

CHAPTER II

FINANCIAL MANAGEMENT AND BUDGETARY CONTROL

2.1 Introduction

2.1.1 This Chapter outlines the Bihar Government's financial accountability and budgetary practices through audit of Appropriation Accounts. Appropriation Accounts are accounts of the expenditure, voted and charged, of the Government for each financial year compared with the amounts of the voted grants and appropriations charged for different purposes as specified in the schedules appended to the Appropriation Act. These Accounts list the original budget estimates, supplementary grants, surrenders and re-appropriations distinctly and indicate actual capital and revenue expenditure on various specified services vis-à-vis those authorized by the Appropriation Act in respect of both charged and voted items of the budget. Appropriation Accounts thus facilitate management of finances and monitoring of budgetary provisions and are, therefore, complementary to the Finance Accounts.

Audit of appropriations seeks to ascertain whether the expenditure actually incurred under various grants is within the authorization given under the Appropriation Act and that the expenditure required to be charged under the provisions of the Constitution of India 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 2008-2009 against 51 grants/appropriations was as given in **Table 2.1**.

Table 2.1: Actual Expenditure vis-à-vis Original/Supplementary provisions

(Rupees in crore)

	Nature of expenditure	Original grant/appropriation	Supplementary grant/appropriation	Total	Actual expenditure	Saving (-)/ Excess (+)
Voted	I Revenue	25248.38	6314.60	31562.98	24955.13	(-)6607.85
	II Capital	7635.39	3177.53	10812.92	6436.97	(-)4375.95
	III Loans and Advances	324.63	518.62	843.25	551.05	(-)292.20
Total Voted		33208.40	10010.75	43219.15	31943.15	(-)11276.00
Charged	IV Revenue	3852.10	4.31	3856.41	3820.40	(-)36.01
	V Capital	0.00	0.00	0.00	0.00	0.00
	VI Public Debt-Repayment	1676.21	7.20	1683.41	1682.28	(-)1.13
Total Charged		5528.31	11.51	5539.82	5502.68	(-)37.14
Appropriation to Contingency Fund (if any)		0.00	0.00	0.00	0.00	0.00
Grand Total		38736.71	10022.26	48758.97	37445.83	(-)11313.14

(Source- Appropriation Accounts of the state)

Note: The expenditure includes recoveries of revenue expenditure amounting to Rs 263.95 crore and capital expenditure amounting to Rs 0.61 crore adjusted as reduction of expenditure.

Total provision of Rs 48758.97 crore was made by the Government in the Budget for 2008-09. Out of this, Rs 37445.83 crore was utilised during the year which was short by Rs 1290.88 crore against the original provision of Rs 38736.71 crore. Voted Capital expenditure of Rs 6436.97 crore was merely 13.20 *per cent* of the total provision and was short by Rs 1198.42 crore against the original budget estimate for Capital outlay. Total revenue expenditure was also short by Rs 324.95 crore against the original budget provision of Rs 29100.48 crore.

The overall savings of Rs 11369.49 crore was the result of savings in 47 grants/appropriations under the Revenue Section and 33 grants/appropriations under the Capital Section, which was offset by a total excess of Rs 56.33 crore in four grants/appropriations under the Revenue Section.

The savings/excesses as per the detailed Appropriation Accounts were intimated (October 2009) to the Controlling Officers requesting them to explain the reasons for significant variations. Departments/Controlling Officers had not intimated the reasons for savings/excesses (December 2009).

2.3 Financial Accountability and Budget Management

2.3.1 Appropriation vis-à-vis Allocative Priorities

Departments were required to prepare their estimates keeping in view relevant factors like trends in the economy, actual expenditure of the last three years etc. but non-adherence to the tenets of budget formulation and budget management led to injudicious appropriation of funds. The outcome of appropriation audit revealed that in 41 grants, aggregate savings of Rs 11352.44 crore exceeded Rs 10 crore in each case or by more than 20 *per cent* of the total provision (**Appendix 2.1**).

In 21 cases savings of Rs 9785.95 crore (86.50 *per cent* of net savings) as indicated in **Appendix 2.2** was more than Rs 100 crore in each case in various departments like the Disaster Management Department (Rs 1551.84 crore); Water Resources Department (Rs 1359.52 crore); Human Resources Development Department (Rs 1203.22 crore); Urban Development and Housing Department (Rs 623.49 crore); Energy Department (Rs 520.76 crore); Road Construction Department (Rs 505.36 crore) etc.. Reasons for the savings were not intimated by any department.

2.3.2 Persistent Savings

In 13 cases, during the last five years persistent savings of more than Rs 20 crore in each case was noticed, which was 11 to 81 *per cent* of the total grants (**Appendix 2.3**). In most of the cases, main reasons for the persistent savings were preparation of budgets without adequate details from field offices and lack of planning and monitoring at the department/Government level.

2.3.3 Excess Expenditure

As per Article 205 of the Constitution of India, it is mandatory for a State Government to get the excess over a grant/appropriation regularized by the State Legislature after the completion of discussion of the Appropriation Accounts by the Public Accounts Committee In two cases (Voted grants), excess expenditure

aggregating Rs 46.10 crore was incurred and in one charged item, the expenditure by Rs 8.53 crore (**Table 2.2**) exceeded the provisions. However, the regularization of excess expenditure had not been done. Similarly, excess expenditure over provision amounting to Rs 7026.64 crore for the years 1977-2008 had also not been regularized as detailed in **Appendix 2.4**.

Table 2.2: Excess expenditure requiring regularization

(Rupees in crore)					
Sl. No.	Grant No.	Name of the Grant/Appropriation	Total Grant/Appropriation	Expenditure	Percentage of Excess Expenditure
Voted					
1	15	Pension	3435.52	3481.24	1.33
2	17	Commercial Tax Department	46.30	46.68	0.82
		Total	3481.82	3527.92	
Charged					
1	28	High Court of Bihar	44.07	52.60	19.36
		Total	44.07	52.60	

(Source : Appropriation Accounts)

The possibility of financial irregularities remaining unexamined due to delayed/non-furnishing of explanation of excess expenditure cannot be ruled out.

2.3.4 Unnecessary/Excessive/Inadequate supplementary provision

Supplementary provision aggregating Rs 2345.12 crore obtained in 34 cases (Rs 10 lakh and more in each case), during the year proved unnecessary as the expenditure did not come up to the level of the original provisions as detailed in **Appendix 2.5**. In two cases, supplementary provision of Rs 2.22 crore proved insufficient by more than Rs one crore in each case, leaving an aggregate uncovered excess expenditure of Rs 54.24 crore (**Table 2.3**).

Table 2 3: Supplementary provision proved insufficient by more than Rs one crore

(Rupees in crore)						
Grant Number	Name of the Grants/Appropriation	Original Provision	Supplementary provision	Total	Expenditure	Excess
15 (Voted)	Pension	3435.46	0.07	3435.53	3481.24	45.71
28 (Charged)	High Court of Bihar	41.92	2.15	44.07	52.60	8.53
	Total	3477.44	2.22	3479.66	3533.64	54.24

(Source: Appropriation Accounts)

It is clear from the above facts that supplementary provisions were made without assessing the actual requirement under these sub-heads.

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. Re-appropriation of Rs 38.62 crore proved excessive and resulted in savings of Rs 124.46 crore in 19 sub-heads as detailed in

Appendix 2.6. Similarly, in three cases involving three grants, re-appropriation of funds proved injudicious due to withdrawal of Rs 2.70 crore through re-appropriation when there was excess expenditure of Rs 9.28 crore in these grants as detailed in **Table 2.4**.

Table 2.4: Unnecessary withdrawal through re-appropriation of funds

(Rupees in lakh)

Sl. No.	Grant No.	Description	Head of Account	Re-appropriation	Final Excess(+)/ Saving (-)
1	12	0001-Stationery Office	2058-00-101-0001	-0.65	+32.85
2	16	0004-Remuneration to Clerk Cum Cashier in Gram Panchayats	2515-00-198-0004	-60.30	+698.29
3	48	0131-For Engineering Cell	2217-80-800-0131	-208.95	+197.20
		Total		-269.90	928.34

(Source : Appropriation Accounts)

Further, in 24 cases, withdrawals through re-appropriation of Rs 111.56 crore were insufficient as despite the withdrawals, there were savings of Rs 121.79 crore as detailed in **Appendix 2.7**. These instances indicate that controlling officers failed to anticipate actual requirements/savings of funds under these heads.

2.3.6 Substantial surrenders

Spending departments are required to surrender the grants/appropriations or portions thereof to the Finance Department as and when savings are anticipated.

In 69 sub-heads, out of a total provision of Rs 996.18 crore, funds amounting to Rs 752.41 crore (Rs 50 lakh and above and more than 50 *per cent* of total provision in each case) were surrendered as indicated in **Appendix 2.8** on account of either non-implementation or slow implementation of schemes/programmes. There was 100 *per cent* surrender of funds (Rs 103.23 crore) in 31 schemes.

2.3.7 Surrender in excess of actual saving

In seven cases (**Appendix 2.9**), Rs 1262.73 crore was surrendered (Rs 50 lakh or more in each case) against savings of Rs 1093.85 crore, which was in excess of the actual savings. This indicated lack of budgetary control in these departments, as it resulted in excess surrender of Rs 168.88 crore. Reasons for surrender of funds in excess of actual saving were not intimated by the concerned departments.

2.3.8 Anticipated savings not surrendered

In 23 grants, at the close of the year 2008-09, there were savings of Rs 8736.38 crore, (Rs 10 crore and above in each case), of which Rs 2628.44 crore was not surrendered (30 *per cent* of the total saving) as indicated in **Appendix 2.10**.

Similarly, out of saving of Rs 1065.63 crore (between Rs one crore and Rs 10 crore) under 10 grants/appropriation, Rs 40.85 crore was not surrendered as indicated in **Appendix 2.11**.

Besides, in 50 cases, Rs 6310.70 crore (Rs 10 crore and more in each case), were surrendered on the last two working days of March 2009 (**Appendix 2.12**) indicating inadequate financial control.

This shows that the Controlling Officers failed to discharge their basic responsibility of being accountable for budgetary control and these funds could not be utilized for the purposes for which they were allotted as well as for other developmental activities in the state.

2.4 Outstanding Detailed Contingent Bills

The Bihar Treasury Code (Note below Rule 322 [2]) provides that advances drawn on Abstract Contingent (AC) bills should be settled by submitting Detailed Contingent (DC) bills to the Accountant General (A&E) not later than 25th of the sixth month from the date of drawal of advance from the treasury.

Scrutiny of records revealed that out of Rs 11924.44 crore drawn on 50384 AC bills, only 5394 DC bills for Rs 964.85 crore were submitted to Accountant General (A&E), Bihar and no DC bills for 44990 AC bills of Rs 10959.59 crore drawn during the year from 2002-03 to 2007-08 (**Table 2.5**) were submitted, despite repeated audit objections.

Further, 8039 AC bills for Rs 2348.04 crore were drawn during 2008-09, of which 412 DC bills for Rs 77.27 crore had been submitted. Thus in all, adjustment of advances of Rs 13230.39 crore drawn through 52617 AC bills was pending.

Table 2.5: Outstanding Detailed Contingent Bills

(Rupees in crore)

Year	AC Bills		DC Bills		DC Bills as Percentage of AC Bills	Outstanding DC Bills	
	No.	Amount	No.	Amount		No.	Amount
2002-03	6988	332.22	464	8.33	2.51	6524	323.89
2003-04	12570	548.41	627	37.70	6.87	11943	510.71
2004-05	10701	957.72	1006	97.62	10.19	9695	860.10
2005-06	6064	2376.31	919	220.42	9.28	5145	2155.89
2006-07	6980	3849.31	899	204.29	5.31	6081	3645.02
2007-08	7081	3860.47	1479	396.49	10.27	5602	3463.98
Total	50384	11924.44	5394	964.85		44990	10959.59

{Source : Statement received from AG (A&E),Bihar }

2.5 Non-reconciliation of expenditure figures

Rules 475 (viii) of the Bihar Financial Rules requires that heads of departments should reconcile monthly/every third month, the departmental figures of expenditure with those booked in the books of Accountant General (A&E). Although non-reconciliation of departmental figure had been pointed out regularly in Audit Reports, in 73 out of 112 major heads, heads of departments

had not reconciled expenditure amounting to Rs 32793.95 crore (exceeding Rs 10 crore in each case) against the total expenditure of Rs 37445.83 crore during 2008-09 as shown in **Appendix 2.13**.

2.6 Advances from Contingency Fund

The Contingency Fund of the State has been established under the Bihar Contingency Fund Act, 1950 in terms of provisions of Articles 267 (2) and 283 (2) of the Constitution of India. Advances from the fund are to be given only for meeting expenditure of an unforeseen and emergent character, postponement of which, till its authorisation by the Legislature, would be undesirable. During 2008-09, Government sanctioned 165 withdrawals amounting to Rs 1346.78 crore (2.76 per cent of total budget provision), of which 122 withdrawals amounting to Rs 472.46 crore (**Appendix 2.14**) were for routine purposes such as purchase of motor vehicles, construction of police buildings, water supply, acquisition of land, office expenditure, pay and allowances etc. Although these were foreseeable expenditure, advances were drawn from the Contingency Fund of the State. The entire amount had, however,, been recouped during the year.

2.7 Conclusion

During 2008-09, expenditure of Rs 37445.83 crore was incurred against total grants and appropriations of Rs 48758.97 crore, resulting in net savings of Rs 11313.14 crore. Excesses over grants/appropriations of Rs 54.63 crore required regularisation under Article 205 of the Constitution of India. Departments had not prepared their estimates keeping in view the relevant factors like trends in economy, actual expenditure of last three years and other factors. Huge and persistent savings, excess over provisions, unnecessary /excessive / inadequate, supplementary provisions/re-appropriations and non surrender of anticipated savings indicated inadequate financial management and lack of budgetary control.

2.8 Recommendations

- Departments should submit more realistic budget estimates keeping in view relevant factors like trends in economy, actual requirement of funds, expenditure of last three years and other factors.
- Budgetary controls should be strengthened in all the Government departments by close monitoring of expenditure against allocations.
- Anticipated savings should be surrendered in time and issuance of re-appropriation/surrender orders at the fag end of the year should be avoided.
- All excess expenditure over grants/appropriations should be regularised as required under Constitution of India.