



FINANCIAL MANAGEMENT AND BUDGETARY CONTROL

2

FINANCIAL MANAGEMENT AND BUDGETARY CONTROL

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

2.1 Summary of Appropriation Accounts

As per para 141 of Uttar Pradesh Budget Manual (UPBM), all final savings must be surrendered by Controlling Officers to the Finance Department by 25 March. Officers making belated surrenders, when savings could reasonably have been foreseen and surrendered earlier, will be held responsible if the Finance Department is not able to accept such surrender.

The summarised position of actual expenditure during 2018-19 against the provision made under 93 grants/appropriations is given in **Table 2.1**.

Table 2.1: Summarised position of Actual Expenditure, against provision

| Nature of expenditure | | Total Grant/ Appropriation | Actual Expenditure | Savings(-) /Excess(+) | Amount surrendered | Amount surrendered on 31 March 2019 | Percentage of savings surrendered by 31 March 2019 |
|---|----------------------------|----------------------------|--------------------|-----------------------|--------------------|-------------------------------------|--|
| 1 | | 2 | 3 | 4 | 5 | 6 | Col.5/ Col.4 |
| Voted | I-Revenue | 2,98,990.78 | 2,47,287.30 | (-) 51,703.48 | 2,131.57 | 2,131.57 | 4.12 |
| | II -Capital | 1,02,445.21 | 76,489.69 | (-) 25,955.52 | 1,656.85 | 1,656.85 | 6.38 |
| | III-Loans and Advances | 7,724.35 | 6,302.64 | (-) 1,421.71 | 0.40 | 0.40 | 0.03 |
| Total Voted | | 4,09,160.34 | 3,30,079.63 | (-) 79,080.71 | 3,788.82 | 3,788.82 | 4.79 |
| Charged | IV-Revenue | 59,408.58 | 58,975.52 | (-) 433.06 | 10.12 | 10.12 | 2.34 |
| | V- Capital | 20.44 | 12.74 | (-) 7.70 | 0.00 | 0.00 | 0.00 |
| | VI- Public Debt- Repayment | 30,546.75 | 20,716.61 | (-) 9,830.14 | 1.77 | 1.77 | 0.02 |
| Total Charged | | 89,975.77 | 79,704.87 | (-) 10,270.90 | 11.89 | 11.89 | 0.12 |
| Grand Total | | 4,99,136.11 | 4,09,784.50 | (-) 89,351.61 | 3,800.71 | 3,800.71 | 4.25 |
| Note: Figures of actual expenditure includes recoveries adjusted as reduction of expenditure under voted revenue expenditure (₹ 4,534.86 crore) and voted capital expenditure (₹ 14,039.02 crore). | | | | | | | |

(Source: Appropriation Accounts, Finance Accounts and Budget documents 2018-19)

Overall savings of ₹ 89,351.61 crore was the result of savings of ₹ 92,349.08 crore in 126 cases of grants/appropriations under revenue section and 79 cases of grants/appropriations under capital section including loan section (public

debt-repayments), offset by excess of ₹ 2,997.47 crore in four grants /appropriations under revenue section and six grants/appropriations under capital section.

The fact that as much as 96 *per cent* savings (amounting to ₹ 85,550.90 crore) was allowed to lapse at the end of the year and the remaining savings of ₹ 3,800.71 crore (four *per cent*) was surrendered on the last day of the financial year 2018-19 without being made available to the Finance Department for re-appropriation for other purposes makes it evident that the Finance Department exercised very little financial control.

Recommendation: *The Finance Department should monitor trend of expenditure by Departmental Controlling Officers, so that funds are not retained unnecessarily and are surrendered at the earliest, without resorting to last minute surrenders and lapse of allocations.*

2.2 Financial Accountability and Budget Management

2.2.1 Excess Expenditure requiring regularisation

There was an excess disbursement of ₹ 1,539.44 crore over the authorisation made by the State Legislature under four grants and four appropriations during the financial year 2018-19 (**Appendix 2.1 A**). Excess disbursements of ₹ 30,985.81 crore under 98 grants and 42 appropriations pertaining to the years 2005-06 to 2017-18 are yet to be regularised by the State Legislature (**Appendix 2.1 B**). This is in violation of Articles 204 and 205 of the Constitution which provides that no money shall be withdrawn from the Consolidated Fund except under appropriation made by Law by the State Legislature. This vitiates the system of budgetary and financial control and encourages financial indiscipline in management of public resources.

The excess expenditure over the authorisation and non-regularisation of excess expenditure have been regularly reported in previous Audit Reports, however, the cases of excess expenditure pertaining to the years 2005-06 to 2017-18 were yet to be placed before State Legislature for regularisation.

Recommendation: *The State Government should ensure that all the existing cases of excess expenditure are placed before the State Legislature for regularisation at the earliest.*

2.2.2 Savings

Savings of ₹ 90,038.26 crore occurred in 65 cases relating to 46 grants/appropriations exceeding ₹ 100 crore in each case as detailed in **Appendix 2.2**.

Further, out of above 65 cases, there were 18 cases, where savings exceeds ₹ 1,000 crore in each case. In nine out of these 18 cases, savings exceed ₹ 1,000 crore during 2017-18 also as detailed in **Table 2.2**.

Table 2.2: Grants indicating savings more than ₹ 1,000 crore during 2017-18 and 2018-19

| Sl. No. | Grant No. | Name of the grant | Savings during | |
|---------|-----------|---|----------------|-----------|
| | | | 2017-18 | 2018-19 |
| 1. | 13 | Agriculture and Other Allied Departments (Rural Development) - Capital Voted | 5,179.06 | 9,278.13 |
| 2. | 14 | Agriculture and Other Allied Departments (Panchayati Raj) - Revenue Voted | 1,080.89 | 4,330.63 |
| 3. | 37 | Urban Development Department - Revenue Voted | 5,574.84 | 3,451.60 |
| 4. | 48 | Minorities Welfare Department - Revenue Voted | 1,088.19 | 1,034.01 |
| 5. | 49 | Women and Child Welfare Department - Revenue Voted | 2,247.92 | 2,464.72 |
| 6. | 61 | Finance Department (Debt Services and Other Expenditure) - Capital Charged | 6,973.52 | 9,810.15 |
| 7. | 71 | Education Department (Primary Education) - Revenue Voted | 17,493.77 | 14,921.22 |
| 8. | 83 | Social Welfare Department (Special Component Plan for Scheduled Castes) - Revenue Voted | 5,573.74 | 4,085.46 |
| 9. | | Social Welfare Department (Special Component Plan for Scheduled Castes) - Capital Voted | 1,637.34 | 4,136.73 |

(Source: Appropriation Accounts 2017-18 and 2018-19)

It was further noticed that in 28 cases involving 22 grants, there were persistent savings (₹ 100 crore and above) each year during 2014-15 to 2018-19, as detailed in *Appendix 2.3*. The savings under these grants ranged between ₹ 101.54 crore and ₹ 14,921.22 crore during the year 2018-19. Large savings is indicative of poor budgeting or shortfall in performance or both, in respect of concerned scheme being implemented by the Department.

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

2.2.3 Unnecessary/inadequate supplementary provision

As per para 162 (i) of UPBM, a supplementary grant or appropriation is required when the amount included in a grant or appropriation authorised by the Appropriation Act is found to be insufficient for the year.

During 2018-19, in 44 cases, supplementary provisions amounting to ₹ 9,032.89 crore (₹ one crore or more in each case) proved unnecessary as the expenditure was not even up to the level of the original provision as detailed in *Appendix 2.4*.

2.2.4 Excess/ unnecessary re-appropriation of funds

As per para 147 of UPBM, expenditure under each unit of appropriation is kept within the amount originally provided under that unit of appropriation. Despite re-appropriation, there was savings of ₹ 2,143.94 crore in 137 sub-heads involving 42 grants and excess of ₹ 130.48 crore in 36 sub-heads involving 24 grants indicating injudicious re-appropriation without assessing actual requirements (*Appendix 2.5*).

2.2.5 Substantial surrenders

During 2018-19, substantial surrenders (50 per cent or more of the total provision) amounting to ₹ 1,873.39 crore (86 per cent of total provision of ₹ 2,189.52 crore) were made in 143 sub-heads, which included 100 per cent surrenders in 70 schemes/programmes (₹ 368.04 crore) as detailed in *Appendix 2.6*. Such substantial surrenders indicated that either the budgeting was done without due prudence or there were serious slippages in programme implementation.

2.2.6 Surrender in excess of actual savings

In three cases involving three grants (₹ 50 lakh or more in each case) as against savings of ₹ 1,168.01 crore, ₹ 1,180.62 crore was surrendered resulting in excess surrender of ₹ 12.61 crore during 2018-19 as detailed in *Appendix 2.7*. Such surrenders in excess of actual savings indicated that the departments did not exercise adequate budgetary controls by watching flow of expenditure through monthly expenditure statements.

Recommendation: The Government should ensure that excessive, unnecessary supplementary provisions and injudicious surrenders are avoided.

2.2.7 Anticipated savings not surrendered

As per paras 139 and 141 of UPBM, spending departments are required to surrender grants/appropriations or portion thereof to the Finance Department as and when savings are anticipated. All final savings must be surrendered to the Finance Department by 25 March. Savings so resumed will be re-allotted by the Finance Department, if necessary, when dealing with applications for re-appropriations or supplementary grants or appropriations.

At the end of 2018-19, though savings of ₹ 65,875.33 crore occurred in 89 cases of grants/ appropriations, no part of it was surrendered by the spending departments (*Appendix 2.8*).

Similarly, out of savings of ₹ 89,675.44 crore in 124 cases (savings of ₹ one crore and above in each case), an amount of ₹ 88,557.72 crore (99 per cent) was not surrendered (*Appendix 2.9*). This is indicative of inadequate financial control and resultant blocking of funds.

2.2.8 Misclassification of expenditure

Revenue expenditure is recurring in nature and is intended to be met from Revenue Receipts. Further, as per Indian Government Accounting Standard (IGAS-2), expenditure on Grants-in-Aid is recorded as revenue expenditure in the books of the grantor and as revenue receipt in the books of recipient. Capital Expenditure is defined as expenditure incurred with the object of increasing concrete assets of a material and permanent character, or of reducing recurring liabilities.

However, during the year, the State Government made budget provisions and booked 'minor construction works' amounting to ₹ 69.94 crore, 'maintenance of vehicle and purchase of petrol etc' amounting to ₹ 0.03 crore, 'maintenance of computer, purchase of related stationery' amounting to ₹ 0.01 crore under Capital section, whereas it should be booked as revenue expenditure. On the

other hand, expenditure of ₹ 61.03 crore for 'purchase of staff car/ vehicle for office use' was booked under Revenue section instead of under Capital section.

The State Government stated (July 2019) that purchase of new vehicle only should be provided under Capital section and arrangement for replacement of old vehicle should be booked under Revenue section. The Government's view was not acceptable as replacement of old vehicle amounts to enhancing the useful life of the asset, hence the expenditure incurred was capital in nature

2.2.9 Advances from the Contingency Fund

Under the provisions of U.P. Contingency Fund Act, 1950, State Government maintains Contingency Fund with a corpus amount of ₹ 600 crore. As per the Uttar Pradesh Contingency Fund Rules, 1962, advances from the Fund shall be made only to meet unforeseen and emergent expenditure, pending its authorisation by the Legislature following which it is recouped.

As on 31 March 2019, an amount of ₹ 629.72 crore drawn from the Contingency Fund remained unrecouped, which included unrecouped balances of ₹ 300 crore of 2016-17. During the year 2018-19, ₹ 396.29 crore was disbursed, out of which only ₹ 66.57 crore was recouped and the remaining sum of ₹ 329.72 crore was unrecouped.

Out of unrecouped amount of ₹ 329.72 crore, advance of ₹ 89.72 crore was drawn for capital outlay on forestry and wild life under Grant No. 60- Forest Department (soil work under social forestry, plantation and establishment of new nursery) and ₹ 240 crore was drawn for repayment of loan of NABARD under Grant No. 18-Agriculture and Other Allied Departments (Co-operative), which were to be recouped through the supplementary budget provision in due time. Audit observed that the expenditure for which contingency fund were drawn could have been anticipated and included in the budget for authorisation by the Legislature.

It was further observed that the State Government had drawn advance of ₹ 300 crore during the year 2016-17 for payment of salary and pensionary benefits to the employees of U.P. Jal Nigam, which was to be recouped by provision of fund under Grant No. 37- Urban Development Department. Non-recoupage of this advance was reported in Audit Report No. 1 of 2018 and Audit Report No. 3 of 2019. However, State Government had not recouped this amount to the Contingency Fund till 31 March 2019. As a result, Contingency Fund had an adverse balance of (-) ₹ 29.72 crore. This was in violation of the Contingency Fund Rules which provides that no order sanctioning the advance shall be issued unless the Finance Department is satisfied that balance in the fund is sufficient for the advance to be made.

Recommendation: *The State Government should take action on recommendation made in Para 2.2.9 of the State Finances Audit Report No. 3 of 2019 and ensure timely recoupage of advances taken from the Contingency Fund.*