	Capital Voted	2,318.36	1,067.28	3,385.64	2,326.74	1,058.90
14	21 – Water Resources					
	Capital Voted	4,426.64	56.68	4,483.32	2,973.57	1,509.75
15	22 – Health and Family Welfare					
	Revenue Voted	1,884.30	6.66	1,890.96	1,704.27	186.69
	Capital Voted	457.93	--	457.93	337.91	120.02
16	24 – Energy					
	Revenue Voted	2,437.24	1.35	2,438.59	1,952.84	485.75
17	26 – Planning, Statistics, Science and Technology					
	Revenue Voted	410.96	102.53	513.49	278.26	235.23
18	29 – Debt Servicing					
	Revenue Charged	5,278.10	--	5,278.10	4,532.03	746.07
	Capital Charged	3,157.18	--	3,157.18	1,777.90	1,379.28
	Total	54,222.63	4,067.29	58,289.92	45,649.16	12,640.77

Source: Appropriation Accounts.

Major heads of account under which the unspent provision was more than Rs 10 crore in these 18 grants / appropriations are detailed in **Appendix 2.1**.

The reasons furnished by eight departments for unspent provision under a few major heads of account are given below:

Home and Transport

- Unspent provision of Rs 25 crore and Rs 26.06 crore were due to non-receipt of approval from the Government and non-finalisation of tenders/delay in receiving bills from suppliers/contractors respectively under the major head '2055'.
- Provision of Rs 45.98 crore for vacant posts under the major head '2070' remained unspent.

Education

- Unspent provision of Rs 13.67 crore under the major head '2058' was mainly due to reduced number of free text books printed for the year 2009-10 through Government press.
- Delay in approval for implementation of 'Nali Kali' programme resulted in Rs 53.67 crore under the major head '2202' remaining unspent.
- Delay in filling up of vacant posts and approval to 28 colleges against 314 aided colleges proposed, contributed to unspent provision of Rs 46 crore and Rs 16.61 crore under the major head '2202'.

Commerce and Industries

- Unspent provision of Rs 13.83 crore under the major head '2851' was due to non-filling of vacant posts and transfer of employees to other departments.

Health and Family Welfare Services

- Non-achievement of targets under different project components was the reason for the unspent provision of Rs 11.22 crore under the major head '2210'.

Public Works

- Under the major head '5054' unspent provision of Rs 50 crore was due to non-commencement of works.

Water Resources

- Unspent provision of Rs 289.88 crore under the major head '4702' was due to delay in finalisation of tenders/executing agencies, pending bills, non-payment of bills in respect of incomplete projects, non-clearance of projects in some districts and non-availability of staff to execute the work.

Energy

- Transfer of expenditure of Rs 350 crore from the revenue head of account '2801' to the capital head of account '6801' led to unspent provision under the former head of account.

Debt Servicing

- Unspent provision of Rs 362.34 crore was on account of providing more funds than required under the major head '2049'.
- Under the major head '6003', provision of Rs 1,350 crore remained unutilised due to non-availment of ways and means advances / overdraft from the Reserve Bank of India during the year.
- Provision of more funds than required was the reason for the unspent provision of Rs 39.14 crore under the major head '6004'.

2.3.2 There was unspent provision aggregating Rs 280.11 crore in 26 cases relating to eight grants due to non / short / late release of funds and non / late receipt of sanctions from the Government (**Appendix 2.2**). The unspent provision was surrendered on the last day of the financial year.

2.3.3 Persistent unspent provision

In four grants, there was persistent unspent provision of more than Rs 100 crore in each case during the last five years as detailed in **Table 2.3**.

Table 2.3: Persistent unspent provision

Sl. No,	Major head	Year				
		2004-05	2005-06	2006-07	2007-08	2008-09
1	03 – Finance (Revenue Voted) 2070-800-11	1,340.91	1,492.33	2,297.35	228.53	854.49
	Filling up of vacant posts (District Sector)	111.87	121.75	111.99	110.73	450.00
2	19 – Urban development (Revenue Voted) 2217-05-191-1	124.67	258.75	1,092.32	1,194.95	1,608.50
	Bangalore Metropolitan Regional Development Authority	122.33	199.15	195.00	319.24	503.45
3	20 – Public works (Revenue Voted) 3054-80-797-03	327.03	274.73	418.13	344.25	314.03
	Transfer of cess to Rural Road Development Fund	194.25	161.58	100.00	145.00	150.00
4	29 – Debt servicing (Capital Charged) 6003-110-2	-	1,491.85	555.02	1,320.70	1,379.28
	Overdraft with Reserve Bank of India	350.00	350.00	350.00	350.00	350.00

Source : Appropriation Accounts.

2.3.4 Excess expenditure

In 25 cases, expenditure in excess of Rs 10 crore of the budget provision was incurred under 16 major heads of account pertaining to nine grants. (Appendix 2.3)

2.3.5 Persistent excess expenditure

Persistent excess expenditure over provision was incurred under five major heads of account pertaining to four grants during the last five years (Appendix 2.4).

2.3.6 Expenditure without provision

An expenditure of Rs 94.85 crore was incurred in 13 cases in seven grants without either provision or reappropriation (Appendix 2.5).

Excess expenditure 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 regularized by the State Legislature. Although no time limit for regularization of expenditure has been prescribed under the Article, but the regularization of excess expenditure is done after the completion of discussion of the Appropriation Accounts by the Public Accounts Committee.

2.3.7 Excess over provision relating to previous years

The excess expenditure aggregating Rs 8,508.34 crore for the years 1989-90 to 2007-08 was yet to be regularized as detailed in Appendix 2.6.

2.3.8 Excess over provision during 2008-09

Details of excess expenditure of Rs 65.85 crore incurred against one grant and one appropriation during 2008-09 required to be regularized are given in **Table 2.4**.

Table 2.4: Excess over provisions requiring regularization during 2008-09

(Amount in rupees)

Sl. No.	Grant	Provision	Expenditure	Excess
1.	08 Forest, Ecology and Environment (Revenue Charged)	10,72,98,000	12,00,86,189	1,27,88,189
2.	14 Revenue (Revenue Voted)	22,61,93,66,000	23,26,50,54,198	64,56,88,198
Total		22,72,66,64,000	23,38,51,40,387	65,84,76,387

Source : Appropriation Accounts.

- ❖ Amount transferred from Consolidated Fund to the Karnataka Forest Development Fund in Public Account was more than the provision. This resulted in excess over provision under Grant 8 – Forest, Ecology and Environment.
- ❖ Non-provision in the budget to account for the transfer of NCCF grants from Consolidated Fund to Public Account was the reason for excess over provision under Grant No.14 – Revenue.

2.3.9 New service/New instrument of service

Article 205 of the Constitution provides that expenditure on a 'New Service' not contemplated in the Annual Financial Statement (Budget) can be incurred only after its specific authorisation by the Legislature. The Government issued orders based on recommendations of Public Accounts Committee laying down various criteria for determining items of 'New Service/New Instrument of Service'. These, *inter alia*, stipulate that the expenditure over the grant/appropriation exceeding twice the provision or Rupees one crore, whichever is more, should be treated as an item of 'New Service'.

In 35 cases involving seven grants, expenditure totaling Rs 271.52 crore which should have been treated as 'New Service/New Instrument of Service' was incurred without the approval of the Legislature (**Appendix 2.7**).

Supplementary provision

Supplementary provision (Rs 6,241.62 crore) made during the year constituted 10 per cent of the original provision (Rs 62,293.67 crore) as in the case of previous year. In view of the overall unspent provision of Rs 13,594.98 crore at the end of the financial year, supplementary provision appeared largely unnecessary.

2.3.10 Unnecessary supplementary provision

Supplementary provision of Rs 203.71 crore made under 62 detailed / object heads relating to 14 grants proved unnecessary. (**Appendix 2.8**)

2.3.11 Excessive supplementary provision

Supplementary grant of Rs 3,503.14 crore obtained under 79 detailed heads relating to 19 grants proved excessive resulting in unutilised provision of Rs 782.01 crore. (**Appendix 2.9**)

2.3.12 Inadequate supplementary provision

Supplementary provision of Rs 155.22 crore obtained under 47 detailed heads relating to six grants proved insufficient leaving uncovered excess expenditure of Rs 36.17 crore. (**Appendix 2.10**)

Reappropriation of funds

A grant or appropriation for disbursements is distributed by sub-head / detailed head / object head under which it is accounted for. The competent executive authority may approve reappropriation of funds between the primary units of appropriation within a grant or appropriation before the close of the financial year to which such grant or appropriation relates. Reappropriation of funds should be made only when it is known or anticipated that the appropriation for the unit from which funds are to be transferred will not be utilised in full or will result in unspent provision in the unit of appropriation.

2.3.13 Injudicious reappropriation of funds

In 52 cases, reappropriation of funds was made injudiciously resulting either in un-utilised provision or excess over provision of more than Rupees one crore in each case (**Appendix 2.11**).

- In two cases, additional funds of Rs 27.88 crore provided through reappropriation proved insufficient as the final expenditure exceeded the provision by Rs 29.39 crore.
- In 36 cases, the unutilised provision was not properly assessed as even after the withdrawal of Rs 377.70 crore through reappropriation Rs 640.80 crore remained unutilised.
- In 12 cases, additional funds of Rs 170.11 crore provided by reappropriation resulted in overall unutilised provision of Rs 230.69 crore and the reappropriation made was unnecessary.
- In two cases, withdrawal of Rs 13.14 crore through reappropriation resulted in final expenditure exceeding the net provision by Rs 16.31 crore.

2.3.14 Defective reappropriation

During 2008-09, 364 reappropriation orders for an amount of Rs 1,320.92 crore were issued of which, 44 reappropriation orders for Rs 132.10 crore were not considered in accounts. These orders were found either exceeding the power of sanction or not self balanced or not signed by the competent authority or the reappropriation was between different grants. Illustrative cases are listed in (**Appendix 2.12**).

Surrender of unspent provision

Spending departments are required to surrender the grants/appropriations or a portion thereof to the Finance Department as and when the unspent provision is anticipated.

2.3.15 Unspent provision not surrendered

In the case of 16 grants/appropriations, the entire unspent provision aggregating Rs 4,913.68 crore was not surrendered (**Appendix 2.13**).

Further, in the case of 22 other grants/appropriations, there was only partial surrender and around 84 *per cent* (Rs 7,353.47 crore) of the total unspent provision (Rs 8,747.10 crore) was not surrendered. Details are given in **Appendix 2.14**. Besides, in 21 grants where surrender of funds was in excess of Rupees one crore, Rs 1,403.28 crore were surrendered on the last two working days of financial year indicating inadequate financial control (**Appendix 2.15**).

2.3.16 Substantial surrenders

Out of the total provision of Rs 1003.20 crore in 52 cases, Rs 823.82 crore (82 *per cent*) were surrendered, which included *per cent* surrender in 13 cases (Rs 35.95 crore). Illustrative cases are given in **Appendix 2.16**. These surrenders were stated to be due to non-receipt of sanctions from Government, non-implementation of scheme, non-receipt of claims/bills, etc.

2.3.17 Rush of expenditure

The financial rules require that expenditure should be evenly distributed throughout the year. The rush of expenditure particularly in the closing months of the financial year is regarded as a breach of financial rules. Contrary to this, in 18 cases listed in **Appendix 2.17**, the expenditure during the last month ranged between 27 and 100 *per cent* of the total expenditure during the year.

2.4 Un-reconciled expenditure and receipts

To enable the controlling officers to exercise effective control over expenditure to keep it within the budget grants and to ensure accuracy of their accounts, expenditure recorded in their books have to be reconciled by them

every month during the financial year with that recorded in the books of the Accountant General (Accounts and Entitlement).

Even 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. Out of 212 controlling officers, 30 officers had not reconciled expenditure of Rs 25,389.57 crore (49 *per cent* of the expenditure of Rs 51,679.58 crore incurred by them).

Further, the controlling officers should arrange to obtain from their subordinates, monthly accounts and returns in suitable form claiming credit for the amount paid into the treasury or otherwise accounted for and compare these with the statements of treasury credits furnished by the Accountant General to see that the amounts reported as collected have been duly credited to Government account. Also, the disbursing officers and subordinate officers should reconcile their departmental figures including receipts with the treasury figures. Eighteen controlling officers did not reconcile receipts amounting to Rs 891.36 crore as of October 2009. In respect of loans and advances, none of the controlling officers reconciled their figures.

2.5 Contingency Fund

The Contingency Fund of the State has been established under the Contingency Fund Act, 1957 in terms of provisions of Articles 267 (2) and 283 (2) of the Constitution of India. Advances from the fund are to be made only for meeting expenditure of an unforeseen and emergent character, postponement of which till its authorization by the Legislature would be undesirable. The fund is in the nature of an imprest and its corpus is Rs 80 crore.

During 2008-09, 33 sanctions aggregating Rs 85.90 crore were issued. A review of the operations of the Contingency Fund disclosed the following:

- ❖ An amount of Rs 2.10 crore pertaining to two sanctions remained unrecouped at the close of the year.
- ❖ One sanction involving an amount of Rs 0.05 crore issued in July 2009 was not acted upon.
- ❖ There was excess drawal of Rs 0.03 crore against one sanction issued in May 2008.
- ❖ In two cases, sanction for advances obtained was in excess of the amount required. The amount drawn in these cases was 12 and 23 *per cent* of the amount sanctioned as detailed in **Table 2.5**.

Table 2.5: Contingency Fund sanctions not fully utilised

Sl. No.	Head of account	Reference to sanction	Amount		Per cent
			Sanctioned	Drawn	
1	2017 – Urban Development	FD 26 BCF 2008 dated 04-11-2008	5.00	0.60	12
2	2014 – Administration of Justice	FD 14 BCF 2008 dated 21-06-2008	4.50	1.03	23

2.6 Errors in budgeting

Two cases of errors in budgeting involving an amount of Rs 1.54 crore on account of obtaining supplementary provisions under the grants other than the grants under which original provisions were made were noticed. Further, there were four cases of error in budgeting involving an amount of Rs 730.21 crore due to correction slips not taken into account (Appendix 2.18).

2.7 Personal deposit accounts

The Karnataka Financial Code provides for opening of Personal Deposit (PD) accounts with permission from the Government in cases where the ordinary system of accounting is not suitable for transactions. PD accounts created by debit to Consolidated Fund of the State should be closed at the end of the financial year. Administrators of the accounts should intimate the treasury officer, the balance to be transferred to the Consolidated Fund. For continuation of PD account beyond the period of its currency, administrators are required to seek the permission of the Finance Department. Periodical reconciliation of PD accounts with treasury accounts is the responsibility of the administrators concerned. As of March 2009, there were 244 inoperative PD accounts with an aggregate balance of Rs 183.72 crore.

2.7.1 Funds kept in PD account

The position of deposits, withdrawals and balances in PD accounts during the period 2006-09 is given in Table 2.6.

Table 2.6: Funds in PD accounts

Year	Opening balance	Receipts/Deposits	Withdrawals	(Rupees in crore)
				Closing balance
2006-07	502.63	1615.13	1362.82	754.94
2007-08	754.94	1381.60	1445.25	691.29
2008-09	691.29	1593.31	1438.29	846.31

Review of 21 PD accounts operated by 13 administrators of seven departments in six districts¹ during 2006-09 was conducted in April-June 2009. The important points noticed are brought out in the succeeding paragraphs.

¹ Bagalkote, Bangalore(Urban), Belgaum, Dharwad, Gulbarga and Mysore

2.7.2 Unspent balances in PD accounts

According to the Government order (September 2004), in case the continuation of PD account is required beyond the period of its currency, the administrator shall approach the Finance Department with justification for continuation of the account and the period. Otherwise, the administrator shall close the PD account at the treasury after its reconciliation.

As of March 2009, the balances pertaining to 18 PD accounts of 13 administrators aggregated Rs 241.48 crore as shown in **Appendix 2.19**.

Further, out of Rs 51.66 crore collected as donation to the Chief Minister's relief fund for tsunami relief, Orissa flood relief and Gujarat earthquake relief, Rs 26.90 crore only was released to the respective State Governments thus defeating the purpose for which the funds were collected. The balance of Rs 24.76 crore was invested in fixed deposit in nationalized banks.

2.7.3 Reconciliation of balances

As of March 2009, 12 administrators did not reconcile the balances in PD accounts with those in the books of the treasury. There was a difference of (-) Rs 51.31 crore in 12 PD accounts and (+) Rs 3.50 crore in other three PD accounts which remained un-reconciled (**Appendix 2.20**).

2.7.4 Utilization certificate furnished for unspent Central grant

Out of Rs 34.46 crore received during 2008-09 from GOI (credited to PD account) for implementation of Special Central Assistance Scheme for SC/ST, Rs 15.62 crore were expended by the Director of Social Welfare. However, the Director furnished (January 2009 & March 2009) utilization certificate for Rs 23.49 crore. The administrator stated (June 2009) that the balance of Rs 7.87 crore would be utilized for implementation of the scheme and that the utilization certificate was furnished to get further grants from GOI.

2.7.5 Unauthorised parking of funds in the PD accounts.

Amounts released for modernization of prisons (Rs 4.72 crore) and funds received in connection with recruitment of jailors and wardens (Rs 1.36 crore) were credited to the PD account authorized in favour of the Superintendent of Police, Central Prison, Bangalore, obviously to avoid lapse of grant. At the end of each financial year, the administrator withdrew the amounts from the treasury in the form of bankers cheque and kept in the currency chest and remitted back the amounts during the next financial year (without incurring any expenditure) to avoid transferring the funds to the Consolidated Fund, thus circumventing the codal provisions. The details are given in the **Table 2.7**

Table 2.7: Drawal and remittance of PD Funds

(Rupees in crore)

Amount withdrawn	Month of withdrawal	Month of remittance back into treasury
1.02	March 2007	August 2007
2.03	March 2008	July 2008
1.14	March 2009	April 2009

The administrator stated (June 2009) that the Finance Department was approached for getting the PD account renewed for the years 2007-08 and 2008-09 and that the response of the Finance Department was awaited (October 2009).

2.8 Conclusion

Against total provision of Rs 68,535.29 crore during 2008-09, an expenditure of Rs 54,940.31 crore was incurred. This resulted in an unspent provision of Rs 13,594.98 crore (20 per cent). An excess of Rs 65.85 crore incurred during 2008-09 and Rs 8,508.34 crore over provision relating to the period 1989-90 to 2007-08, required regularisation under Article 205 of the Constitution. Expenditure aggregating Rs 271.52 crore in 35 cases which should have been treated as 'New Service/New instrument of service' was incurred without the approval of the Legislature. While, supplementary provision of Rs 203.71 crore in 62 cases was unnecessary, reappropriation of funds in 52 cases was made injudiciously resulting in either unutilised provision or excess over provision. In 21 grants, Rs 1,403.28 crore was surrendered in the last two working days of the financial year.

2.9 Recommendations

Budgetary control should be strengthened in all Government departments. Excessive/unnecessary supplementary and reappropriation of funds should be avoided. The reappropriation of funds at the close of the financial year also requires to be avoided.

The above points were referred (December 2009) to the Government; reply had not been received (January 2010).