

CHAPTER-II

ALLOCATIVE PRIORITIES AND APPROPRIATION

2.1 Introduction

The Appropriation Accounts prepared annually indicate capital and revenue expenditure on various specified services vis-a-vis those authorised by the Appropriation Act in respect of both charged and voted items of budget.

Audit of Appropriation Accounts by the Comptroller and Auditor General of India seeks to ascertain whether expenditure actually incurred under various Grants is within the authorisation given under the Appropriation Act and the expenditure required to be charged under the provisions of the Constitution is so charged. It also ascertains whether the expenditure so incurred is in conformity with the law, relevant rules, regulations and instructions.

2.2 Summary of Appropriation Accounts

The summarised position of actual expenditure during 2006-07 against 54 Grants and Appropriations was as follows:

Table - I

(Rupees in crore)

	Nature of expenditure	Original grant/ appropriation	Supplementary grants/ appropriation	Total	Actual Expenditure	Saving
Voted	I. Revenue	17,528.95	2,955.18	20,484.13	17,133.50	3,350.63
	II. Capital	4,912.17	1,653.20	6,565.37	5,211.03	1,354.34
	III. Loans and Advances	331.97	199.69	531.66	315.32	216.34
Total voted		22,773.09	4,808.07	27,581.16	22,659.85	4,921.31
Charged	IV. Revenue	4,250.62	15.59	4,266.21	3,458.64	807.57
	V. Capital	0.00	0.10	0.10	0.10	0.00
	VI. Loans and Advances	0.00	0.00	0.00	0.00	0.00
	VII. Public Debt.	2,196.94	2.92	2,199.86	1,024.98	1,174.88
Total charged		6,447.56	18.61	6,466.17	4,483.72	1,982.45
Appropriation to Contingency Fund (if any)					-	-
Grand Total		29,220.65	4,826.68	34,047.33	27,143.57	6,903.76

* These are gross figures without taking into account the recoveries adjusted in the accounts as reduction of revenue expenditure (Rs 7.09 crore).

The total expenditure includes Rs 3849.30 crore drawn on Abstract Contingent bills during the year of which Rs 2375.04 crore were drawn in the month of March 2007 alone. Of this, Detailed Contingent bills for an amount of Rs 87.80 crore only were submitted to the Accountant General (A & E), Bihar

as of October 2007 leaving the unadjusted amount of Rs 3761.50 crore. The details on non-adjustment of AC bills have been discussed in paragraph 2.4.3.

Besides, the total expenditure was understated at least to the extent of Rs 4.09 crore for which vouchers were not received from the treasuries during the year 2006-07 and the expenditure remained unaccounted for in the Consolidated Fund of the State and kept in the Suspense Accounts of the Accountant General (A&E).

2.3 *Fulfilment of Allocative Priorities*

2.3.1 *Appropriation by Allocative Priorities*

The overall saving of Rs 6,903.76 crore (20 per cent of the total provision) was the net result of saving of Rs 6,903.98 crore and excess of Rs 0.22 crore against total provision of Rs 34,047.33 crore. Out of the total savings of Rs 6,903.76 crore, Rs 4,158.20 crore (60 per cent) pertained to Revenue and Rs 1,354.34 crore (20 per cent) pertained to Capital.. The excess of Rs 0.22 crore in Appropriation no. 5 did not require regularisation under Article 205 of the Constitution as the cheques issued during 2005-06 against the allotment for the same year were accounted for by the Treasury and consequently in the books of Accountant General in the year 2006-07. The details of savings/excesses were sent to the Controlling Officers requiring them to explain the significant variations for which reply was not received (October 2007).

2.3.2 *Major savings*

Departments were required to prepare their estimates keeping in view the relevant factors like trends in the economy, actual expenditure of last three years etc. Non-adherence to the tenets of budget formulation and budget management led to injudicious appropriation of funds resulting in large savings under various heads like health, education, welfare, public works etc. In nine cases, involving eight Grants and one Appropriation, substantial savings of Rs 100 crore or more and also by more than 20 per cent in each case totaling Rs 3,621.25 crore (52 per cent of total savings of Rs 6903.98 crore) were noticed as shown below.

Table-II

(Rupees in crore)

Sl. No.	No. & Name of Grants	Grant			Actual Expenditure	Saving	Percentage of savings to provision
		Original	Supplementary	Total			
Revenue-Voted							
1.	20. Health, Medical Education and Family Welfare Department	981.43	277.03	1,258.46	903.11	355.35	28.24
2.	39. Disaster Management Department	157.65	51.56	209.21	56.67	152.54	72.91
3.	48. Urban Development Department	684.39	51.76	736.15	384.38	351.77	47.79
4.	50 Minor Irrigation Department	415.09	10.81	425.90	135.91	289.99	68.09

Sl. No.	No. & Name of Grants	Grant			Actual Expenditure	Saving	Percentage of savings to provision
		Original	Supplementary	Total			
5.	51. Welfare Department	786.95	67.90	854.85	570.19	284.66	33.30
Capital-Voted							
6.	10. Energy Department	769.69	80.08	849.77	620.16	229.61	27.02
7.	36 Public Health Engineering Department	419.70	147.20	566.90	248.27	318.63	56.21
8.	49. Water Resources Department	976.80	70.39	1,047.19	583.37	463.82	44.29
Capital-Charged							
9.	14. Repayment of Public Debt	2,196.94	2.92	2,199.86	1,024.98	1,174.88	53.41
Total		7388.64	759.65	8148.29	4527.04	3621.25	

In 58 schemes involving eight Grants and one Appropriation major savings of Rs 3,626.23 crore (Rs 10 crore or more in each case) occurred as per details given in *Appendix-X*. This indicated poor funds management and faulty preparation of budget estimates.

Reasons for saving were not intimated by the department except in a few cases where the reasons given were non-release of funds by Government of India for Centrally Sponsored Schemes, reduction of Plan outlay, posts kept vacant and non-drawal of funds due to restriction imposed by the State Government, excess provision of earmarked funds by the Twelfth Finance Commission.

2.3.3 *Other cases of savings*

In 31 cases expenditure fell short by Rupees one crore or more and also by more than 20 per cent of the total provision in each case amounting to Rs 4,130.70 crore as indicated in *Appendix - XI*.

2.3.4 *Persistent savings*

In 24 cases involving 20 Grants and Appropriations, there were persistent savings of Rs two crore or more and 10 per cent or more of the total provisions in each case as indicated in *Appendix - XII*.

2.3.5 *Excess requiring regularisation*

Excess over provision requiring regularisation

As per Article 205 of the Constitution of India, it is mandatory for the State Government to get the excess over a Grant or Appropriation regularised by the State Legislature. However, the excess expenditure amounting to Rs 7,024.71 crore for the year 1977-78 to 2005-06 had not been regularised so far (October 2007) This was a breach of legislative control over appropriations. Details are indicated in *Appendix - XIII*. Possibility of financial irregularities like fraud embezzlement, defalcation etc. remaining undetected due to failure and long delay in furnishing explanation of un-regularised excess expenditure could not be ruled out.

Expenditure in excess of provision in Minor Heads

In six cases, involving five Grants and Appropriations, expenditure in each case exceeded the approved provision by Rupees one crore or more totaling Rs 341.57 crore as per details given in **Appendix - XIV**.

Expenditure without provision

As per the Budget Manual expenditure should not be incurred on a scheme/service without provision of funds thereof. It was, however, noticed that expenditure of Rs 91.21 crore was incurred in nine cases (Rs 20 lakh and above in each case) as shown in **Appendix XV** without any provision in the original estimate or supplementary demand or any re-appropriation order.

New Service/New Instrument of Service

Article 205 of the Constitution provides that expenditure of New Service not contemplated in the Annual Financial Statement (Budget) can be incurred only after its specific authorisation by the Legislature. The increase of expenditure over the Grant previously voted exceeding two times or Rs two lakh whichever is more, is to be treated as New Service.

In two cases, expenditure totaling Rs 2.64 crore which should have been treated as New Service/New Instrument of service was met by re-appropriation without obtaining the requisite approval of the legislature. Details of this case are given in the **Table III**. The expenditure was covered neither by original/ supplementary provisions nor an advance from Contingency Fund.

Table- III

Expenditure in New Service

(Rupees in Lakh)

Sl. No.	No. of Grants	Head of Accounts (Major/Minor/Sub/Detailed Head of A/cs)	Budget provision/ Reappropriation	Expenditure
1	44	2202 General Education		
		0109-Bihar Education Project 2202-01-800-0109	0.00	256.10
2	50	2702 Minor Irrigation		
		0101 Government Tube wells 2702-03-103-0101	0.00	8.20
		Total	0.00	264.30

2.3.6 Original budget and supplementary provisions

Supplementary provisions of Rs 4,826.68 crore made during the year constituted 16.52 per cent of the original budget provision (Rs 29,220.65 crore) as against 10.06 per cent in the preceding year.

Total supplementary Grants (other than Public Debt) obtained during the year were Rs 4,823.76 crore while the ultimate total savings (other than Public Debt) amounted to Rs 5,728.88 crore. Thus, the supplementary grant of Rs 4,823.76 crore was unnecessary.

2.3.7 Unnecessary/excessive supplementary provisions

- Supplementary provisions of Rs 1,213.08 crore obtained in 44 cases during August 2006 to March 2007 were wholly unnecessary as the expenditure did not come up in these cases even to the level of original provision as shown in **Appendix - XVI**.
- In 23 cases against actual requirement of only Rs 2,321.29 crore, Supplementary Grants/Appropriations of Rs 3,245.46 crore were obtained resulting in saving of Rs 924.17 crore (exceeding Rs 20 lakh in each case) as detailed in **Appendix - XVII**.

This indicated that Finance Department did not scrutinise the proposals of supplementary provisions in details.

2.3.8 Excessive/Unnecessary re-appropriation of fund

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. In 16 cases involving nine Grants/Appropriations, re-appropriation of funds of more than Rs one crore in each case proved injudicious due to withdrawal of Rs 214.50 crore through re-appropriation while there was already excess expenditure of Rs 88.07 crore as detailed in **Appendix-XVIII**. This indicated that the Controlling Officer failed to estimate the amount that he should surrender under rule 135 of Bihar Budget Manual.

2.3.9 Anticipated savings not surrendered

The spending Departments are required to surrender the Grants/Appropriations or portions thereof to the Finance Department as and when savings are anticipated. However, at the close of the year 2006-07 there were 28 cases of Grants/Appropriations in Revenue section and 11 cases of Grants/Appropriation in Capital section in which savings of Rs 2,466.57 crore, exceeding Rupees one crore in each case, had not been surrendered by the Departments as detailed in **Appendix-XIX**. This clearly show that the Controlling Officer failed to discharge the basic responsibility of being accountable for the budgetary control.

2.3.10 Delay in surrender of savings

In 78 cases, Rs 4,460.30 crore out of the total savings of Rs 6,903.98 crore were surrendered on the last day of March 2007 indicating inadequate financial control over expenditure. Details are given in the **Appendix-XX**. Due to delay in surrender of the savings the funds could not be utilised for other purposes.

2.3.11 Surrender of entire provision

In 23 schemes, involving 19 Grants and Appropriations, the State Government failed to utilize the entire provision of Rs 1,863.35 crore (exceeding Rs five crore in each case). The entire provision was re-appropriated/surrendered as shown in **Appendix-XXI**. This is due to tentative and unrealistic budgeting.

2.3.12 Surrender in excess of actual savings

In six cases, the amount surrendered was in excess of actual savings. Against the savings of Rs 168.36 crore, the amount surrendered was Rs 197.94 crore resulting in excess surrender of Rs 29.58 crore (**Appendix XXII**).

2.3.13 Rush of expenditure

The Financial Rules require that Government expenditure should be evenly distributed throughout the year. Rush of expenditure particularly in the closing months of the financial year is regarded as a breach of financial rules. The position in respect of expenditure (Revenue and Capital) for four quarters during 2006-07 and also for the month of March 2007 is depicted in **Appendix-XXIII** which shows that the expenditure incurred in the quarter ending March 2007 and only in March were 58 and 42 *per cent* of the total expenditure respectively indicating a tendency to utilise the budget only at the close of the financial year.

The reasons for rush of expenditure as analysed in audit, was delay in sanction of schemes and release of funds at the end of the financial year which indicated the prescribed controls to avoid rush of expenditure at the end of the financial year were not being adhered to.

2.3.14 Unreconciled expenditure

Financial Rules require that the Departmental controlling officers should reconcile periodically the Departmental figures of expenditure with those booked in the books of the Accountant General (A&E) on quarterly basis. In respect of 100 major heads, expenditure of Rs 21,838.05 crore pertaining to 2006-07 remained unreconciled by 204 controlling officers approximately upto the closer of the accounts for the year in spite of repeated reminder at highest level. While 147 COs partially reconciled the expenditure of Rs 940.14 crore, 57 COs did not reconcile at all the expenditure of Rs 11,142.27 crore for the whole year. Details are given in **Appendix-XXIV(I)**. The unreconciled expenditure accounted for 80 per cent of the total expenditure (Rs 24,143.57 crore).

It was seen that Rs 21,598.50 crore (**Appendix XXIV(II)**) out of the total unreconciled amount of Rs 21,838.05 crore pertained to department of Finance, Human Resources, Rural Development, Energy Department, Health, Home, Road & Bridges, Social Welfare, Revenue, Industry, Labour & Employment, Urban Development, Law, Agriculture, Animal Husbandry and Water Resources Department.

Non-reconciliation of expenditure by the Controlling Officers of various department was fraught with risk of serious irregularities embezzlement, frauds and defalcation remaining undetected as was seen in the case of Animal Husbandry Department upto 1996-97.

2.3.15 Plan performance

Government expenditure is broadly classified into Plan and Non-Plan and Revenue and Capital. Plan and Capital expenditure is usually associated with asset creation while the non-plan and revenue expenditure is identified with expenditure on establishment, maintenance and services.

It was also seen from the Appropriation Account of the State Government for the year 2006-07 that out of the budget provisions of Rs 12,223.85 crore the State Government spent Rs 9,397.15 crore leaving unspent balance of Rs 2,826.70 crore (23 per cent of the provision), under various State Plan Schemes (Rs 2,166.14 crore), Centrally Sponsored Schemes (Rs 585.20 crore) and Central Plan Schemes (Rs 75.36 crore) vide *Appendix-XXV(I)*. 23 per cent of the total budgeted plan funds were not spent (savings) which casts a shadow on the integrity of the budget.

In 65 cases involving 26 Grants and Appropriations, significant savings of Rs five crore and above in each case aggregating to Rs 2,660.79 crore (47 per cent) against the provision of Rs 5,665.46 crore were due to non-implementation or slow implementation of the Plan Schemes by the Bihar Government as shown in (*Appendix XXV(II)*). In 11 cases the State Government failed to utilise the entire provision of Rs 541.21 crore (*Appendix- XXV(II)*). As the Government failed to reach the budget level of Planned expenditure, there were huge (47 per cent) budgetary savings.

2.3.16 Advances from Contingency Fund (BCF)

Contingency Fund of Bihar was established under the Bihar Contingency Fund Act, 1950 in terms of the provisions of Article 267(2) and 283(2) of the Constitution of India with initial corpus of Rs one crore. It was raised to Rs 350.00 crore since March 1998 with legislative approval. The Fund was in the nature of an imprest placed at the disposal of the Governor to enable him to make advances for meeting unforeseen and emergent expenditure on New Service pending authorisation by the State Legislature. Approval of the State Legislature is subsequently obtained for such expenditure and for transfer of equivalent amount from the Consolidated Fund to Contingency Fund. The Contingency Fund of Bihar is held by the Secretary of the Finance Department on behalf of the Governor.

Table:IV

Use of Contingency Fund

Items	2003-04	2004-05	2005-06	2006-07
1. No of withdrawals	38	92	181	249
2. Total Withdrawals (Rs in crore)	151.48	368.60	497.13	732.37

Items	2003-04	2004-05	2005-06	2006-07
3. Withdrawals as a percentage of total Budget Provisions	0.69	1.39	1.72	2.15
4. Recoupement of withdrawals	Recouped	Recouped	Recouped	Recouped

As per provisions, advances from the fund can only be drawn for meeting expenditure of an unforeseen and emergent nature, the postponement of which till its authorisation by the legislature would not be desirable. It is obtained when there is no sufficient time for voting supplementary demand and passing of the connected Appropriation Bill. A review of the total withdrawals of Rs 732.37 crore revealed that draws of Rs 611.35 crore were not of urgent and unforeseen nature as shown in **Appendix - XXVI**. The draws from the fund for pay and allowances, T.A., L.T.C, Contingency, Purchase of vehicles, C.S.S and such other known and foreseen expenditure were not in tune with the spirit of the formation of Contingency Fund provided in the constitution. It also reflected underreporting of Revenue Deficit at the time of budget proposals besides underscoring the unrealistic nature of budget provisions. Neither Finance Department nor other departments took due care for withdrawals from contingency Fund. As per BFR, Secretary of Finance and other concerned departments were responsible for sanction of irregular advances.

2.4 Budgetary Procedure and expenditure control

2.4.1 Non-observance of accounting procedure for budgeting

Cases of persistent savings, persistent excesses, excessive/unnecessary re-appropriation of funds, anticipated savings not being surrendered, rush of expenditure at the fag end of the year etc as discussed earlier in this chapter were indicative of lack of budgetary and expenditure control.

2.4.2 Trend of recoveries and credits

Under the system of gross budgeting followed by the Government the demand for grants presented to the Legislature are for gross expenditure and exclude all credits and recoveries which are adjusted in the accounts as reduction of expenditure. The anticipated recoveries and credits should be shown separately in the budget estimates.

During 2006-07 in 17 cases of grants/appropriations, the actual recoveries adjusted in reduction of expenditure amounted to Rs 7.09 crore, though provision of recovery was made only in three cases of Grants and Appropriation of Rs 0. 009 crore in the budget estimates. Further, recoveries if any, under other heads were not reflected in Accounts. Despite having been pointed out in previous Audit Report, Government did not follow the principle of budgeting where in demands for grants/ appropriations are to be made for gross amount of expenditure under the relevant service head (Revenue and Capital) and recoveries indicated as Deduct Receipts and Recoveries below

the head separately so as to be treated as reduction of expenditure. More details are given in Appendix- I of Appropriation Accounts for the year 2006-07.

2.4.3 Non-adjustment of abstract contingent bills

Bihar Financial Rules provide for drawal of funds on Abstract Contingent (AC) bills by Drawing and Disbursing Officers (DDOs) either under standing orders or specific sanction of Administrative Departments of Government with the concurrence of Finance Department. Detailed contingent (DC) Bills in respect of drawals made in advance on AC Bills from treasuries during a financial year were required to be prepared and submitted to the Accountant General (A&E) not later than 25 of the next six months from the date of their drawal from the treasury. The DDOs, who were not self countersigning Officers were also required to submit the DC Bills periodically to the controlling authority for counter signature and transmission to the Accountant General (A&E).

Analysis of the existing information showed that these rules were disregarded by large number of DDOs and Controlling Officers failed to enforce accountability for such lapse. No DC bill was submitted by DDOs to the Accountant General (A&E) Bihar, Patna through Controlling Officers along with details of charges and supporting vouchers within prescribed period. In course of submission of AC Bills to the treasury the DDO was required to furnish a certificate to the effect that DC bills for previous AC bills had been submitted within the prescribed period and expenditure had been incurred for the purpose for which the advance was drawn. Neither any DDOs furnished such certificate on AC bills nor did the Treasury Officers insist on furnishing of such certificate by the DDOs and the DDOs continued to draw such advances on AC Bills without submission of DC Bills in respect of previous AC Bills drawn by them from the treasury.

Scrutiny of records revealed that out of total drawal of Rs 8,063.96 crore on AC Bills, DC bills for only Rs 315.32 crore only were submitted to A. G. (A&E), Bihar, Patna. No DC Bill was submitted for the remaining amount of Rs 7,748.64 crore during the course of five years from 2002-03 to 2006-07 despite repeated audit objections as shown in **Table-V**.

Table –V

(Rupees in crore)

Sl. No.	Year	Amount of AC bill	Amount of DC bill	Balance amount of AC bill
1	2002-03	332.22	4.32	327.90
2	2003-04	548.41	33.77	514.64
3	2004-05	957.72	90.54	867.18
4	2005-06	2,376.31	159.58	2,216.73
5	2006-07	3,849.30	27.11	3,822.19
	Total	8,063.96	315.32	7,748.64

The DDOs concerned did not monitor the submission of DC bills and maintained any separate register to record the particulars of drawal of AC bills or details of remittance of unutilized balance, if any, as required under the rules. Due to non-observance of statutory rules and orders relating to drawal of

AC bills by the DDOs there was accumulation of unadjusted AC bills for Rs 7,748.64 crore. The departments obviously had not taken any action to arrest such practice as is evident from the preceding paragraphs.

Prolonged retention of huge public funds by DDOs without any adjustment by submitting DC bills is fraught with the risk of serious financial indiscipline/misappropriation. The matter requires immediate attention of the Government for necessary investigation to ascertain the position of the actual utilization of those funds lying unadjusted for a long time.

Government of Andhra Pradesh through a circular prohibited drawal through third AC bill if the first AC bill was not settled. Similar provision may be incorporated in Bihar Financial Rule to check increasing trend of outstanding AC bills.