

CHAPTER II

FINANCIAL MANAGEMENT AND BUDGETARY CONTROL

2.1 Introduction

2.1.1 Appropriation Accounts are accounts of the expenditure of the Government for each financial year compared with the amounts of the voted grants and charged appropriations 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 and indicate the 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. The Appropriation Accounts, thus, facilitate management of finances and monitoring of budgetary provisions and are, therefore, complementary to the Finance Accounts.

2.1.2 Audit of the 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 in the Appropriation Act and that the expenditure required to be charged under the provisions of the Constitution of India is so charged. It also ascertains whether the expenditure incurred is in conformity with the laws, relevant rules, regulations and instructions.

2.2 Summary of the Appropriation Accounts

The summarized position of actual expenditure *vis-à-vis* budgetary provisions during 2015-16 for the total 30 grants/appropriations is given in the Table 2.1.

Table 2.1: Summarized position of actual expenditure *vis-à-vis* original/supplementary provisions

<i>(₹ in crore)</i>									
	Nature of expenditure	Original grant/ Appropriation	Supplementary grant/ appropriation	Total	Actual expenditure*	Total Saving (-)/ Excess (+)	Savings surrendered during the year 2015-16	Savings surrendered on 31 March 2016	Percentage of savings surrendered on 31 March 2016 to total savings surrendered (col.8/col.7)
	1	2	3	4	5	6	7	8	9
Voted	I Revenue	42556.69	4988.50	47545.19	41123.27	(-) 6421.92	2791.34	2747.35	98.42
	II Capital	4856.82	658.16	5514.98	3141.58	(-) 2373.40	147.00	116.88	79.51
	III Loans and Advances	735.50	10418.84	11154.34	5968.59	(-) 5185.75	290.30	290.30	100.00
Total Voted		48149.01	16065.50	64214.51	50233.44	(-) 13981.07	3228.64	3154.53	97.70
Charged	IV Revenue	10066.51	27.67	10094.18	9945.06	(-) 149.12	136.82	136.82	100.00
	V Capital	0	0	0	0	0	0	0	0
	VI Public Debt- Repayment	21098.34	0	21098.34	22051.13	(+) 952.79	461.86	461.86	100.00
Total Charged		31164.85	27.67	31192.52	31996.19	(+) 803.67	598.68	598.68	100.00
	Appropriation to Contingency Fund	0	0	0	0	0	0	0	0
Grand Total		79313.86	16093.17	95407.03	82229.63	(-) 13177.40	3827.32	3753.21	98.06

Source: Appropriation Accounts

*The expenditure is without adjustment of the recoveries of ₹ 994.83 crore adjusted as reduction of expenditure under Revenue heads and ₹ 82.17 crore under Capital heads.

For the year 2015-16, original budget provision was ₹ 79,313.86 crore. This was augmented by supplementary grant of ₹ 16,093.17 crore bringing the

total budget provision at ₹ 95,407.03 crore. Out of total budget provision, ₹ 82,229.63 crore were utilized during the year 2015-16 resulting in saving of ₹ 13,177.40 crore (13.81 per cent). Out of total savings, an amount of ₹ 3,827.32 crore (29.04 per cent) only was surrendered during the year and out of total surrender, an amount of ₹ 3,753.21 crore (98.06 per cent) was surrendered on the last day of the year. As actual expenditure of ₹ 82,229.63 crore was in excess of the original budget provision just by ₹ 2,915.77 crore (3.68 per cent), the supplementary provision to the extent of ₹ 13,177.40 crore (81.88 per cent of total supplementary provision of ₹ 16,093.17 crore) proved unnecessary. The overall saving of ₹ 13,177.40 crore was the net result of saving of ₹ 15,239.06 crore (**Appendix 2.1**) set off by excess of ₹ 2,061.66 crore (**Table 2.2**).

2.3 Financial accountability and budget management

2.3.1 Excess over provisions requiring regularization

Article 205(1)(b) of the Constitution of India provides that if any money has been spent on any service during a financial year in excess of the amount granted for that service and for that year, the Governor shall cause to be presented to the Legislative Assembly of the State a demand for such excess.

Audit observed that excess expenditure amounting to ₹ 3,665.42¹ crore for the year 2011-15 had not been regularized (October 2016) under the provision of Article 205(1)(b) of the Constitution of India despite repeated reminders to the Department of Finance.

Besides, excess expenditure of ₹ 2,061.66 crore (**Table 2.2**) in six cases during the year 2015-16 also requires regularization under the above mentioned provisions.

Table 2.2: Excess over provision requiring regularization during 2015-16
(₹ in crore)

Sr. No.	Number and title of grant		Total Grant/ Appropriation	Expenditure	Excess expenditure
Voted Grants					
1	8	Finance (Revenue)	7324.86	7781.10	456.24
2	21	Public Works (Revenue)	1048.33	1269.84	221.51
3	22	Revenue and Rehabilitation (Revenue)	1414.15	1845.03	430.88
Charged Appropriation					
4	2	Animal Husbandry and Fisheries (Revenue)	0.01	0.05	0.04
5	8	Finance (Capital)	21098.34	22051.13	952.79
6	26	State Legislature (Revenue)	1.14	1.34	0.20
Total			30886.83	32948.49	2061.66

Source: Appropriation Accounts

¹ 2011-12 (₹ 901.36 crore), 2012-13 (₹ 769.60 crore), 2013-14 (₹ 386.38 crore) and 2014-15 (₹ 1,608.08 crore).

2.3.2 Persistent excess expenditure

In five cases (**Table 2.3**), there was persistent excess expenditure of more than ₹ 10 crore in each case during the last five years. In four cases (Sr. No. 2, 3, 4 and 5), the expenditure was incurred without any budget provision during 2011-16.

Table 2.3: List of grants having persistent excess expenditure during 2011-16

(₹ in crore)

Sr. No.	Number and Name of the grant/schemes	Amount of excess expenditure				
		2011-12	2012-13	2013-14	2014-15	2015-16
Revenue-Voted						
08-Finance						
1	2071-Pensions and other Retirement benefits 01-Civil 101-Superannuation and Retirement Allowances 01-Pension and other Retirement Benefits	570.86	81.58	123.66	407.74	664.92
21-Public Works						
2	2059-Public Works 80-General 799-Suspense	157.79	52.28	36.98	19.65	14.97
3	2059-Public Works 80-General 001-Direction and Administration 07-Establishment Charges paid to Public Health Department for Work done by that Department	45.23	52.34	82.72	97.77	108.53
4	2215-Water Supply and Sanitation 01-Water Supply 799-Suspense	73.19	58.78	36.78	26.97	28.06
5	3054-Roads and Bridges 80-General 001-Direction and Administration 01-Establishment charges transferred on pro-rata basis to the Major Head 3054-Roads and Bridges	91.27	102.94	58.02	19.79	135.53

Source: Appropriation Accounts

2.3.3 Appropriation vis-à-vis allocative priorities

The outcome of audit of grants and appropriations showed that in 12 cases (11 grants out of the total 30 grants), the savings (excluding surrenders) exceeded the total provision by 10 per cent and ₹ 100 crore in each case. In three cases (Sr. No. 4, 10 and 12), the savings exceeded the total provisions by more than 50 per cent. Details are given in **Table 2.4**.

Table 2.4: List of grants having large savings during 2015-16

(₹ in crore)

Sr. No.	Number and Name of the grant	Total Budget Provision	Actual expenditure	Savings/ Percentage	Surrenders	Savings excluding surrender (percentage)
1	2	3	4	5 (3-4)	6	7 (5-6)
	Revenue-Voted					
1	1-Agriculture and Forests	6501.65	5676.62	825.03 (12.69)	63.15	761.88 (11.72)
2	9-Food and Supplies	774.09	448.80	325.29 (42.02)	215.95	109.34 (14.12)
3	11-Health and Family Welfare	3467.14	2709.11	758.03 (21.86)	0	758.03 (21.86)
4	13-Industries	251.85	69.76	182.09 (72.30)	0	182.09 (72.30)
5	23-Rural Development and Panchayats	1442.39	849.67	592.72 (41.09)	0	592.72 (41.09)
6	25-Social and Women's Welfare and Welfare of Scheduled Castes and Backward Classes	2696.07	1826.55	869.52 (32.25)	0	869.52 (32.25)
	Capital-Voted					
7	5-Education	250.31	143.62	106.69 (42.62)	0	106.69 (42.62)
8	15-Irrigation and Power	11642.89	6390.12	5252.77 (45.12)	0	5252.77 (45.12)
9	17-Local Government, Housing and Urban Development	334.82	216.16	118.66 (35.44)	0	118.66 (35.44)
10	19-Planning	717.32	100.46	616.86 (86.00)	0	616.86 (86.00)
11	21-Public Works	1906.85	1359.24	547.61 (28.72)	0	547.61 (28.72)
12	25-Social and Women's Welfare and Welfare of Scheduled Castes and Backward Classes	169.39	24.96	144.43 (85.26)	0	144.43 (85.26)
	Total	30154.77	19815.07	10339.70 (34.29)	279.10	10060.60 (33.36)

Source: Appropriation Accounts

Such large savings in these grants reflect weak budgetary control.

2.3.4 Persistent savings

In two cases, during the last five years there were persistent savings of more than 10 per cent and ₹ five crore in each case which shows weak financial control. The details are given in **Table 2.5**.

Table 2.5: List of grants having persistent savings during 2011-16*(₹ in crore)*

Sr. No.	Number and Name of the grant/ Head of Account	Amount of savings (percentage of savings against total provision)				
		2011-12	2012-13	2013-14	2014-15	2015-16
Revenue-voted						
1	15-Irrigation and Power 2700-Major Irrigation 01-Sirhind Canal System (Commercial) 001-Direction and Administration 01-Direction	58.65 (16.94)	47.16 (12.72)	60.83 (14.62)	60.82 (13.94)	48.56 (10.71)
2	15-Irrigation and Power 2701-Medium Irrigation 80-General 001-Direction and Administration 01-Direction	131.61 (99.26)	148.81 (100.00)	64.19 (41.21)	67.65 (41.26)	65.62 (40.59)

Source: Appropriation Accounts

2.3.5 Expenditure without making provision of funds

As per Para 14.1 of the Punjab Budget Manual, expenditure should not be incurred on a scheme/service without provision of funds except after obtaining additional funds by re-appropriation, supplementary grant or appropriation or an advance from the Contingency Fund of the State. It was, however, observed that an expenditure of ₹ 319.17 crore (*Appendix 2.2*), was incurred in 16 cases (₹ one crore or more in each case) under four grants during the year 2015-16 without having any provision in the original estimates/supplementary demands and without issuing any re-appropriation orders to this effect.

2.3.6 Unnecessary supplementary provisions

Supplementary provisions of ₹ one crore or more in each case, aggregating to ₹ 1,879.51 crore obtained in 26 cases, during the year 2015-16 proved unnecessary as the expenditure did not come up even to the level of original provision (*Appendix 2.3*).

2.3.7 Unnecessary/Injudicious 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. During the year 2015-16, 27 re-appropriation orders for ₹ 8,314.40 crore were issued (20 re-appropriation orders for ₹ 6,957.76 crore were issued on 31 March, 2016). Out of these, 11 re-appropriation orders for ₹ 3,160.72 crore were rejected by the office of the Pr. Accountant General (A&E), Punjab on account of various reasons².

² Funds re-appropriated against nil budget provision, re-appropriation order not properly classified, minor head wise total not worked out, totals of 'From' and 'To' sides of the re-appropriation order do not tally, reasons for savings as well as excess were not cogent and convincing, re-appropriation order was neither signed by the Administrative Secretary of the Department nor sanctioned by the Finance Department.

During 2015-16, in six cases out of 24 (**Appendix 2.4- Sr. No. 6, 8, 9, 11, 13 and 20**), reduction of provisions by re-appropriation orders effected by various departments proved injudicious as there was excess expenditure under these cases. In the remaining 18 cases augmentation of provision also proved unnecessary because expenditure did not come up even to the level of original budget provisions.

2.3.8 Anticipated savings not surrendered

As per Rule 17.20 of the Punjab Financial Rules, 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 2015-16, savings of ₹ 9,350.08 crore (70.96 per cent of overall savings of ₹ 13,177.40 crore) were not surrendered by the concerned departments which indicated inadequate budgetary control as these funds could not be utilized for other developmental purposes. Details of grants/appropriations in which savings exceeding ₹ 10 crore were not surrendered and grants/appropriations in which there were savings of ₹ 10 crore and above even after partial surrender have been given in **Appendix 2.5** and **Appendix 2.6** respectively.

2.3.9 Surrender inspite of excess expenditure

Under Grant No. 08-Finance, ₹ 567.59³ crore had been surrendered even though there was an excess expenditure of ₹ 1,409.03 crore under this grant.

2.3.10 Rush of expenditure

According to para 18.15 of the Manual of Instructions of the Finance Department, Government funds should be evenly spent throughout the year. The rush of expenditure towards the end of the financial year is regarded as a breach of financial propriety. Audit scrutiny of expenditure incurred by the State Government in the year 2015-16 showed that in seven cases (**Table 2.6**), the expenditure incurred during the 4th quarter of the year ranged between 82.21 and 100 per cent and the expenditure incurred during the month of March 2016 alone under all these heads of accounts constituted 31.62 per cent of the total expenditure.

Table 2.6: Rush of expenditure towards the end of the financial year 2015-16
(₹ in crore)

Sr. No.	Major Head	Total expenditure during the year	Expenditure during the last quarter of the year		Expenditure during March 2016	
			Amount	Percentage to total expenditure	Amount	Percentage to total expenditure
1	2225-Welfare of SC, ST and other BC	521.51	501.31	96.13	134.73	25.83
2	2501-Special Rural Development Programme	48.50	39.87	82.21	36.89	76.06

³ Revenue-Voted: ₹ 105.73 crore; and Capital-Charged: ₹ 461.86 crore.

Sr. No.	Major Head	Total expenditure during the year	Expenditure during the last quarter of the year		Expenditure during March 2016	
			Amount	Percentage to total expenditure	Amount	Percentage to total expenditure
3	3435-Ecology and Environment	2.35	1.95	82.98	1.75	74.47
4	3452-Tourism	47.57	46.34	97.41	10.96	23.04
5	4070-Capital Outlay on other Administrative Services	12.22	10.94	89.53	3.70	30.28
6	4235-Capital Outlay on Social Security and Welfare	7.90	7.90	100.00	7.06	89.37
7	5053-Capital Outlay on Civil Aviation	10.83	10.83	100.00	10.73	99.08
	Total	650.88	619.14	95.12	205.82	31.62

Source: Information supplied by office of the Accountant General (Accounts & Entitlement), Punjab.

2.4 Outcome of review of selected grants

A review of budgetary procedure and control over expenditure in two test checked grants, i.e. Grant No. 1-Agriculture and Forests and 21-Public Works showed the following:

2.4.1 Unrealistic budget provisions

Audit scrutiny of the records showed that under Grant No. 1-Agriculture and Forests and 21-Public Works, the departments either made unrealistic budget provisions or did not disburse the amount during 2015-16, as savings of more than ₹ 10 crore in each case aggregating to ₹ 1,341.78 crore were found in 14 minor heads/schemes (*Appendix 2.7*).

2.4.2 Excess over provisions requiring regularization

The expenditure of ₹ 295.09 crore (under six minor heads/schemes) was incurred without budget provision (*Appendix 2.8*) under Grant No. 21-Public Works. Similarly ₹ 137.14 crore (under six minor heads/schemes) were spent in excess of budget provisions, each involving ₹ 10 crore or more under respective minor head/scheme, under Grant No. 1-Agriculture and Forests and 21-Public Works during the year 2015-16, which requires regularization under Article 205(1) (b) of the Constitution of India.

2.4.3 Unnecessary Supplementary grant/Re-appropriation

In six cases under Grant No.1-Agriculture and Forests, augmentation of provision of ₹ 34.69 crore through re-appropriation and supplementary provision proved un-necessary as the expenditure did not come up even to the level of original provision (*Appendix 2.9*).

2.5 Scrutiny of budget documents of the State Government

2.5.1 Non-disclosure of grantee

Para 1.5 of Punjab Budget Manual *inter-alia* lays down that separate provision for individual grants-in-aid to be paid to an institution need not be exhibited in the budget. The entire provision for grants-in-aid under the sub-head will be shown under the standard object of classification 'grants-in-aid'. The detailed provision will be shown separately in the form of statement at the end of each grant. Further, note below para 1.5 lays down that grants-in-aid amounting to ₹ 5,000 or more would be shown individually in the statement and the grants-in-aid less than ₹ 5,000 would be clubbed together and shown accordingly.

Scrutiny of budget documents revealed that though a provision of ₹ 1,239.21 crore was shown under classification 'grant-in-aid', statement exhibiting details of grantees had not been given at the end of grants. In the absence of details of grantees, provision made under grants-in-aid could not be admitted in audit and expenditure against the provisions could also not be verified.

2.5.2 Non-inclusion of estimates of expenditure relating to a new service in Schedule of New Expenditure

Para 5.1(I)(a) of Punjab Budget Manual (Manual) lays down that in respect of expenditure relating to a new service for which the legislature has not previously voted, provision should be included in the 'Schedule of New Expenditure'. Para 1.8 of the Manual *inter-alia* lays down that the 'Schedule of New Expenditure' has to be prepared by the heads of departments and after scrutiny by the Administrative and Finance Departments, are to be passed by the Council of Ministers with reference to the funds available and the comparative urgency of the proposals. Para 15.4 of the Manual categorises 'treatment of new items as ordinary items of expenditure' as financial irregularity. The above codal provision was not followed in 16 cases involving ₹ 1,082.70 crore under six grants (*Appendix 2.10*).

2.6 Review on working of treasuries in Punjab

2.6.1 Fraudulent withdrawal of salary

The Drawing and Disbursing Officers (DDOs) are required to observe the prescribed procedure to prevent the fraudulent draws. As per Rule 2.31(a) of Punjab Financial Rules (PFR) Volume II, a drawer of bill will be held responsible for any charges, fraud and misappropriations. He should, therefore, make himself thoroughly acquainted with various financial checks to be exercised to detect any attempt of defalcation. With a view to ensure that all amounts drawn from the treasury have been entered in the cash book, he should obtain from the treasury office by 15th of every month, a list of all bills drawn by him during the previous month and trace all the amounts in the cash book. A Bill Transit Register in Form PFR-8 should be maintained by all the

head of the offices. As per note 4 below Rule 260 of PTR, all bills are to be submitted to treasury through the Bill Transit Register and in order to prevent the presentation of fraudulent bills, this Register should be reviewed bi-weekly by a gazetted officer with reference to the entries in the Bill Register and the Cash Book.

During audit of records, it was noticed that number of employees mentioned in the bill submitted to treasury office for drawal of salary during 2013-15 were more than that mentioned in the office copy of the DDO, thereby resulting in fraudulent drawal of salary by DDOs as detailed in **Table 2.7**. This fraudulent drawal could have been prevented had the bill transit register been reviewed with reference to the entries made in the cash book as prescribed *ibid*.

Table 2.7: Detail of fraudulent drawl of salary

(₹ in crore)			
Sr. No	DTO/TO	DDO	Amount of overpayment
1	Patiala	Executive Engineer, Central Works Division (B & R), Patiala	0.27
2	Noor Mahal (Jalandhar)	Principal, Sr. Sec. school, Kot Badal Khan	0.54
Total			0.81

Source: Information obtained from office of the Accountant General (Accounts & Entitlement), Punjab.

2.7 Conclusions

During 2015-16, expenditure of ₹ 82,229.63 crore was incurred against total budget provision of ₹ 95,407.03 crore. Net saving of ₹ 13,177.40 crore occurred after the total saving of ₹ 15,239.06 crore was offset by excess expenditure of ₹ 2,061.66 crore. Out of net savings of ₹ 13,177.40 crore, savings of only ₹ 3,827.32 crore (29.04 per cent) were surrendered.

Excess expenditure of ₹ 5,727.08 crore requires regularization under Article 205(1) (b) of the Constitution of India. There was persistent saving in two grants and persistent excess in five grants. Augmentation by re-appropriation orders proved unnecessary in 18 cases because expenditure did not come up even to the level of original budget provisions and in six cases reduction of provision also proved injudicious as there was excess expenditure under these cases.

In seven cases, the expenditure incurred during the 4th quarter of the year ranged between 82.21 and 100 per cent and the expenditure incurred during the month of March 2016 alone under all these heads of accounts constituted 31.62 per cent of the total expenditure.

There were instances of fraudulent drawl of salary by DDOs amounting to ₹ 0.81 crore.

2.8 Recommendations

The Government may consider:

- (i) regularizing the expenditure incurred in excess of the budget provision;*
- (ii) monitoring of expenditure and anticipated savings so that the unutilized amounts could be utilized timely on other schemes; and*
- (iii) devising suitable mechanism to avoid rush of expenditure in last quarter/month of the financial year.*

2.9 Response of Government to the recommendations

The State Government stated (November 2016) that:

- (i) the process for regularizing the expenditure incurred in excess of budget provision during the years 2011 to 2015 had already been initiated and all out efforts were being made to get the amounts regularized in the budget session 2017-18; and
- (ii) the necessary instructions had been issued to the concerned departments for monitoring of expenditure and anticipated savings, and for devising suitable mechanism to avoid rush of expenditure in the last quarter/month of the financial year.