

## CHAPTER – II

### ALLOCATIVE PRIORITIES AND APPROPRIATION

#### 2.1 Introduction

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

Audit of appropriation by the Comptroller and Auditor General of India seeks to ascertain whether the 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 2003-04 against 29 grants/appropriations was as follows:

(Rupees in crore)

	Nature of expenditure	Original grant/ appropriation	Supplementary grant/ appropriation	Total	Actual expenditure	Saving (-)/ Excess (+)
Voted	Revenue	18,609.63	2,607.33	21,216.96	17,561.85	(-)3,655.11
	Capital	3,865.21	303.90	4,169.11	3,105.53	(-)1,063.58
	Loans & Advances	511.50	139.31	650.81	1,011.20	(+)360.39
<b>Total Voted</b>		<b>22,986.34</b>	<b>3,050.54</b>	<b>26,036.88</b>	<b>21,678.58</b>	<b>(-)4,358.30</b>
Charged	Revenue	3,712.74	31.38	3,744.12	3,851.87	(+)107.75
	Capital	0.36	--	0.36	0.24	(-)0.12
	Public Debt	2,392.45	4,931.67	7,324.12	9,323.06	(+)1,998.94
	<b>Total Charged</b>		<b>6,105.55</b>	<b>4,963.05</b>	<b>11,068.60</b>	<b>13,175.17</b>
<b>Grand Total</b>		<b>29,091.89</b>	<b>8,013.59</b>	<b>37,105.48</b>	<b>34,853.75*</b>	<b>(-)2,251.73</b>

\* The figures of actual expenditure are gross figures without adjusting recoveries as reduction of expenditure under revenue (Rs.129.01 crore) and capital (Rs.76.37 crore).

The overall savings of Rs. 2,251.73 crore mentioned above were the net result of savings of Rs.5,069.55 crore in 28 grants/appropriations partly offset by excess of Rs.2,817.82 crore in seven grants/appropriations. The savings/excesses (detailed Appropriation Accounts) were communicated to the Controlling Officers requiring them to explain the significant variations; explanations were not received (December 2004).

## 2.3 Fulfillment of Allocative Priorities

### 2.3.1 Appropriation by Allocative Priorities

Analysis of savings with reference to allocative priorities brought out the following:

#### Grant No.3 - Finance

(Rupees in crore)

Revenue - Voted		Total Grant	Expenditure	Saving
Original	2,859.77	4,455.72	3,564.77	890.95
Supplementary	1,595.95			

Savings occurred mainly under 2039 – State Excise-Salaries (Rs.5.09 crore), 2040 – Taxes on Sales, Trade, etc.,-Salaries (Rs.10.45 crore), 2047 – Other Fiscal Services – Subsidiary Expenses (Rs.10.93 crore), 2071 – Pensions and other Retirement benefits – CVP other payments (Rs.161.52 crore), Gratuities (Rs.158.51crore), Family Pension (Rs.69.14 crore), Adhoc Pensions - Ex-Patels (Rs.2.61 crore), 2075 – Miscellaneous General Services – Payment of Prize amount (Rs.244.55 crore), Advertising sales and publicity expenses-Scholarships and Incentives (Rs.278.25 crore), 2216 – Housing – Subsidies (Rs.3.59 crore). Reasons for the savings were not intimated.

#### Grant No.7 - Rural Development and Panchayat Raj

(Rupees in crore)

Revenue - Voted		Total Grant	Expenditure	Saving
Original	936.34	991.13	528.90	462.23
Supplementary	54.79			

Savings occurred mainly under 2515 – Other Rural Development Programmes-Other Expenses- PRIs (Rs.70.72 crore), ZPs- EFC Grants (Rs.71.07 crore), GIA ZP (Rs.10.63 crore), Maintenance Grants (Rs.4.63 crore), ZP Block Assistance (Rs.1.34 crore), Grants to GPs (Rs.58.39 crore), Development Grants – ZPs (Rs.23.27 crore), 2575 – Other Special Area Programmes – Other Expenses – Local Area Development Scheme (Rs.120 crore), 2702 – Minor Irrigation – Block Assistance (MI) (Rs.7.35 crore), 3054 – Roads and Bridges- Block Grant ZP (Rs.23.89 crore), Block Grant TP (Rs.1.12 crore). Reasons for the savings were not intimated.

#### Grant No.20 - Public Works

(Rupees in crore)

Revenue - Voted		Total Grant	Expenditure	Saving
Original	663.92	700.27	432.48	267.79
Supplementary	36.35			

  

Capital - Voted		Total Grant	Expenditure	Saving
Original	1,126.93	1,182.50	893.87	288.63
Supplementary	55.57			

Savings occurred mainly under 2059 – Public Works – Salaries (Rs.13.87 crore), Maintenance (Rs.33.33 crore), Materials and Supplies (Rs.2.66 crore), Stock debts (Rs.52.99 crore), MPWA Debts (Rs.9.69 crore), 2216 – Housing- Building Maintenance (Rs.3.22 crore), Materials and Supplies (Rs.1.98 crore), Pro-rata Establishment Charges (Rs.1.10 crore), 3054 – Roads and Bridges- Salaries (Rs.4.17 crore), Maintenance (Rs.49.65 crore), PM Gramodaya Sadak Yojana (Rs.105.05 crore), NABARD Works (Rs.11.25 crore), Inter Account Transfers (Rs.15.56 crore), 4059 – Capital Outlay on PW- Construction – Departmental Buildings (Rs.11.81 crore- due to release of funds at the fag end of the year), 4216 - Capital Outlay on Housing-construction - Residential Buildings (Rs.1.79 crore- due to non-receipt of administrative approval and non-processing of tenders), 5054 - Capital Outlay on Roads and Bridges - Roads (Rs.331.72 crore - due to change in drawings and delay in collection of equipments and mobilisation by contractors), Investment (Rs.6.53 crore), 7615 – Miscellaneous Loan- loans to PSUs and LBs (Rs.10 crore). Reasons for the savings were not intimated in other cases.

### Grant No.21 - Water Resources

(Rupees in crore)

Capital - Voted		Total Grant	Expenditure	Saving
Original	2,179.10	2,368.93	1,889.94	478.99
Supplementary	189.83			

Savings occurred mainly under 4701 – Capital Outlay on Major & Medium Irrigation-Project Debts Stock (Rs.44.16 crore), MPWA (Rs.11.00 crore), Major Works (Rs.345.43 crore- due to non-finalisation of tenders and non-receipt of administrative approval), Distributaries- Capital Expenses (Rs.2.24 crore- due to non taking up of works on account of land problems), Debt Servicing (Rs.80.81 crore), 4702 - Capital Outlay on Minor Irrigation – Major Works (Rs.87.07 crore- works were not taken up due to technical problems and entrustment of works to KLAC), SCP (Rs.34.13 crore), TSP (Rs.8.60 crore), Works (Rs.4.42 crore), NABARD works (Rs.25.04 crore - for want of technical approval). Reasons for the savings were not intimated in other cases.

### Grant No. 24 - Energy

(Rupees in crore)

Revenue - Voted		Total Grant	Expenditure	Saving
Original	2,145.71	2,547.54	1,913.02	634.52
Supplementary	401.83			

Savings occurred mainly under 2045 – Other Taxes and Duties on Commodities and Services – Rebate (Rs.1.54 crore), 2801 – Power-Subsidies (Rs.389.96 crore), Other Expenses (Rs.8.75 crore), General Expenses (Rs.five crore), GIA (Rs.50.40 crore), 3604 – Compensation and Assignments to Local Bodies and Panchayati Raj – Financial Assistance/Relief to ULBs (Rs.178.35 crore). Reasons for the savings were not intimated.

Further, scrutiny of surrender orders issued by Finance Department revealed that there were savings due to non-release of funds and non/short release of LOC in respect of six grants amounting to Rs.151.34 crore (**Appendix 2.1**).

### 2.3.2 Excess requiring regularisation

#### *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. However, the excess expenditure amounting to Rs.2,194.68 crore for the years 1989-90 to 2002-03 was yet to be regularised (December 2004) (**Appendix 2.2**).

#### *Excess over provision during 2003-04 requiring regularisation*

The excess of Rs.2,817.82 crore under seven grants and appropriations during the year requires regularisation under Article 205 of the Constitution. Details are given below:

Serial number	Grant/appropriation	Total Grant/ appropriation	Actual expenditure	Excess
		Amount in Rupees		
<b>Revenue - Voted</b>				
1.	14 – Revenue	655,15,18,000	824,35,72,551	169,20,54,551
2.	16 - Housing	146,38,86,000	148,83,27,067	2,44,41,067
3.	27 – Law	141,76,19,000	151,37,26,612	9,61,07,612
<b>Capital - Voted</b>				
1.	24 - Energy	86,25,00,000	586,79,90,000	500,54,90,000
<b>Revenue - Charged</b>				
1.	8 – Forest, Ecology & Environment	14,02,69,000	102,10,13,627	88,07,44,627
2.	20 - Public Works	10,00,000	14,35,663	4,35,663
3.	29 – Debt Servicing	3661,17,34,000	3710,00,37,079	48,83,03,079
<b>Capital - Charged</b>				
1.	20 - Public Works	11,00,000	23,84,119	12,84,119
2.	29 – Debt Servicing	7324,12,44,000	9323,06,26,557	1998,93,82,557
<b>Total</b>		<b>12,029,08,70,000</b>	<b>14,84,691,13,275</b>	<b>2817,82,43,275</b>

The main reasons for the excess expenditure were;

- Grant No.24 – Outstanding liability of KPTCL (Rs.550.95 crore) taken over and paid by Government.
- Grant No.8 – Transfer of more receipts under compensatory plantations to Karnataka Forest Development Fund (Rs.90.65 crore).
- Grant No.20 (Revenue - Charged) - Incurring more expenditure under public works – General – Construction – Governor- Building (Rs.0.04 crore).
- Grant No.20 (Capital - Charged) - Incurring of more expenditure under public works – Capital outlay on Housing – Government Residential Buildings – Other Housing – Governor – Construction (Rs.0.13 crore).
- Grant No.29 (Revenue - Charged) - Payment of more interest on Market Loans (Rs.86.99 crore) and Other Loans (Rs.61.41 crore).

- Grant No.29 (Capital - Charged) - Adjustment of high cost borrowings under Debt Swap Scheme (Rs.387.18 crore), more transactions under Ways and Means Advances from RBI (Rs.969.92 crore), Overdraft (Rs.407.72 crore) and pre-payment of debt under Debt Swap Project in respect of small savings collections (Rs.245.04 crore)

### **2.3.3 Original Budget and Supplementary Provisions**

Supplementary provision (Rs.8,013.59 crore) made during the year constituted 28 *per cent* of the original provision (Rs.29,091.89 crore) as against 18 *per cent* in the previous year.

### **2.3.4 Unnecessary/Excessive/Inadequate Supplementary Provisions**

Supplementary provision of Rs.303.98 crore made in 13 grants involving 15 detailed/object heads proved unnecessary in view of aggregate saving of Rs.389.49 crore (**Appendix 2.3**).

In 10 grants involving 14 detailed heads, supplementary provision of Rs.4,489.51 crore obtained proved insufficient leaving uncovered excess expenditure of Rs.1,302.47 crore (**Appendix 2.4**).

In 14 grants involving 19 detailed heads, as against additional requirement of Rs.1,208.56 crore, supplementary grant for Rs.1,788.34 crore was obtained resulting in saving of Rs.579.78 crore (**Appendix 2.5**).

### **2.3.5 Excessive/Unnecessary 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.

In 22 cases, re-appropriation of funds was made injudiciously resulting in final excess/savings of more than Rs.0.25 crore in each case (**Appendix 2.6**). Of these:

- in four cases, additional funds of Rs.1.33 crore provided through re-appropriation proved insufficient as the final expenditure exceeded the provision by Rs.4.05 crore.
- in seven cases, additional funds of Rs.8.13 crore provided by re-appropriation resulted in final savings of Rs.14.49 crore and the re-appropriation proved excessive/unnecessary.
- in six cases, the savings were not properly assessed as there was a final savings of Rs.16.41 crore even after the withdrawal of Rs.6.91 crore through re-appropriation.
- in five cases, the withdrawal of Rs.1.27 crore through re-appropriation proved injudicious as the final expenditure exceeded the net provision by Rs.5.56 crore.

### 2.3.6 Anticipated Savings not surrendered

According to rules framed by Government, the spending departments are required to surrender grants/appropriations or portions thereof to the Finance Department as and when savings are anticipated. However, out of total saving of Rs.4,747.97 crore in 27 grants/appropriation, Rs.1,022.71 crore (22 per cent) only were surrendered on the last day of the financial year leaving a balance of Rs.3,725.26 crore un-surrendered (**Appendix 2.7**).

In the following cases against the total saving of Rs.334.81 crore, the amount actually surrendered was Rs.398.99 crore resulting in excess surrender of Rs.64.18 crore (19 per cent) indicating inadequate financial control.

(Rupees in crore)

Grant	Total savings	Amount surrendered	Excess surrendered
2 – Animal Husbandry (Capital-Voted)	19.20	20.00	0.80
4 – DPAR (Revenue-Charged)	21.04	22.94	1.90
8 – Forest, Ecology and Environment (Capital-Voted)	5.94	7.00	1.06
20 – Public Works (Capital-Voted)	288.63	349.05	60.42
<b>Total</b>	<b>334.81</b>	<b>398.99</b>	<b>64.18</b>

### 2.3.7 Unreconciled Expenditure

To enable departmental officers to exercise proper control over expenditure, there are standing instructions of Government that expenditure recorded in their books should be reconciled with those recorded in the books of the Accountant General (Accounts and Entitlement).

During 2003-04, out of 154 Chief Controlling Officers, 21 officers had not reconciled expenditure of Rs.5,444.56 crore (22 per cent of the expenditure of Rs.24,314.10 crore incurred by them) while six officers had reconciled their expenditure figures for part of the year, leaving an expenditure of Rs.81.53 crore unreconciled. Seven Controlling Officers who disbursed Rs.170.11 crore of loans and advances had not reconciled expenditure figures.

### 2.3.8 Errors in Budgeting

In eight grants, supplementary provision aggregating Rs.48.25 crore was obtained under the grants other than to which the original provisions related (**Appendix 2.8**).

Such errors in budgeting resulted in saving or excess under the grants concerned as expenditure was accounted for correctly under the relevant grants.

## 2.4 Defective Re-appropriation

During 2003-04, 150 re-appropriation orders involving an amount of Rs.200.41 crore were issued. Forty two re-appropriation orders Rs. 25.56 crore were not considered in accounts as these were found either exceeding the power of sanction or involving items of new service or not signed by competent authority or not having prior approval of Finance Department. Illustrative cases are listed in **Appendix 2.9**.

## 2.5 Rush of Expenditure

The financial rules require that expenditure should be evenly distributed throughout the year. The 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 for the four quarters and also for the month of March 2004 as depicted in **Appendix 2.10** shows that the expenditure incurred in March 2004 in 19 cases ranged between 22 and 100 *per cent* of the total expenditure during the year indicating tendency to utilise the budget at the close of the financial year.

## 2.6 New Service/New Instrument of Service

Article 205 of the Constitution provides that expenditure on a 'New Service' not contemplated in the Annual Financial Statement (Budget) can be incurred only after its specific authorisation by the Legislature. The Government has issued orders based on recommendations of Public Accounts Committee laying down various criteria for determining items of 'New Service/New Instrument of Service'. These, *inter alia*, stipulate that the expenditure over the grant/appropriation exceeding twice the provision or Rupees one crore, whichever is more, should be treated as an item of 'New Service'.

In 56 cases involving ten grants, expenditure totaling Rs.594.03 crore which should have been treated as 'New Service/New Instrument of Service' was met without the approval of the Legislature (**Appendix 2.11**).

## 2.7 Expenditure without Provision

As envisaged in the Budget Manual, expenditure should not be incurred on a scheme/service without provision of funds therefor. It was, however, noticed that expenditure of Rs.71.33 crore was incurred without provision either in original or in supplementary demand in 37 cases involving six grants test-checked in audit (**Appendix 2.12**).

