Chapter 3: Observations on Appropriation Accounts

3.1 Introduction

The Appropriation Act enacted by the Parliament authorises the Government to draw specified sums from the Consolidated Fund of India (CFI) for identified activities and functions, under various Grants in terms of Articles 114 and 115 of the Constitution, and for disbursements charged on the CFI. Parliament also approves supplementary or additional Grants by subsequent Appropriation Acts in terms of Article 115 of the Constitution.

Authorisations by Parliament are based on budget estimates (BE) prepared by Ministries and Departments in accordance with the General Financial Rules (GFR) and instructions issued by the Budget Division, Ministry of Finance (MoF). These instructions envisage that the BEs are prepared realistically to meet all expenditure requirements and ensure that unspent balances are avoided. The BEs are further scrutinised by MoF before incorporation in Budget documents.

The Controller General of Accounts (CGA) prepares the Appropriation Accounts of Civil Ministries. The Ministries of Defence, Railways and the Department of Posts[25] prepare the Appropriation Accounts of their respective Grants. These Accounts compare grant/ appropriation[26]-wise summary of provisions for expenditure authorised by Parliament and the actual expenditure from CFI against these. Explanations are provided for variations between provisions and expenditure at minor/sub-head level above specified thresholds. These accounts, thus, reflect the extent to which Ministries and Departments comply with legislative authorisation during the year.

The Appropriation Accounts for 2018-19 cover approved provisions aggregating to ₹97,58,002.23 crore, and total expenditure thereon amounting to ₹92,91,269.23 crore. Details are given in **Table 3.1.** Segment[27]-wise details are given at **Annexure 3.1**.

---

[25] Controller General Defence Accounts, Financial Commissioner (Railways), and Member (Finance) Posts respectively.

[26] 'Appropriations' are made against demands that are entirely 'charged' to CFI; 'Grants' are made against demands that are either fully 'Voted' or partly 'Voted' and partly 'Charged'. There were six 'Appropriations' and 93 'Grants' in 2018-19.

[27] Each grant/ appropriation has four segments viz., Revenue (Charged); Revenue (Voted); Capital (Charged); and Capital (Voted).

Table 3.1: Details of provisions and expenditure

(₹in crore)

Appropriation Accounts	Number of Grants/ Appropriations	Original Provision	Supplementary Provision	Total Provision	Actual Expenditure
Civil	95	86,86,773.81	2,92,669.90	89,79,443.71	85,27,331.89
Defence	02	2,99,107.94	2,901.39	3,02,009.33	3,06,928.28
Posts	01	29,272.56	669.16	29,941.72	28,805.63
Railways	01	4,46,369.78	237.69	4,46,607.47	4,28,203.43
Total	**99**	**94,61,524.09**	**2,96,478.14**	**97,58,002.23**	**92,91,269.23**

This Chapter contains audit observations on the Appropriation Accounts. Important observations relate to excess expenditure requiring regularisation by Parliament; significant unspent provisions; unnecessary re-appropriations; supplementary provisions obtained without requirement; delayed surrender and non-surrender of funds; expenditure in excess of budgetary provision; and misclassification of expenditure.

3.2 Variations from Authorisation

Article 114(3) of the Constitution provides that no money shall be withdrawn from CFI except under appropriations made by law. In addition, General Financial Rules (GFR), 2017 stipulate that no expenditure which might lead to authorisation under the total Grant or Appropriation being exceeded will be incurred, except after obtaining a supplementary Grant or an advance from the Contingency Fund. Excesses, if any, are required to be regularised by Parliament under Article 115(1)(b) of the Constitution.

Public Accounts Committee (PAC) has in several of its reports, made observations regarding large savings in the grants of Ministries and Departments. The PAC (10th Lok Sabha 1993-94) in its 60th Report had observed that savings of ₹100 crore or above are indicative of defective budgeting as well as shortfall in budget performance in a Grant or Appropriation. In its 16th Report (13th Lok Sabha 2000-2001), PAC again observed that such savings are a result of injudicious formulation of budget and held that these could have been significantly reduced by making realistic budgetary projections. Consequently, Ministry of Finance advised[28] Ministries/Departments to make a more careful formulation of plan/schemes and make a realistic assessment of fund requirement.

Despite the above, the position with regard to savings and excess over budgetary provisions continues. Such variations have been analysed in the subsequent paragraphs.

[28] Vide OM No.F.7(6)-B(R)/2001 dated 20 July 2001 and reiterated in OM F. No. 7(1)/B(D)/2006 dated 22 July 2015

3.2.1 Analysis of excess expenditure over Grants/Appropriations

Four grants showed excess expenditure of ₹5,204.56 crore over Parliamentary authorisation during 2018-19 (after netting savings if any within the segment). Details are given in **Table 3.2**.

Table 3.2: Excess expenditure over Grants/ Appropriations

(₹in crore)

Sl. No.	Description of Grant	Total Provision	Total Expenditure	Excess Expenditure
1.	20-Defence Services (Revenue)-Revenue Voted	2,07,822.32	2,11,663.64	3,841.32
Excess expenditure was mainly under 'Pay and Allowances' for Army and 'Stores' for all the three services. Ministry of Defence (MoD) termed the excess under 'Pay and Allowances' as unavoidable due to the personnel in position and the excess under 'Stores' as including expenditure on items such as armaments, ammunition and spares, and obligatory contractual payments. It is noted that though MoD had projected these additional requirements at the BE and supplementary demands stage, MoF did not include these in the demands for grants made to Parliament.				
2.	21-Capital Outlay on Defence Services- Capital Voted	93,897.78	95,155.07	1,257.29
Excess expenditure was primarily booked under minor Heads relating to Other Equipment (for Army and Navy), Naval Fleet and Naval Dockyards. MoD attributed these to committed contractual payments and additional payment on projects. It is to be noted that, here also, MoD had projected these additional requirements at the BE and supplementary demands stage, but MoF did not include these in the demands for grants made to Parliament.				
3.	56-Ministry of Housing and Urban Affairs- Revenue Charged	92.22	92.44	0.22
The Ministry attributed the excess towards payment of interest-bearing arbitration awards.				
4.	80-Ministry of Railways- Capital Charged	359.11	464.84	105.73
The Ministry stated that the excess was due to more decretal payments materializing than anticipated.				
			Total	**5,204.56**

The above excesses are a violation of Article 114(3) of the Constitution which stipulates that no money shall be spent without authorisation of Parliament. It is recommended that rather than permitting such continued violations of Parliamentary will, it should be independently examined as to what extent the expenditure was actually inevitable, why MoF did not provide for such expenditure, and how, despite lack of Parliamentary allocation and budget, the Pay and Accounts Officers in the concerned Ministries and Departments cleared the excess expenditure. MoF should also evolve a failsafe system so that there are no cases of excess over grants.

3.2.2 Analysis of Savings

During 2018-19, the total savings under all the grants and appropriations, was ₹4,71,937.56 crore[29] and constituted 4.84 *per cent* of total authorisations. Savings of ₹100 crore or more occurred in 79 segments of 57 Grants/ Appropriations and amounted to ₹4,69,669.55 crore. Details are given in **Annexure 3.2.**

(A) Significant savings

Savings of ₹5,000 crore or more were recorded under 13 Grants/ Appropriations. Details are given in **Table 3.3**.

Table 3.3: Significant savings

(₹in crore)

Sl. No.	Description of Grant/Appropriation	Total Grant/ Appropriation	Expenditure	Savings[30]
1.	01-Department of Agriculture, Cooperation and Farmers' Welfare	67,878.70	46,583.50	21,295.20
There were savings of ₹11,940.01 crore under the Farmers' Income Support Scheme. Ministry attributed the savings to operation of the Election Model Code of Conduct (MCC) which affected uploading of beneficiary data by States. In addition, total savings of ₹3,496.52 crore were recorded under three schemes viz., Interest Subsidy for Short Term Credit to Farmers; Pradhan Mantri Krishi Sinchai Yojana (PMKSY) and Krishonnati Yojana which were attributed to non-finalization of expenditure proposals and availability of unspent balances with implementing agencies.				
2.	14-Department of Telecommunications	38,885.12	28,733.17	10,151.95
Savings were on account of transfer of Universal Access Levy (UAL) to Universal Service Obligation (USO) Fund being less than what was estimated by ₹5,211.78 crore. This was attributed to expenditure on related schemes /projects being less than what was estimated by the same amount. This explanation is not acceptable, as in terms of the Indian Telegraph (Amendment) Act, 2003, subject to Parliamentary approval, the entire UAL received is to be transferred to the non-lapsable USO Fund. For 2018-19, against the approved budgetary provision for transfer of levy to the USO Fund of ₹10,000 crore actual collection was only ₹6,911.50 crore of which only ₹4,788.22 crore was transferred to the USO Fund leading to short transfer (actual savings) of ₹2,123.28 crore.				
3.	16-Department of Food and Public Distribution	2,28,407.25	1,19,546.90	1,08,860.35
Savings of ₹69,889.71 crore occurred when, on directions of MoF at the end of the financial year, subsidy payments already made to FCI were reversed and replaced with loans from the National Small Savings Fund (NSSF), attracting interest payments at 8.52 *per cent*. In addition, savings occurred when MoF failed to release ₹38,000 crore against the budget provision for 'Ways and Means Advances' to FCI. Further, against supplementary provision of ₹1,000 crore for investment in the equity capital of FCI, MoF approved equity infusion of only ₹500 crore.				

[29] These are without netting excess expenditure as given in Table 3.2.
[30] These are net of excess under the same grant.

<table>
<tr><td>4.</td><td>22-Defence Pensions</td><td>1,08,853.30</td><td>1,01,774.61</td><td>7,078.69</td></tr>
<tr><td colspan="5">Despite MoD projecting the full requirement at the BE, MoF reduced the provision at RE stage. Consequently, savings of ₹5,000 crore occurred when, in violation of basic accounting principles, the Accounting Authorities in the Ministry of Defence reversed expenditure of ₹5,000 crore already incurred, and booked the expenditure under 'suspense' head. The reduction of budgetary provision for an inevitable expenditure by MoF and the violation of accounting principles by the Accounting Authorities merits examination for appropriate action.</td></tr>
<tr><td>5.</td><td>29-Department of Economic Affairs</td><td>31,810.94</td><td>22,950.19</td><td>8,860.75</td></tr>
<tr><td colspan="5">Savings under this grant included savings of ₹1,000 crore due to non-transfer of funds to the National Investment Fund (NIF) for investment in the Strategic and Social Infrastructure Finance Corporation of India; less purchase of coins (₹1,207.32 crore) due to downward revision of indent of coins, lesser lifting of coins by RBI and carrying over of re-imbursement of claims (₹552.16 crore) to the next year; non-disbursement of ₹1,000 crore under Loans to IMF and non-utilisation of the entire lump sum provision of ₹3,000 crore under heading 'New Schemes' due to schemes not materializing.</td></tr>
<tr><td>6.</td><td>33-Department of Revenue</td><td>1,80,949.72</td><td>1,24,424.97</td><td>56,524.75</td></tr>
<tr><td colspan="5">GST compensation cess is levied to compensate States/ UTs for the revenue loss caused by implementation of the GST Act. The entire cess collected is required to be transferred to the GST Compensation Fund in the Public Account. Thereafter, releases are to be made from the Fund to the States towards compensation for revenue loss. During 2018-19, there was budget provision of ₹90,000 crore for transfer to the Fund and an equal amount was budgeted for release to States as compensation. However, though ₹95,081 crore was collected during the year as GST compensation cess, Department of Revenue transferred only ₹54,275 crore to the Fund. From the Fund it paid out ₹69,275 crore (inclusive of an opening balance of ₹15,000 crore in the Fund) as compensation to the States/ UT. This resulted in savings of ₹35,725 crore on account of short transfer to the Fund and of ₹20,725 crore on account of payment of compensation to the States/ UTs as against BEs of ₹90,000 crore each for transfer and payment of compensation.</td></tr>
<tr><td>7.</td><td>38-Repayment of Debt</td><td>61,91,567.49</td><td>60,64,945.38</td><td>1,26,622.11</td></tr>
<tr><td colspan="5">The overall savings in this category is mainly due to less investment by State Governments of their surplus balances in 14 day and 91 days treasury bills of Government of India.</td></tr>
<tr><td>8.</td><td>40-Transfers to States</td><td>1,65,774.34</td><td>1,37,962.86</td><td>27,811.48</td></tr>
<tr><td colspan="5">Savings of ₹ 15,669.92 crore were due to less payment of 'Grants for Local Bodies' and were attributed by the Department to non-fulfillment of prescribed terms and conditions for release of the grants by some State Governments. Besides, savings of ₹10,314.19 crore were due to less disbursal under 'Special Assistance-States' and were ascribed to non-receipt of viable proposals from State Governments.

The explanations given are not acceptable and show that shortfalls on the part of States in submission of proposals were not monitored and followed up by the Departments concerned.</td></tr>
<tr><td>9.</td><td>56-Ministry of Housing and Urban Affairs</td><td>50,254.70</td><td>40,874.26</td><td>9,380.44</td></tr>
<tr><td colspan="5">Although the Ministry failed to transfer ₹6,505 crore to the Central Road and Infrastructure Fund (CRIF) citing absence of accounting procedure, the amounts which were to be spent on PMAY (Urban) scheme were met from gross budgetary support, which is acceptable.

However, investments of ₹559 crore and loans of ₹600 crore, both to 'MRTS and Metro Projects', were not made, resulting in savings on this account.</td></tr>
</table>

10.	57-Department of School Education and Literacy	87,392.86	78,009.81	9,383.05
Although the Department failed to transfer ₹4,413.14 crore to the Madhyamik and Ucchatar Siksha Kosh (MUSK) and ₹2,925.85 crore meant for Navodaya Schools to the CRIF due to failure to finalise accounting procedures relating to 'Secondary and Education Cess' and CRIF respectively, the expenditure had largely been incurred from CFI for the schemes/purposes for which the funds were to be transferred. This is acceptable.				
11.	58-Department of Higher Education	50,314.48	39,022.09	11,292.39
Similarly, although ₹8,195.84 crore pertaining to MUSK was not transferred, the expenditure was largely met from the CFI directly. This is acceptable. Savings of ₹521.06 crore were attributed to approved cost ceilings and reduction in proposals received from Indian Institutes of Managements (IIM).				
12.	80-Ministry of Railways	4,46,607.47	4,28,203.43	18,404.04
The Ministry attributed the savings of ₹10,555.69 crore under revenue section to lesser generation of internal resources leading to lesser transfers to designated Funds. Out of savings of ₹7,848.35 crore under capital section, ₹6,842.64 crore was on account of regulation of capital expenditure from Railways funds in tune with reduction in Appropriation to these funds.				
13.	81-Ministry of Road Transport and Highways	1,59,582.53	1,52,169.54	7,412.99
Significant savings were due to short transfer of ₹3,797.28 crore to Reserve Funds (i.e., CRIF and NIF); less expenditure of ₹1,127 crore on 'Grants for State Roads'; less transfer of ₹2,967.89 crore on 'National Highway Authority of India'. The savings were netted against excesses within the grant, and were attributed to budget cuts at RE stage.				

(B) Other significant savings at minor-head/sub-head level

Audit also scrutinized other significant savings i.e., savings of ₹500 crore or more and constituting 25 *per cent* of sanctioned provision, at minor-head/ sub-head level under grants/ appropriations other than those dealt with in (A) above. Details are given in **Table 3.4.**

Table 3.4: Significant savings at minor-head/sub-head level

(₹in crore)

Sl. No.	Sub-head	Sanctioned provision	Actual disbursement	Savings
Grant No. 4- Department of Atomic Energy (DAE)				
1.	2801.03.101.08-PHWR Fuel for other Stations	3,154.71	2,296.57	858.14
DAE stated that the savings were due to reduction of provision at RE stage by the Ministry of Finance.				
Grant No. 19-Ministry of Defence (Misc.)				
2.	5054.02.797.01 - Works under Border Road Organisation (BRO)	820.01	0.00	820.01
Though above savings represent non-transfers to the CRF/ CRIF due to pending accounting procedure, an equivalent amount was directly spent by BRO from the CFI.				

Grant No. 31-Department of Financial Services				
3.	4416.00.190.01 - Subscription to Share Capital of NABARD	3,500.00	2,000.00	1,500.00
Though the Department attributed the savings to lesser requirement for financing of Government of India schemes through NABARD, it is not clear why this could not have been anticipated at the stage of budget formulation.				
4.	3465.01.190.08 - Assistance to National Credit Guarantee Trustee Company (NCGTC)	1,000.01	500.00	500.01
Though the Department attributed the savings to availability of unspent balances with the implementing agencies, it is not clear why this could not be factored in while framing BEs.				
5.	5465.01.190.39 - Equity Capital to Micro Unit Development Refinance Agency (MUDRA) Bank	600.00	0.00	600.00
The savings were due to reduction of provision at RE stage due to Government decision to stop equity support.				
Appropriation No. 37-Interest Payment				
6.	Various sub-heads relating to Compensation and other Bonds; Premium payment on buyback of Government securities; Management of Debt and Interest on Ways and Means Advances from RBI	8,180.85	3,986.35	4,194.50
The Department had availed of supplementary provision of ₹2,000 crore of which ₹1,416.78 crore was unnecessary.				
Grant No. 42-Department of Health and Family Welfare				
7.	2210.06.001.09 - Flexible Pool for Communicable Diseases	2,978.00	1,489.61	1,488.39
₹1,197.55 crore was surrendered due to non-procurement of drugs and supplies under National Vector Bone Disease Control Programme (NVBDCP) and Revised National Tuberculosis Control Programme (RNTCP). Other savings were due to non-filling up of vacant posts, receipt of less claims and non-acceptance of bills by the payment processing system. In this connection, Government may need to separately examine the adverse impact caused by such non-procurement of drugs for critical illnesses and non-payment of bills for supplies made and medical services rendered.				
Grant No. 72-Ministry of Petroleum and Natural Gas				
8.	4802.02.190.04-Gas Authority of India	1,708.00	0.00	1,708.00
The savings were due to shifting the provision from the capital (for investment in GAIL[31]) to the revenue section (grants for creation of capital assets). However, ₹477.40 crore of the shifted provision was unutilized due to delay in construction under the pipeline project.				

[31] Phulpur Dhamra- Haldia projects; IIPE, Vishakhapatnam, CEE Bangalore and CEE Assam

Grant No.82- Department of Rural Development				
9.	3054.80.797.03-Transfer to Central Roads Fund	15,994.50	11,129.00	4,865.50
Though Department stated that savings were due to lesser availability of funds for transfer due to lesser collection of cess, this is not supported by facts as collection of the cess at ₹1,10,847 crore was higher than the estimated amounts both at BE and RE stage of ₹83,374 crore and ₹1,03,987 crore, respectively.				
10.	3601.06.101.29-Shyama Prasad Mukherjee Rural + Urban (RURBAN) Mission	916.76	407.76	509.00
11.	2216.03.105.08-Indira Awaas Yojana-Programme Component	1,192.98	656.35	536.63
Department attributed the savings to non-receipt of viable proposals and lesser requirement of funds.				
Grant No. 91-Department of Space				
12.	5402.00.101.56 - Indian Space Research Organisation Headquarters (ISRO Hq)	1,011.45	282.83	728.62
The savings pertain to sale of land by HMT, which could not materialise due to non-securing of NOC from the Karnataka Government.				
Grant No. 94-Ministry of Textiles				
13.	2852.08.202.65-Amended Technology Up-gradation Fund Scheme	2,300.00	615.68	1,684.32
Savings were due to non-receipt of claims and delay in finalizing expenditure proposals.				
Grant No. 97-Ministry of Water Resources, River Development & Ganga Rejuvenation				
14.	2701.80.800.23-Pradhan Mantri Krishi Sinchai Yojana (Har Khet Ko Pani)	2,300.00	1,430.19	869.81
Ministry attributed the savings to requirement of less funds for interest payment to NABARD and hiring of fewer professionals. This explanation is not acceptable as it indicates unrealistic estimation.				
15.	3435.04.101.08 - National Ganga Plan	2,250.00	637.50	1,612.50
Ministry attributed the savings to availability of unspent balance of previous year with National Mission for Clean Ganga. This is not acceptable as this should have been taken into account during budget formulation.				
Grant No. 98-Ministry of Women and Child Development				
16.	2235.02.102.42-Integrated Child Development Scheme (ICDS)	1,942.49	908.13	1,034.36
The savings were due to Ministry's inefficiencies in scheme performance, leading to delay in finalisation of contract with service provider for cloud services; delays in procurement of smart phones; non-receipt of utilisation certificates and availability of unspent balance of previous years with the State Governments.				

(C) Summing up of Savings (given at A and B above)

(i) Savings of ₹1,31,073.18 crore were on account of regulation of expenditure both at RE stages and thereafter. This mainly included ₹69,889.71 crore due to withdrawal of food subsidy to FCI; ₹35,725 crore due to short transfer of GST Compensation Cess to GST Compensation Fund; ₹5,000 crore due to reversal of expenditure on Defence pension; ₹6,842.64 crore on regulation of capital expenditure for Railways and reduction in provisions at RE stage of ₹4,953.05 crore due to lesser receipts.

(ii) Although there were saving of ₹22,039.83 crore on account of less than budgeted transfer of funds to Madhyamik and Uchhattar Shiksha Kosh (MUSK) and CRIF due to non-finalisation of accounting procedures, the amounts were directly incurred for the intended activities from the CFI.

(iii) Savings of ₹43,104.51 crore occurred due to reasons like finalisation of fewer spending proposals; non-receipt of viable proposals from States; non-receipt of utilisation certificates; schemes not being formulated or not materialising and delays in grant of approvals. These represent gaps and shortfalls in performance in schemes and activities for which allocations had been made.

(iv) Savings of ₹1,43,999.12 crore occurred due to factors such as unspent balances not being considered; revision in funding decisions and fund requirements after BE stage; gaps in cash flow forecasting and debt planning; inaccurate assessment of internal resource generation and budgeting of funds under wrong section of grant. These indicate gaps with respect to budget formulation and assessment.

3.3 Unnecessary supplementary provisions and re-appropriation of funds

Article 115 (1) of the Constitution stipulates that Supplementary Grant or Appropriation is required to be obtained before payment is made, when savings are not available within a Grant segment for meeting additional requirement of funds or if the expenditure is to be made on 'New Service[32]' or 'New Instrument of Service[33]'.

Audit scrutiny of cases where supplementary provision of ₹10 crore or more was made in addition to original provisions, showed that, in 13 sub-heads under nine grants/ appropriations, supplementary provisions amounting to ₹538.17 crore were obtained during 2018-19 in anticipation of higher expenditure but final expenditure was even less than the original provisions. Thus, the supplementary provisions were unnecessary.

Further, re-appropriation of funds is permitted within different heads of accounts under the same Grant segment subject to certain restrictions. It was noticed in a test check of cases of re-appropriations of ₹10 crore or more, that funds aggregating to ₹589.20 crore pertaining to nine sub-heads in six grants were re-appropriated but remained unutilised at the close of the financial year.

[32] Refers to expenditure beyond certain limit arising out of a new policy decision not brought to the notice of Parliament earlier, including a new activity or a new form of investment.

[33] A large expenditure beyond a certain limit arising out of an important expansion of an existing activity.

3.4 Expenditure incurred without adequate provisioning of funds

As per Rule 61 of GFR-2017, the Accounts Officer shall not allow any payment against sanctions in excess of the Budget provisions without the specific approval of the Chief Accounting Authority. In turn, before approving any excess under a Head, the Financial Advisers and Chief Accounting Authorities shall ensure availability of funds through re-appropriation/ supplementary Demand for Grants.

Audit scrutiny of head-wise Appropriation Accounts for 2018-19 showed that excess expenditure of ₹25 crore or more aggregating to ₹12,751.02 crore, was incurred under 32 minor/ sub-heads relating to 11 Grants/ Appropriations, without ensuring adequate provisioning of funds. Thus, the above mentioned authorities violated the GFR. Details are given in **Annexure 3.3**.

3.5 Non-surrender and surrender of savings on last day of the financial year

Rule 62(2) of GFR-2017 stipulates that the savings as well as provisions that cannot be profitably utilized shall be surrendered to Government immediately as foreseen without waiting till the end of the year. Accordingly, MoF stipulated[34] a deadline of 20 March 2019 for Ministries/ Departments for intimating to it all surrenders of savings under each unit of Appropriation.

Audit noted that out of savings of ₹4,52,111.82 crore under Civil Grants/ Appropriations, 39.07 *per cent* (₹1,76,630.70 crore) of total savings during the year was not surrendered, but was allowed to lapse.

Audit scrutiny of surrenders of ₹100 crore or more in the case of Civil Grants/ Appropriations revealed that ₹67,825.68 crore relating to 17 Civil Grants/ Appropriations, was surrendered on 31 March 2019**.** Details are given in **Annexure 3.4**.

Failure to surrender savings and surrender on the last day of the financial year indicates inadequate financial discipline. This also adversely impacts on financial planning as it prevents resources from being re-allocated for activities where requirements for funds exist.

3.6 Implementation of Public Financial Management System (PFMS)

In terms of Rule 86(1) of GFR 2017, Public Financial Management System (PFMS), shall inter-alia, be used for fund flow management and financial reporting. Further, Rule 86(5) of GFR, 2017 stipulates that all re-appropriation and surrender orders are to be generated through PFMS.

Audit was provided a report titled 'Detailed Budget Report' which was generated through PFMS and amongst others, contained details of surrenders. This report was scrutinized (19 August 2019) in respect of 48 Grants which showed that in the case of 27 Grants, surrender details were either not available or were incomplete.

[34] Ministry of Finance O.M F. No. 2(13)-B(D)/2018 dated 05 March 2019

As a result, data contained in the Grant Statements could not be validated against data contained in PFMS for these grants.

3.7 Outstanding liabilities under Defence (Civil) Grants due to inadequate provision

Bills amounting to ₹2,201.06 crore under Grant No. 19- Ministry of Defence (Misc.) remained unpaid at the close of 2018-19 due to non-availability of funds. For the same reason, bills for supplies and materials amounting to ₹73 crore under the Stores head of account remained unpaid, even while ₹12.15 crore was surrendered from this head during 2018-19.

In violation of basic accounting principles, the Accounting authorities did not book expenditure of approximately ₹14,000 crore under Grant No.22-'Defence Pension', and instead, continued to be held under 'Suspense'. This is in addition to the reversal of expenditure of ₹5,000 crore under Pension head brought out in para 3.13 of this chapter. It is recommended that the violation be viewed seriously and appropriate punitive and corrective action taken.

3.8 Expenditure incurred without a budget line

Article 114(3) of the Constitution of India provides that no money shall be withdrawn from the Consolidated Fund of India except under appropriation made by law. Article 115 provides for obtaining supplementary demands for Grants if a requirement arises for supplementary or additional expenditure upon some new works/services not contemplated in the budget.

Audit scrutiny of revealed that, in violation of the above Constitutional provisions, the concerned Accounting Authorities incurred expenditure of ₹243.86 crore under two sub-heads[35] under Appropriation No.37-'Interest Payments' without any budget provision or any re-appropriation of funds.

Department of Economic Affairs stated that this was due to shifting of expenditure into a dedicated head of account. The above explanation is not acceptable as incurring expenditure without a budget provision is violative of Constitutional provisions.

3.9 Failure to obtain Legislative approval for augmenting provisions.

MoF stipulated[36] that augmentation of provision by way of re-appropriation to the object heads (i) 'Grants-in-aid' (ii) 'Subsidies' and (iii) 'Major Works' would attract the same limitation as applicable to New Service/ New Instrument of Service and it can be done only with prior approval of Parliament. Failure to observe these orders have been pointed out time and again in CAG's Audit Reports on Union Government Accounts. In this context, PAC[37] was of the view that MoF should institute mechanisms for ensuring that provisions under the above object

---

35 2049.01.129-Interest on Sovereign Gold Bond Scheme, 2015 (₹208.58 crore) and 2049.01.130-Interest on Gold Monetisation Scheme, 2015 (₹35.28 crore)

36 Department of Economic Affairs orders (May 2006) and clarifications thereon (May 2012 and July 2015)

37 PAC 83rd Report (2012-13) 15th Lok Sabha.

heads beyond specified limits are not augmented without approval of Parliament. Despite the previous audit findings and PAC recommendations, excess expenditure over total authorisation aggregating to ₹2,055.27 crore occurred across seven grants related to object head-'Grants-in-aid' during 2018-19, without prior approval of the Parliament as detailed in **Table 3.5**.

Table 3.5: Augmentation of provision to object heads without prior approval of Parliament

(₹ in crore)

Sl. No.	Head of Account	TA*	TE*	Excess over TA
Object Head 31-'Grants-in-aid-General'				
Grant No. 10-Ministry of Coal				
1.	2803.00.796.03.00.31- Detailed Drilling	13.00	20.50	7.50
Grant No. 13-Department of Posts				
2.	3201.06.101.01.00.31 - Postal Welfare Fund	9.00	10.47	1.47
Grant No. 19-Ministry of Defence (Misc.)				
3.	2052.00.092.02.01.31-Other Offices-Defence Accounts Department	0.04	0.16	0.12
Grant No.73-Ministry of Planning				
4.	3475.00.800.97.02.31-Atal Innovation Mission (AIM)	308.33	309.82	1.49
Object Head 35-'Grants for creation of Capital Assets'				
Grant No. 82-Department of Rural Development				
5.	2505.02.101.02.00.35-Assistance to District Rural Development Agencies/ District Programme Coordinators and Others	41,450.28	43,393.29	1,943.01
Grant No.95-Ministry of Tourism				
6.	3452.01.101.11.00.35-Assistance to Central Agencies for Tourism Infrastructure Development	55.00	56.00	1.00
Object Head 36-'Grants-in-aid Salaries'				
Grant No. 94- Ministry of Textiles				
7.	2851.00.107.01.02.36-Central Silk Board	334.61	435.29	100.68
			Total	**2,055.27**

** TA = Total authorisation, TE= Total expenditure (as per classified abstract)*

In reply, Department of Posts stated that MoF's specific instructions did not apply since the excess was against grants given for welfare activities and not for any NS/NIS. The reply is not acceptable in view of the clear tenor of MoF instructions. In their reply, Ministry of Defence (MoD) contended that there was no re-appropriation but only expenditure in excess of total provision. The reply is not tenable since it is not clear how MoD views violation of MoF instructions as more serious than violation of the Constitutional provisions proscribing excess expenditure. Ministry of Tourism was of the view that the re-appropriation done by it was in consonance with MoF instructions of 20 February 2016 which states that 'Re-appropriation would be allowed within the same object head (OH-35) only'. The reply is not acceptable as the instructions of 20 February 2016 are in the specific context of compliance with FRBM provisions relating to Effective Revenue Deficit. This does not negate the requirement of obtaining approval of

Parliament for augmenting provision by way of re-appropriation to specific object heads including 'Grants-in-aid'.

3.10 Augmentation of provision to object head '41-Secret Service Expenditure'

MoF had issued instructions[38] that any re-appropriation of funds which increases the provision of object head '41-Secret Service Expenditure' by 25 *per cent* or more of the original provision in the grant as a whole, should be done only with the prior approval of the CAG.

Para 3.10 of CAG's Report on the Accounts of Union Government for the year 2017-18, had highlighted two instances where re-appropriation had been done in excess of 25 *per cent* of the original provision for Secret Service Expenditure in Grants 47 and 48 of Ministry of Home Affairs (MHA), without the approval of CAG. MoF had clarified (November 2018) that approval of the CAG was required to be taken by the concerned Ministry in such circumstances. This was not accepted by Audit which was of the opinion that it was for MoF to ensure that such re-appropriation orders are concurred with the prior approval of CAG.

Audit examination of Grant No.48 pertaining to Police for the year 2018-19, disclosed that a re-appropriation order proposed by MHA for ₹125 crore which increased the total original provision as a whole under object head '41-Secret Service Expenditure' of ₹187.43 crore by more than 25 *per cent* , was concurred by MoF without obtaining approval of the CAG. MHA intimated (October 2019) that since the re-appropriation order was issued with the approval of Ministry of Finance it was assumed that required approvals would have been obtained by MoF.

Repeated contravention of orders despite CAG's clear opinion on MoF's responsibility for obtaining CAG's approval for re-appropriation orders, is a matter of concern and should be urgently remedied.

3.11 Misclassification of expenditure

Article 112(2) of the Constitution stipulates that the Annual Financial Statement shall distinguish expenditure on revenue account from other expenditure. The principles for classifying the expenditure on Revenue account and Capital account should accordingly be adhered to.

Rule 78 of GFR-2017 stipulates that classification of transactions in Government Accounts shall have closer reference to functions, programmes and activities of the Government and the object of expenditure, rather than the department in which the receipt or expenditure occurs. Further, Rule 8 of the Delegation of Financial Powers Rules, 1978 (DFPRs) describes the nature/ type of transactions that can be classified under each standard primary unit of appropriation.

Audit test check of transactions pertaining to different grants revealed the followings:

[38] In January 1956 and September 1969, reiterated vide OM No. 6(1)/E.II-A/2010 dated 16 February 2010.

(a) Incorrect use of object heads with major heads

Rule 8 of the DFPRs specifies object heads (numbers 51-56 and 60) that fall under the category 'object class VI' which pertains to acquisition of Capital Assets and other Capital Expenditure. These object heads can therefore, only be used for classifying expenditure of capital nature and correspond only with capital major Heads. Object heads falling under other object classes (class I to V) are generally used for classifying revenue expenditure and should ordinarily not correspond with the capital major Heads.

Audit test check revealed that, in seven cases aggregating to ₹2,050.05 crore pertaining to three Ministries/ Departments, revenue object heads were incorrectly used with capital major Heads. Details are given in **Annexure 3.5**.

(b) Misclassification between revenue and capital expenditure

Rule 84 of GFR, 2017 stipulates that charges on maintenance, repair, upkeep and working expenses required to maintain assets in a running order and expenses on day to day running of an organization, shall be classified as revenue expenditure. Audit test check revealed five cases of incorrect classification of expenditure of revenue nature aggregating to ₹22.41 crore, as capital expenditure. In addition, in three cases expenditure of capital nature aggregating to ₹154.21 crore, was incorrectly classified as revenue expenditure. These cases are detailed in **Annexure 3.6**.

(c) Misclassification between primary units of appropriation under same section of grant

Audit test check revealed that in 26 cases, funds aggregating to ₹1,860.02 crore were misclassified between primary units of appropriation. Cases of misclassification of ₹50 crore and above include misclassification of '35-Grants for creation of capital assets' as '31-Grants-in-aid-general' (₹1,145.89 crore-Ministry of Tourism); misclassification of '35-Grants for creation of capital assets' as '33-Subsidies' (₹445.38 crore-Ministry of Power); incorrect booking of claims of RBI under object head '32-Contributions' instead of object head '50-Other Charges' (₹71 crore - Ministry of Electronics and IT (MeitY)) and misclassification of '35-Grants for creation of capital assets' under '28-Professional services' (₹50 crore - Ministry of Power). Ministry of Tourism accepted the misclassification and assured booking under correct head henceforth. Ministry of Power stated that they had adopted the classification given in the sanction of IFD. MeitY stated that information on the correct head to be used was received from MoF after the expenditure had been booked. It is recommended that corrective action be taken.

3.12 Unsanctioned expenditure under Ministry of Railways

Items of irregular expenditure incurred by Indian Railways are noted in objection books by the Zonal Railways administration and treated as unsanctioned expenditure. During the year 2018-19, the total of such unsanctioned expenditure was ₹5,003 crore covering 3,464 cases.

3.13 Irregular reversal of expenditure on Defence Pensions

Government accounting procedure permits the operation of intermediate booking of transactions in certain cases under 'Suspense heads'. It is important to clear the suspense heads by booking the transactions to the final head of accounts by the end of the financial year, since the balances under the suspense heads understate Government receipts and expenditure, as the case may be. By their nature, Suspense heads can only precede booking to the final head of expenditure.

Mention was made in Para 3.11 of the Report No. 2 of 2019 of the CAG of India on the Accounts of the Union Government for the year 2017-18 wherein it was brought out that initially booked expenditure of ₹3,000 crore relating to Defence Pension was transferred to suspense head, which was indicative of erroneous depiction of expenditure on pension.

Audit scrutiny of Appropriation Accounts of Grant No. 22-Defence Pensions for the year 2018-19 revealed that Ministry had booked expenditure of ₹5,000 crore in March 2019 under the head-2071.02.101.01, but later on the amount was transferred to Suspense head through Transfer Entry in March 2019. It is recommended that the matter be viewed with utmost seriousness by the Government, and appropriate action taken against the concerned Accounting Authorities who approved this manipulation in 2017-18 and 2018-19.

3.14 Breach of Article 114 (3) of the Constitution of India-Expenditure incurred on interest on refunds of taxes by the CBDT without appropriation

Article 114(3) of Constitution of India stipulates that no money shall be withdrawn from the CFI except under appropriation made by the legislature. Payment of interest on refunds of excess tax is a charge on the CFI and can be made only if authorized under appropriation made by law. Further, as per Article 266 (3) of the Constitution, until provided in the Appropriation law passed by Parliament, there is no legal authority to withdraw 'interest' on excess tax collected/ refunds from the CFI. In addition Rule 8 of DFPRs describes 'interest' as the primary unit of appropriation for classification of interest expenditure.

The Department of Revenue/Central Board of Direct Taxes (CBDT) has been classifying interest on refunds of excess tax as reduction in revenue in violation of the above mentioned constitutional provisions. This incorrect practice has been commented upon repeatedly in CAG's Audit Reports on Union Government Accounts as well as in CAG's Reports on Direct Taxes, but no corrective action has been taken by the Department.

Audit observed that this issue was examined by the Public Accounts Committee (PAC). In its 66th Report (15th Lok Sabha 2012-13) the PAC had disapproved withdrawal of moneys out of CFI for interest payments on income tax refunds without Parliamentary approval. Subsequently, in their follow-up Report (96th Report of 15th Lok Sabha 2013-14 dated 31 January 2014) after considering the revised opinion of the Ld. Attorney General of 06 May 2013 and later testimony to it , the Committee concluded that the Constitution leaves no doubt about the manner of authorization of expenditure or withdrawal of moneys from and out of the CFI and hence the Department of Revenue has no option other than seeking *ex ante* approval under Articles 114 and 115(1)(a) or seeking *ex post facto* approval of Parliament under Article 115(1)(b) of the Constitution.

Audit noted that despite the position taken by PAC on the matter and the issue being repeatedly pointed out in the audit reports of the CAG the practice of not making budget provision for interest on refunds in the Budget Estimates and not seeking Parliament's approval for the payments continued in the financial year 2018-19. During the year expenditure on interest on refunds amounting to ₹20,566.33 crore was incurred and such payment was shown as reduction in Revenue.

The Department in its replies (January 2017 and January 2019) has continued to reiterate the opinion of Ld. AG of 06 May 2013, that the refund of excess tax and interest thereon is not an expenditure within the meaning of Article 112. The Department also stated that based on the above mentioned opinion of the Ld. AG, the Department with the approval of the Finance Minister, has not accepted the recommendations contained in the 96th Report of the PAC (15th Lok Sabha).

Audit however, observed that PAC had already considered the opinion of the Ld. AG while making its recommendations and noted that the Ld. AG had deposed that "an opinion ultimately is an opinion and it is for the Committee to decide what the correct procedure is."

New Delhi
The 27 July 2020

(MANISH KUMAR)
Principal Director of Audit
Finance & Communication

Countersigned

New Delhi
The 31 July 2020

(RAJIV MEHRISHI)
Comptroller and Auditor General of India