

CHAPTER-II
FINANCIAL MANAGEMENT AND
BUDGETARY CONTROL

Chapter II

Financial Management and Budgetary Control

2.1 Introduction

2.1.1 Appropriation 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, complementary to Finance Accounts.

2.1.2 Audit of Appropriations by the Comptroller and Auditor General of India seeks to ascertain whether the expenditure incurred under various grants is within the authorisation given under the Act and that the expenditure required to be charged under the provision of the Constitution is so charged. It also ascertains whether the expenditure so incurred is in conformity with the laws, relevant rules, regulations and instructions.

2.2 Summary of Appropriation Accounts

The summarised position of actual expenditure during 2018-19 against 82 Grants/Appropriations is given in **Table 2.1**:

Table 2.1: Summarised Position of Actual Expenditure *vis-a-vis* Original/Supplementary provisions for the year 2018-19

(₹ in crore)								
	Nature of Expenditure	Original Grant/ Appropriation	Supplementary Grant/ Appropriation	Total	Actual Expenditure	Saving (-) Excess (+)	Amount Surrendered	Percentage of Savings Surrendered by 31 March 2019 (col. 7/col.6)
	1	2	3	4	5	6	7	8
Voted	I Revenue	11037.41	891.25	11928.66	9937.64	-1991.02	1989.47	99.92
	II Capital	1341.09	1255.53	2596.62	1595.56	-1001.06	992.98	99.19
	III Loans and Advances	0.40	4.87	5.27	5.27	0.00	0.00	0.00
	Total Voted	12378.90	2151.65	14530.55	11538.47	-2992.08	2982.45	99.68
Charged	IV Revenue	1085.78	2.56	1088.34	1023.45	-64.89	64.28	99.06
	V Capital	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	VI Public Debt-Repayment	4851.08	0.00	4851.08	2596.27	-2254.81	2254.80	100.00
	Total Charged	5936.86	2.56	5939.42	3619.72	-2319.70	2319.08	99.97
	Appropriation to Contingency Fund (if any)	0.00	0.00	0.00	0.00	0.00	0.00	0.00
	Grand Total	18315.76	2154.21	20469.97	15158.19	-5311.78	5301.53	99.81

Source: Appropriation Accounts.

Overall Saving of ₹ 5311.78 crore (25.95 per cent of Total Allocation) was the result of Saving in 72 Grants and four Appropriations under Revenue Section, 46 Grants under

Capital Section and one Appropriation (Public Debt-Repayments), offset by Excess of ₹ 0.01 crore in one Grant under Revenue Section. During the year, the amount surrendered was 99.81 per cent of overall Savings.

The Savings/Excess (Detailed Appropriation Accounts for the year 2018-19) were intimated to all the 82 Controlling Officers requesting them to explain the significant variations. The Controlling Officers of 23 Departments of the State furnished their replies before finalisation of the Appropriation Accounts 2018-19. However, no valid reasons for the Savings were explained or explicitly stated by any of the Departments.

2.3 Financial Accountability and Budget Management

2.3.1 Appropriation vis-à-vis Allocative Priorities

The Appropriation audit revealed that there was a total Saving of ₹ 5311.78 crore, out of which Savings of ₹ 5292.44 crore occurred in 55 cases (**Appendix 2.1**) which exceeded rupees one crore in each case or by more than 20 per cent. Against the savings, an amount of ₹ 4777.63 crore (90.27 per cent) with savings of ₹ 50 crore and above occurred in nine Grants/Appropriation of the total provisions indicated in **Table 2.2:**

Table 2.2: List of Grants with Savings of ₹ 50 crore and above

(₹ in crore)								
Sl. No.	Grant No.	Name of the Grant/Appropriation	Original	Supplementary	Total	Actual Expenditure	Savings	Percentage
Revenue (Voted)								
1	18	Pension and Other Retirement Benefits	1786.44	0.00	1786.44	1552.79	233.65	13.08
2	27	Planning Machinery	446.72	0.00	446.72	162.92	283.80	63.53
3	31	School Education	1674.88	0.00	1674.88	1553.52	121.36	7.25
4	35	Medical, Public Health and Family Welfare	648.37	46.48	694.85	616.79	78.06	11.23
5	42	Rural Development	1455.44	0.00	1455.44	556.94	898.50	61.73
6	72	Land Resource Development	135.06	0.00	135.06	63.09	71.97	53.29
Capital(Voted)								
7	27	Planning Machinery	588.41	0.00	588.41	125.82	462.59	78.62
8	35	Medical, Public Health and Family Welfare	85.40	17.23	102.63	14.63	88.00	85.75
9	37	Municipal Administration	119.89	0.00	119.89	46.26	73.63	61.42
10	59	Irrigation and Flood Control	185.30	0.00	185.30	37.84	147.46	79.58
Revenue (Charged)								
11	75	Servicing of Debt	1060.55	0.00	1060.55	996.74	63.81	6.02
Capital (Charged)								
12	75	Servicing of Debt	4851.08	0.00	4851.08	2596.28	2254.80	46.48
Total			13037.54	63.71	13101.25	8323.62	4777.63	36.47

Source: Appropriation Accounts.

The Government/Departments had not furnished any replies (April 2020) regarding the reasons for Savings.

2.3.2 Persistent Savings

There were persistent Savings of more than ₹ 50 lakh and also 10 per cent or more of the total Grant in three cases during the last five years (Table 2.3):

Table 2.3: List of Grants indicating Persistent Savings during 2014-19

(₹ in crore)

Sl. No.	No. and Name of the Grant	Amount of Savings					
		2014-15	2015-16	2016-17	2017-18	2018-19	
Revenue-Voted							
1	31-School Education	Amount	333.41	336.82	347.12	202.10	121.36
		Percentage	26.88	24.13	24.02	13.68	7.25
Capital-Voted							
2	27-Planning Machinery	Amount	815.84	318.68	300.65	156.21	462.59
		Percentage	91.28	81.45	75.64	61.91	78.62
3	59-Irrigation and Flood Control	Amount	21.25	132.48	186.89	92.84	147.46
		Percentage	57.59	57.07	80.70	79.62	79.58

Source: Appropriation Accounts of respective years.

During the five years period 2014-15 to 2018-19, there were persistent Savings in the above three Grants which indicates poor budgeting, shortfall in performance or both, as funds could not be utilised as estimated on activities planned by the Departments concerned. The accountability of the executive responsible for persistent savings over estimation of requirement of funds and failure to prepare a realistic Budget should be fixed.

The report was forwarded to the Government (April 2020) and replies for persistent Savings had not been intimated by any Department.

2.3.3 Expenditure Without Provision

As per the Budget Manual, expenditure should not be incurred on a Scheme/Service without Provision of Funds under the Budget. It was, however, noticed that an expenditure of ₹ 0.44 crore was incurred in one case as detailed in Table 2.4 without any provision in the Original Estimates/Supplementary demand and without any Re-Appropriation orders to that effect:

Table 2.4: Expenditure incurred Without Provision during 2018-19

(₹ in crore)

Number and Name of		Amount of Expenditure without Provision
Grants	Head of Account	
52-Forest, Ecology, Environment and Wildlife	4406-01-070-01 Buildings	0.44
Total		0.44

Source: Appropriation Accounts.

2.3.4 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. Although no time limit for regularisation of expenditure has been prescribed under the Article, the regularisation of excess expenditure is done after the completion of discussion of the

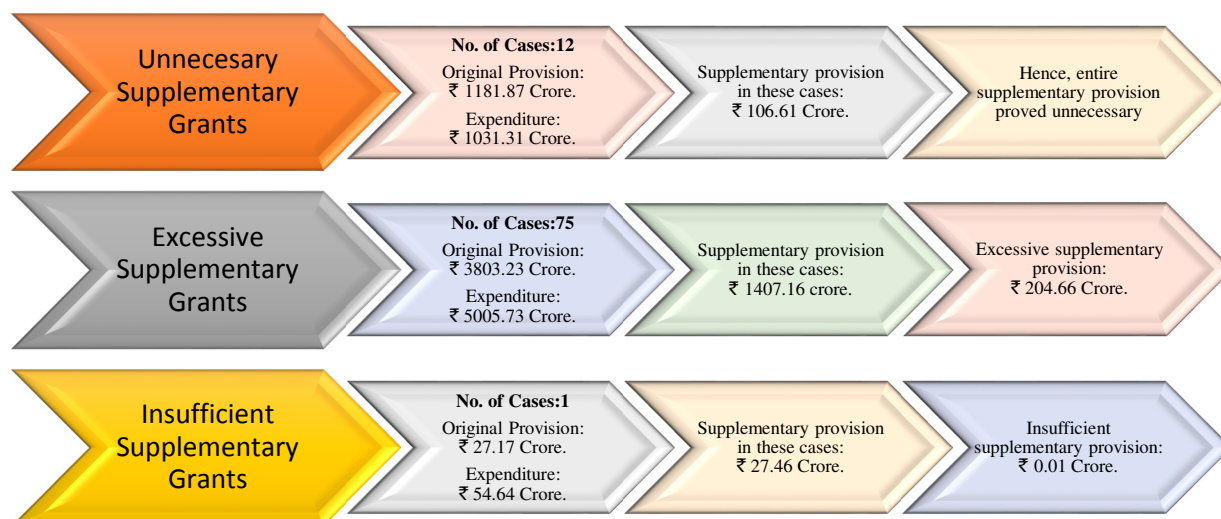
Appropriation Accounts by the Public Accounts Committee (PAC). However, excess expenditure amounting to ₹ 723.69 crore for the years 2012-13 to 2017-18 was not regularised till December 2019 (**Appendix 2.2**). The State Government also did not offer any valid reasons for Excess Expenditure over Grants/Appropriation.

The persistent excess expenditure over Grants/Appropriation is a serious matter. Such repeated excess expenditure over grants approved by the State Legislature is in violation of Article 204 of the Constitution which provides that no money shall be drawn from the Consolidated Fund except under appropriations made by law. As this vitiates the basic principle of legislative financial control, the State Legislature needs to view such cases of financial irregularity/indiscipline seriously. Thus, all the cases of the Excess Expenditure of ₹ 723.69 crore pertaining to the year 2012-13 to 2017-18 are to be regularised at the earliest under Article 205 of the Constitution of India. The responsibility of the executive on account of persistent Excess Expenditure over Grants/Appropriation needs to be fixed as this is contrary to legislative intent and defeats the objective of ensuring accountability of the executive over utilisation of public money. In future, such unauthorised excess expenditure should be stopped completely, except in case(s) of dire and extreme emergency, the amount of which cannot be met from the Contingency Fund.

2.3.5 Unnecessary Supplementary Provision

Supplementary Provision of ₹ 106.61 crore obtained by 12 Departments during the year proved unnecessary as the expenditure either did not come up to the level of Original Provision or the Subsequent Supplementary Provision was not utilised by the Departments concerned as detailed in **Appendix 2.3**. It was also observed that in 75 cases the Supplementary Grants of ₹ 204.66 crore proved excessive as discussed below:

Chart: 2.1: Unnecessary, Excessive and Insufficient Supplementary Provisions



2.3.6 Excessive/Insufficient 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. Injudicious Re-appropriation of Funds made during the year 2018-19 proved either

excessive or insufficient (by ₹ 10 lakh or more) resulting in Savings of ₹ 22.80 crore in 15 Sub-heads and Excess of ₹ 28.98 crore in 14 Sub-heads as detailed in **Appendix 2.4**.

2.3.7 Unexplained Re-Appropriations

According to Financial Rules, reasons for additional expenditure and savings should be explained in the Re-appropriation statement and specific reasons should be given and expressions such as “based on actual requirements”, “based on trend of expenditure”, *etc.*, should be avoided. However, scrutiny of Re-appropriation orders issued by the Finance Department revealed that out of a total of 82 grants, Re-appropriation was done in 80 grants (98 *per cent*) on the last day without stating specific reasons for withdrawal of provision or additional provision by way of Re-appropriation of funds. This Re-appropriation on last day of the financial year resulted in unnecessary Savings in some Grants on the one hand and excess in some Grants on the other hand which was avoidable as discussed in **Paragraph 2.3.6** above.

2.3.8 Substantial Surrenders

Substantial surrenders (more than 50 *per cent* of Total Provision was surrendered) were made in respect of 116 Sub Heads. Out of the Total Provision amounting to ₹ 3376.15 crore in those Sub Heads, ₹ 2623.52 crore (77.71 *per cent*) was surrendered, which included cent *per cent* surrender under 47 Sub Head (₹ 527.72 crore). The circumstances prompting the Department to surrender the funds were neither stated nor on record. The details of such cases are given in **Appendix 2.5**.

2.3.9 Inadequate Budgetary Control

In one case, the amount surrendered (₹ one crore or more in each case) was in excess of actual savings which resulted in Excess Expenditure over the Provisions under the respective Grants. As against savings of ₹ 121.36 crore, the amount surrendered was ₹ 125.12 crore resulting in Excess Expenditure of ₹ 3.76 crore over the Provisions which needed regularisation. Such action was indicative of lack of, or inadequate Budgetary control in those Departments. Details are given in **Appendix 2.6**.

2.3.10 Anticipated Savings not Surrendered

As per 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 2018-19, savings in 19 Grants (amounting to ₹ 5.47 crore) occurred which had not been surrendered by the Departments concerned (**Appendix 2.7**) as was required.

Besides, in 27 cases an amount of ₹ 5287.64 crore (₹ 10.00 crore and above) which comprised of 25 *per cent* of the total Budget for the year was surrendered (**Appendix 2.8**) on the last two working days of March 2019 indicating Inadequate Financial Control. As a result, those funds could not be utilised for other developmental activities during the year and purpose of surrender of Funds was defeated in those cases.

2.3.11 Rush of Expenditure

According to Rule 62(3) of GFR 2017, rush of expenditure, particularly in the closing months of the financial year shall be regarded as breach of financial propriety and should be avoided.

Table 2.5: Percentage of Expenditure in March alone

No of Grants	Expenditure incurred in each quarters					Expenditure in March'20	Expenditure in March as percentage of TE
	1 st Qtr	2 nd Qtr	3 rd Qtr	4 th Qtr	Total		
82	2785.48	3611.80	2957.40	5762.41	15117.09	2946.36	19.49

Source: Summary of Appropriation Accounts

As can be seen from above, out of the Total Expenditure of ₹ 15117.09 crore (including ₹ 2596.28 crore of Servicing Debt and excluding Recoveries of ₹ 41.11 crore) during the year, an amount of ₹ 2946.36 crore comprising of 19.49 *per cent* was incurred in March 2019, which indicated lack of effective financial control and violation of Financial Rules.

It was also observed that the State Government received an amount of ₹ 1995.79 crore against total Grants of ₹ 6543.33 crore (30.50 *per cent*) in the last quarter and ₹ 666.67 crore in the last month of the financial year 2018-19 in the form of Grants-in-Aid from GoI.

2.3.12 Gender Budgeting

The Constitution of India has mandated equality for every citizen of the country as a fundamental right.

Among others, Gender Budgeting Serves in (i) Identifying the felt needs of women and re-prioritising and/ or increasing expenditure to meet these needs; (ii) Supporting gender mainstreaming in macro-economic; (iii) Strengthening civil society participation in economy; (iv) Enhancing the linkages between economic and social policy outcomes; (v) Tracking Public expenditure against gender and development policy commitments and (vi) Contributing to the attainment of the Sustainable Development Goals (SDGs).

One of the tools that can be used to promote women's equality and empowerment is gender-responsive budgeting or Gender Budgeting. However, Nagaland State is yet to adopt Gender Budgeting.

2.4 Advances from Contingency Fund

The advances taken from the Contingency Fund are to be drawn only for meeting expenditure of an unforeseen and emergent character pending authorisation of such expenditure by the State Legislature. The fund is to be recouped by debiting the expenditure to the functional major head concerned in the Consolidated Fund of the State.

During the year, no expenditure was incurred under this fund. An amount of ₹ 0.35 crore pertaining to expenditure from the Contingency Fund, had not been recouped till the end of the year 2018-19.

2.5 Outcome of the Review of Selected Grant

A review of Grant No. 31 - School Education was conducted mainly to assess the efficiency in the process of Budgeting and consequent control over expenditure both for the Revenue and Capital heads of the Grant during the year 2018-19.

2.5.1 Budget and Expenditure

The summarised position of Budget Provision and Actual Expenditure during 2018-19 in respect of Grant No. 31 - School Education is given in **Table 2.6**.

Table 2.6: Summarised position of Budget Provision and Actual Expenditure

(₹ in crore)

Nature of Expenditure	Budget Provision			Actual Expenditure	Saving(-) / Excess(+)
	Original	Supplementary	Total		
Revenue	1674.89	0.00	1674.89	1553.52	(-) 121.37
Capital	0.00	13.08	13.08	12.52	(-) 0.56
Total	1674.89	13.08	1687.97	1566.04	(-) 121.93

Source: Appropriation Accounts of respective year.

The above table shows that during the year 2018-19, there was overall saving of ₹ 121.93 crore representing 7.22 per cent of the total Budget Provision as a result of saving under Revenue (₹ 121.37 crore). As per Financial Rules, the spending Departments are required to surrender the anticipated savings to the Finance Department as and when occurred. The Department surrendered ₹ 125.12 crore out of the savings of ₹ 121.36 crore under Revenue Head during the year 2018-19 resulting in Excess Expenditure of ₹ 3.76 crore over the provisions.

An analysis of the Expenditure *vis-à-vis* the Budget Provision under the Revenue Section revealed that there was an overall Excess Expenditure of ₹ 3.76 crore under the section. This was mainly due to the fact that the Department expended ₹ 4.26 crore in excess under the 'Rashtriya Madhyamik Shiksha Abhiyan' Sub head and ₹ 0.04 crore under 'National Programme for Nutritional Support to Primary Education, offset by the savings of ₹ 0.54 crore under 'Inspectorate (DEO)' through the final Grant under the Major Heads 2202.

2.6 Conclusion

- ❖ During the year, there was an overall Savings of ₹ 5311.78 crore, of which 99.81 per cent was Surrendered (₹ 5301.53 crore).
- ❖ In 116 Sub-heads, the surrender of funds amounted to more than 50 per cent of the Provisions. At the close of the year 2018-19, savings in 19 Grants (amounting to ₹ 5.47 crore) occurred, which were not surrendered by the Departments concerned. Besides, in 27 cases ₹ 5287.64 crore was surrendered on the last two working days of March 2019 indicating inadequate financial control. As such, these Funds could not be utilised for other developmental purposes.

- ❖ *Excess Expenditure over the Allocations amounting to ₹ 723.69 crore pertaining to the years 2012-13 to 2017-18 was not regularised till December 2019. The cases of Excess Expenditure over Grants were serious violations of the will of the Legislature. It is, thus, important to fix the responsibility of erring officials in this regard.*

2.7 Recommendations

- ❖ *Since the revenue of the State is largely dependent on various receipts from the GoI, the State Government should ensure that formalities/conditions for receipt of Funds are furnished timely so that Funds are received timely and rush of expenditure at the fag end of Financial Year is avoided.*
- ❖ *The cases of persistent Savings should be analysed by the Government for making Budgetary assumptions more realistic under respective Grants in order to avoid such instances in future.*
- ❖ *Financial controls may be streamlined so that anticipated Savings may be Surrendered well in time for their effective utilisation in other Programmes /Activities.*