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**Chapter 2**  
**FINANCIAL MANAGEMENT**  
**AND BUDGETARY CONTROL**

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## CHAPTER 2

### FINANCIAL MANAGEMENT AND BUDGETARY CONTROL

#### Introduction

The Comptroller and Auditor General of India performs the audit of Appropriations to ascertain whether the expenditure incurred under various grants underlying the budget is within authorisations given under the Appropriation Act for the year, that expenditure required to be charged under the provisions of the Constitution is so charged, and whether, expenditure is incurred in conformity with the law, relevant rules, regulations and instructions.

#### 2.1 Summary of Appropriation Accounts

The summarised position of actual expenditure during 2016-17 against 78 grants/appropriations is as given in **Table 2.1**.

**Table 2.1: Summarised position of Original/Supplementary Budget Provision and Actual Expenditure**

(₹ in crore)

Nature of Expenditure		Total Grant/ Appropriation	Actual Expenditure	Savings (-) / Excess (+) (percentage in bracket Col. 4/2)	Amount surrendered (percentage in bracket Col. 5/4)	Amount surrendered on 31 March 2017 (percentage in bracket Col. 6/5)
	1	2	3	4	5	6
<b>Voted</b>	I –Revenue	1,36,222.89	1,12,054.64	(-)24,168.25 (17.74)	12,532.90 (51.86)	11,635.32 (92.84)
	II- Capital	37,746.42	28,631.80	(-)9,114.62 (24.15)	7,158.63 (78.54)	7,102.73 (99.22)
	III- Loans and Advances	6,589.88	4,940.93	(-)1,648.95 (25.02)	1,521.34 (92.26)	0.00 (0.00)
<b>Total Voted</b>		<b>1,80,559.19</b>	<b>1,45,627.37</b>	<b>(-)34,931.82</b> <b>(19.35)</b>	<b>21,212.87</b> <b>(60.73)</b>	<b>18,738.05</b> <b>(88.33)</b>
<b>Charged</b>	IV- Revenue	11,792.25	10,509.78	(-)1,282.47 (10.88)	37.95 (2.96)	37.92 (99.92)
	V –Capital	61.45	30.33	(-)31.12 (50.64)	10.35 (33.26)	10.35 (100)
	VI- Public Debt- Repayment	9,105.63	4,925.41	(-)4,180.22 (45.91)	0.00 (0.00)	0.00 (0.00)
<b>Total Charged</b>		<b>20,959.33</b>	<b>15,465.52</b>	<b>(-)5,493.81</b> <b>(26.21)</b>	<b>48.30</b> <b>(0.88)</b>	<b>48.27</b> <b>(99.94)</b>
<b>Grand Total</b>		<b>2,01,518.52</b>	<b>1,61,092.89</b>	<b>(-)40,425.63</b> <b>(20.06)</b>	<b>21,261.17</b> <b>(52.59)</b>	<b>18,786.32</b> <b>(88.36)</b>

**Note: Figures of actual expenditure include recoveries adjusted as reduction of expenditure under voted revenue expenditure (₹ 2,993.54 crore) and voted capital expenditure (₹ 1,373.82 crore).**

(Source: Appropriation Accounts, Finance Accounts and Budget documents 2016-17)

The fact that as much as 20.06 per cent of savings (amounting to ₹ 40,425.63 crore) was allowed to lapse at the end of the year or was surrendered on the last day of the financial year without being available to the Finance Department for re-appropriation to other purposes makes it evident that the Finance Department exercised very little financial control.

**Recommendation:** *The Finance Department should monitor the trends of expenditure by Departmental Controlling Officers, so that funds are not*

retained unnecessarily and are surrendered at the earliest, without resorting to last minute surrenders and lapsing of allocations.

## 2.2 Financial Accountability and Budget Management

### 2.2.1 Excess expenditure requiring regularisation

As per Article 205 of the Constitution of India, it is mandatory for a State Government to get excess expenditure over a grant/appropriation regularised by the State Legislature. It was observed however, that the State Government failed to get regularised the excess expenditure amounting to ₹ 758.14 crore covering 32 grants and 19 appropriations pertaining to the period 2003-15. Details are given in **Appendix 2.1**.

During 2016-17, excess expenditure of ₹ 23.77 crore was also incurred under grant no. 2 (Revenue voted). Such repeated excess expenditure over grants approved by the State Legislative violates the will of the Legislature and the basic principle that not a rupee can be spent without the approval of the Legislature.

**Recommendation:** The Finance Department should ensure that the excess expenditure of the past 12 years is regularised by the State Legislature at the earliest and strict departmental action is taken against controlling officers who exceed the budget.

### 2.2.2 Savings

**Appendix 2.2** provides details of 56 cases where savings exceeded ₹ 10 crore in each case and by more than 20 per cent of total provisions. **Appendix 2.3** provides details of 32 cases relating to 25 grants/appropriations exceeding ₹ 100 crore and more than 20 per cent of total provisions in each case wherein savings of ₹ 28,473.71 crore occurred.

Savings under revenue voted head of account exceeding ₹ 500 crore occurred in 10 grants under grant numbers 06-Finance, 07-Commercial Tax, 13-Farmers Welfare and Agriculture Development, 15-Financial Assistance to Three Tier Panchayati Raj Institutions Under Schedule Castes Sub-Plan, 17-Co-operation, 19-Public Health and Family Welfare, 22-Urban Development and Environment, 41-Tribal Areas Sub-Plan, 44-Higher Education and 64-Scheduled Castes Sub-Plan.

Similarly, savings under the capital voted head of account exceeding ₹ 500 crore occurred in three grants under grant number 12-Energy, 41-Tribal Areas Sub-Plan and 64-Scheduled Castes Sub-Plan and savings under the capital charged head of account exceeding ₹ 500 crore in one appropriation PD-Public Debt.

Out of the above mentioned grants, savings (exceeding ₹ 500 crore) occurred in 10 cases involving seven grants and one appropriation during 2015-16 also as detailed in **Table 2.2**.

**Table 2.2: Grants indicating savings**

Sl. No.	Grant No.	Name of the Grant	₹ in crore)	
			Savings (exceeding ₹ 500 crore)	
			2015-16	2016-17
1	P.D.	Public Debt (Capital Charged)	3,912.81 (44.60)	4,180.22 (45.91)

Sl. No.	Grant No.	Name of the Grant	Savings (exceeding ₹ 500 crore)	
			2015-16	2016-17
2	06	Finance (Revenue Voted)	5,614.68 (41.36)	2,352.81 (20.81)
3	07	Commercial Tax (Revenue Voted)	773.34 (29.87)	902.84 (34.56)
4	12	Energy (Capital Voted)	1,401.98 (35.63)	2,847.17 (27.90)
5	13	Farmers Welfare and Agriculture Development (Revenue Voted)	2,235.89 (63.36)	1,113.97 (26.77)
6	15	Financial Assistance to Three tier Panchayati Raj Institutions under Scheduled Caste Sub-Plan (Revenue Voted)	783.40 (32.78)	762.58 (23.57)
7	41	Tribal Areas Sub-Plan (Revenue Voted)	2,178.78 (35.28)	2,224.11 (33.01)
8	41	Tribal Areas Sub-Plan (Capital Voted)	1,098.21 (32.40)	2,630.96 (44.13)
9	64	Scheduled Castes Sub-Plan (Revenue Voted)	1,440.87 (34.03)	1,028.15 (21.81)
10	64	Scheduled Castes Sub-Plan (Capital Voted)	837.73 (27.57)	2,009.64 (42.74)

(Source: Appropriation Accounts 2015-16 and 2016-17)

Note: Figures in bracket indicate percentage of savings out of total provision.

It was observed that savings under public debt (capital charged) occurred persistently during the period 2012-13 to 2016-17 ranging from 45 per cent to 52 per cent mainly due to non-utilisation of 100 per cent provision amounting to ₹ 4,000 crore in two schemes<sup>38</sup>.

**Recommendation:** The Finance Department should review the reasons for non-utilisation of the provisions under various schemes and take steps to make more judicious provisions in future years.

### 2.2.3 Persistent savings

In 12 cases involving 10 grants and two appropriations it was noticed that there were persistent savings (₹ one crore and above and also more than 20 per cent of the total provision) ranging between ₹ 2.50 crore and ₹ 4,256.48 crore during the preceding five years, as detailed in **Appendix 2.4**.

### 2.2.4 Unutilised provisions under schemes

In 83 cases, the entire provision made under various schemes (₹ 10 crore or more in each case) aggregating to ₹ 16,911.64 crore remained unutilised as detailed in **Appendix 2.5**.

### 2.2.5 Unnecessary/excessive supplementary provisions

During 2016-17, in 35 cases, supplementary provisions amounting to ₹ 3,880.67 crore (₹ one crore or more in each case) proved unnecessary as the expenditure was not even up to the level of the original provision as detailed in **Appendix 2.6**.

During 2016-17, in 34 cases, supplementary provisions amounting to ₹ 24,230.86 crore (₹ one crore or more in each case) proved excessive by

<sup>38</sup> 1. Ways and Means Advances (₹ 2,000 crore), 2. Advances for recoupment of shortfall (₹ 2,000 crore)

₹ 10,301.36 crore against the actual requirement of ₹ 13,929.50 crore as detailed in **Appendix 2.7**.

### **2.2.6 Excessive/unnecessary re-appropriation of funds**

In 28 sub-heads involving 15 grants, where re-appropriation was ₹ one crore or more in each case, there were savings of ₹ 192.34 crore and excess of ₹ 165.73 crore indicating injudicious re-appropriation without assessing actual requirements (**Appendix 2.8**).

### **2.2.7 Substantial surrenders**

During 2016-17 substantial surrenders (50 *per cent* or more of the total provision) amounting to ₹ 9,020.91 crore (82 *per cent* of total provision of ₹ 11,058.31 crore) were made in 168 sub-heads, which included 100 *per cent* surrenders in 61 schemes/programmes (₹ 4,412.85 crore). Details are given in **Appendix 2.9**. Such substantial surrenders indicated that either the budgeting was done without due prudence or that there were serious slippages in programme implementation.

### **2.2.8 Surrender in excess of actual savings**

In three grants (₹ 10 lakh or more in each case) as against savings of ₹ 223.95 crore, the amount surrendered was ₹ 251.30 crore resulting in excess surrender of ₹ 27.35 crore during 2016-17 as detailed in **Appendix 2.10**. The surrender in excess of actual savings indicated that the departments did not exercise adequate budgetary controls by watching the flow of expenditure through monthly expenditure statements.

### **2.2.9 Anticipated savings not surrendered**

Though savings of ₹ 7,716.77 crore (₹ one crore or more in each case) occurred in 27 cases of grants/appropriations, no part of it was surrendered by the spending departments. Details are given in **Appendix 2.11**.

Similarly, out of savings of ₹ 36,596.12 crore in 103 cases (savings of ₹ one crore and above in each case), an amount of ₹ 19,208.80 crore (52 *per cent*) was not surrendered (**Appendix 2.12**) which forms 48 *per cent* of total savings of ₹ 40,425.63 crore. This is indicative of inadequate financial control and resultant blocking of funds.

#### **2.2.9.1 Defective sanctions to surrender of funds**

As per instructions (February 2012) of the State Government (i) all sanctions for re-appropriations/surrenders should be issued before the end of the financial year and should be received in Accountant General (A&E)'s office well in time for incorporation in the accounts, (ii) proper details of schemes should be furnished and total of sanctions should be correct (iii) provision in concerned heads should be available from which surrenders/re-appropriations are sanctioned.

Audit revealed that non-surrendered provision of ₹ 19,208.80 crore included 46 defective sanctions for surrender, which were issued by the Controlling Officers of 29 grants/appropriations in violation of State Government's instructions. As a result, surrenders of ₹ 3,989.45 crore during the year 2016-17 were not accepted by the Accountant General (A&E) for inclusion in the accounts (details are given in **Appendix 2.13**).

**Recommendations:** The Finance Department should ensure that excessive, unnecessary supplementary provisions and injudicious surrenders are avoided and that sanction orders for surrenders by controlling officers are timely, complete and valid as stipulated under the guidelines.

#### 2.2.10 Misclassification of expenditure

As per the Indian Government Accounting Standard-2 (IGAS-2), expenditure on grants-in-aid is recorded as revenue expenditure in the books of the grantor and as revenue receipt in the books of recipient. Capital expenditure is defined as expenditure incurred with the object of increasing concrete assets of a material of permanent character, or of reducing recurring liabilities.

However during 2016-17, the State Government provided and booked minor construction works amounting to ₹ 51.45 crore under various capital heads instead of revenue heads. Expenditure on grants-in-aid amounting to ₹ 201.41 crore (total ₹ 252.86 crore) has been incurred under capital section, whereas it should be expended as revenue expenditure. Details are given **Appendix 2.14**.

Similarly, expenditure of ₹ 443.55 crore and ₹ 8.35 crore (total ₹ 451.90 crore) were also booked under the head- 'Machinery.' and 'Major Works' respectively under revenue section which were to be classified as capital expenditure. Details are given **Appendix 2.15**.

#### 2.2.11 Inappropriate expenditure of ₹ 3.49 crore from Contingency Fund

The State Government maintains a Contingency Fund in terms of the Constitution and under the Contingency Fund Act, 1950 with a corpus amount of ₹ 500 crore. Under the Madhya Pradesh Contingency Fund Rules, 1957, advances from the Contingency Fund are to be made only to meet unforeseen expenditure of an indisputably emergent character not provided from the budget or in cases in which the postponement of expenditure would be administratively impossible or serious inconvenience or serious loss or damage would be caused thereby to the Public service.

It was observed that Finance Department permitted the Culture Department to draw ₹ 16 crore from Contingency Fund during March 2017 for organising Shaheed Chandrashekhar Azad Programme in Bhawra. Out of ₹ 16 crore, Culture Department incurred ₹ 3.49 crore for organising various cultural programmes which does not constitute emergent and unforeseen expenditure.

**Recommendations:** The State Government should ensure that amounts from the Contingency Fund should be advanced only for expenditure of emergent and unforeseen nature, as stipulated under the Constitutional provisions.

#### 2.2.12 Rush of expenditure

According to para 26.13 of the Madhya Pradesh Budget Manual (MPBM), rush of expenditure, particularly in the closing months of the financial year, will ordinarily be regarded as a financial irregularity.

It was observed that 100 per cent expenditure was incurred in 34 cases<sup>39</sup> of 18 grants/appropriations amounting to ₹ 14,169.78 crore during March 2017. Details are given in **Appendix 2.16**.

<sup>39</sup> Where expenditure during last quarter exceeded ₹ 10 crore.

It was also observed that GoMP issued sanction orders for ₹ 2,148.01 crore in respect of six grants on 28.03.2017, 30.03.2017 and 31.03.2017 for different schemes i.e. Indira Awas Yojna (₹ 489.90 crore), Nirmal Bharat Abhiyan (₹ 376.53 crore), Prime Minister Gram Sadak Yojna (₹ 1,005.73 crore), Distribution of Mid-day Meal programme (₹ 9.18 crore) and National Rural Employees Guarantee Scheme (₹ 266.67 crore).

***Recommendation:*** *The Finance Department should control rush of expenditure during the fag end of the financial year.*