

---

## **Chapter 2**

# **FINANCIAL MANAGEMENT AND BUDGETARY CONTROL**

---



## CHAPTER 2

### FINANCIAL MANAGEMENT AND BUDGETARY CONTROL

#### Introduction

The Comptroller and Auditor General of India performs the audit of Appropriations to ascertain whether the expenditure incurred under various grants underlying the budget is within authorisations given under the Appropriation Act for the year, that expenditure required to be charged under the 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

The summarised position of actual expenditure during 2017-18 against 71 grants/appropriations is as given in **Table 2.1**.

**Table 2.1: Summarised position of Original/Supplementary Budget Provision and Actual Expenditure**

Nature of Expenditure		Total Grant/ Appropriation	Actual Expenditure	Savings (-) / Excess (+) (percentage in bracket Col. 4/2)	Amount surrendered (percentage in bracket Col. 5/4)	Amount surrendered on 31 March 2018 (percentage in bracket Col. 6/5)
Voted	I –Revenue	1,39,818.81	1,20,096.13	(-)19,722.68 (14.11)	10,437.30 (52.92)	7,924.02 (75.92)
	II- Capital	39,495.34	32,537.34	(-)6,958.00 (17.62)	4,618.96 (66.38)	4,591.64 (99.41)
	III- Loans and Advances	4,135.15	1,550.20	(-)2,584.95 (62.51)	0.10 (0.0039)	0.10 (100)
<b>Total Voted</b>		<b>1,83,449.30</b>	<b>1,54,183.67</b>	<b>(-)29,265.63</b> <b>(15.95)</b>	<b>15,056.36</b> <b>(51.45)</b>	<b>12,515.76</b> <b>(83.13)</b>
Charged	IV- Revenue	13,412.53	12,121.40	(-)1,291.13 (9.63)	61.50 (4.76)	61.49 (99.98)
	V –Capital	61.45	50.96	(-)10.49 (17.07)	10.34 (98.57)	10.00 (96.71)
	VI- Public Debt- Repayment	9,546.27	5,776.38	(-)3,769.89 (39.49)	6.09 (0.16)	6.09 (100)
<b>Total Charged</b>		<b>23,020.25</b>	<b>17,948.74</b>	<b>(-)5,071.51</b> <b>(22.03)</b>	<b>77.93</b> <b>(1.54)</b>	<b>77.58</b> <b>(99.55)</b>
<b>Grand Total</b>		<b>2,06,469.55</b>	<b>1,72,132.41</b>	<b>(-)34,337.14</b> <b>(16.63)</b>	<b>15,134.29</b> <b>(44.08)</b>	<b>12,593.34</b> <b>(83.21)</b>

**Note:** Figures of actual expenditure include recoveries adjusted as reduction of expenditure under voted revenue expenditure (₹ 1,852.03 crore), Charged revenue expenditure (₹ 119.41 crore) and voted capital expenditure (₹ 1,675.09 crore).

(Source: Appropriation Accounts, Finance Accounts and Budget documents 2017-18)

The fact that as much as 16.63 per cent savings (amounting to ₹ 34,337.14 crore) was allowed to lapse at the end of the year or was surrendered on the last day of the financial year without being available to the Finance Department for re-appropriation to other purposes makes it evident that the Finance Department exercised very little financial control.

Further, it was also observed that overall budget after deducting salary/establishment expenses<sup>40</sup> amounting to ₹ 1,79,985.30 crore out of which savings were to the tune of ₹ 30,877.47 crore. Evidently Finance Department overlooked budgetary control in utilising funds earmarked in the budget for developmental expenditure/creation of assets.

**Recommendation:** *The Finance Department should monitor the trends 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 lapsing of allocations.*

## 2.2 Financial Accountability and Budget Management

### 2.2.1 Excess expenditure requiring regularisation

As per Article 205 of the Constitution of India, it is mandatory for a State Government to get excess expenditure over a grant/appropriation regularised by the State Legislature. It was observed however, that the State Government did not regularise the excess expenditure amounting to ₹ 660.67 crore covering 16 grants and 15 appropriations pertaining to the period 2003-17. Details are given in **Appendix 2.1**.

During the exit conference (April 2019), FD replied that process of regularisation of excess expenditure was being done as per recommendation of PAC.

**Recommendation:** *The Finance Department should ensure that the excess expenditure of remaining years is regularised by the State Legislature at the earliest and strict departmental action is taken against controlling officers who exceed the budget.*

### 2.2.2 Savings

**Appendix 2.2** provides details of 50 cases where savings exceeded ₹ 10 crore in each case and more than 20 per cent of total provisions. **Appendix 2.3** provides details of 24 cases relating to 21 grants/appropriations exceeding ₹ 100 crore and more than 20 per cent of total provisions in each case wherein savings of ₹ 20,190.63 crore occurred.

Savings under revenue voted head of account exceeding ₹ 500 crore occurred in four grants/appropriation under grant numbers 6-Finance, 13-Farmers Welfare and Agriculture Development, 47- Technical Education Skill Development and 58-Expenditure on Relief on Account of Natural Calamities and Scarcity and savings under the revenue charged head of account exceeding ₹ 500 crore in one appropriation 25-Mineral Resources.

Similarly, savings under the capital voted head of account exceeding ₹ 500 crore occurred in six grants/appropriation under grant number 6-Finance, 20-Public Health Engineering, 22-Urban Development and Environment, 27-School Education (Primary Education), 30-Rural Development, 33-Tribal Welfare and savings under the capital charged head of account exceeding ₹ 500 crore in one appropriation Public Debt.

---

<sup>40</sup> Object Head 11- Salaries, 16- Salary Allowances-All India Services, 17- Salary and Allowances for Ministers and 18- Salary and Allowances for Governor, High Courts, Courts, Lokayukt, Tribunals, State Election and Information commissions etc.

Out of the above mentioned grants, savings (exceeding ₹ 500 crore) occurred in three cases involving two grants and one appropriation during 2016-17 also as detailed in **Table 2.2**.

**Table 2.2: Grants/Appropriation indicating savings**

Sl. No.	Grant No.	Name of the Grant	Savings (exceeding ₹ 500 crore)	
			2016-17	2017-18
1	P.D.	Public Debt (Capital Charged)	4,180.22 (45.91)	3,769.89 (39.49)
2	6	Finance (Revenue Voted)	2,352.81 (20.81)	3,115.23 (24.76)
3	13	Farmers Welfare and Agriculture Development (Revenue Voted)	1,113.97 (26.77)	3,199.77 (38.17)

(Source: Appropriation Accounts 2016-17 and 2017-18)

Note: Figures in bracket indicate percentage of savings out of total provision.

It was observed that savings under Public Debt (Capital Charged) occurred persistently during the period 2013-14 to 2017-18 ranging from 39 per cent to 50 per cent mainly due to 100 per cent savings amounting to ₹ 4,000 crore in two schemes<sup>41</sup>.

**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 Persistent savings

In 19 cases involving 16 grants and three appropriations it was noticed that there were persistent savings (₹ one crore and above and also more than 20 per cent of the total provision) ranging between ₹ 1.49 crore and ₹ 4,256.48 crore during the preceding five years, as detailed in **Appendix 2.4**.

### 2.2.4 Unutilised provisions under schemes

In 75 cases, the entire provision made under various schemes (₹ 10 crore or more in each case) aggregating to ₹ 8,408.46 crore remained unutilised as detailed in **Appendix 2.5**.

### 2.2.5 Unnecessary/excessive supplementary provisions

During 2017-18, in 24 cases, supplementary provisions amounting to ₹ 899.06 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 2.6**.

During 2017-18, in 29 cases, supplementary provisions amounting to ₹ 19,965.29 crore (₹ one crore or more in each case) proved excessive by ₹ 11,618.47 crore against the actual requirement of ₹ 8,346.82 crore as detailed in **Appendix 2.7**.

<sup>41</sup> 1. Ways and Means Advance (₹ 2,000 crore), 2. Advances for recoupment of shortfall (₹ 2,000 crore)

### 2.2.6 Excessive/unnecessary re-appropriation of funds

In 77 sub-heads involving 25 grants, where re-appropriation was ₹ one crore or more in each case, there were savings of ₹ 905.57 crore and excess of ₹ 597.08 crore indicating injudicious re-appropriation without assessing actual requirements (*Appendix 2.8*).

### 2.2.7 Substantial surrenders

During 2017-18 substantial surrenders (50 *per cent* or more of the total provision) amounting to ₹ 3,053.36 crore (77 *per cent* of total provision of ₹ 3,969.53 crore) were made in 123 sub-heads, which included 100 *per cent* surrenders in 22 schemes/programmes (₹ 448.20 crore). Details are given in *Appendix 2.9*. Such substantial surrenders indicated that either the budgeting was done without due prudence or that there were serious slippages in programme implementation.

### 2.2.8 Surrender in excess of actual savings

In four grants (₹ 10 lakh or more in each case) as against savings of ₹ 303.86 crore, the amount surrendered was ₹ 310.47 crore resulting in excess surrender of ₹ 6.61 crore during 2017-18 as detailed in *Appendix 2.10*. The surrender in excess of actual savings indicated that the departments did not exercise adequate budgetary controls by watching the flow of expenditure through monthly expenditure statements.

### 2.2.9 Anticipated savings not surrendered

Though savings of ₹ 4,098.35 crore (₹ one crore or more in each case) occurred in 33 cases of grants/appropriations, no part of it was surrendered by the spending departments. Details are given in *Appendix 2.11*.

Similarly, out of savings of ₹ 33,569.51 crore in 94 cases (savings of ₹ one crore and above in each case), an amount of ₹ 19,198.64 crore (57 *per cent*) was not surrendered (*Appendix 2.12*) which forms 56 *per cent* of total savings of ₹ 34,337.14 crore. This is indicative of inadequate financial control and resultant blocking of funds.

#### 2.2.9.1 Surrender orders not accepted by Accountant General

As per instructions (February 2012) of the State Government (i) all sanctions for re-appropriations/surrenders should be issued before the end of the financial year and should be received in Accountant General (A&E)'s office well in time for incorporation in the accounts, (ii) proper details of schemes should be furnished and total of sanctions should be correct (iii) provision in concerned heads should be available from which surrenders/re-appropriations are sanctioned.

Audit revealed that non-surrendered provision of ₹ 19,202.85 crore included 74 sanctions for surrender, which were issued by the Controlling Officers of 44 grants/appropriations in violation of State Government's instructions. As a result, surrenders of ₹ 5,571.93 crore during the year 2017-18 could not be accepted by the Accountant General (A&E) for inclusion in the accounts mainly due to sanctions issued after closure of the financial year 2017-18 and delayed receipt of sanctions in Accountant General office i.e. after closing and finalization of accounts (details are given in *Appendix 2.13*).

**Recommendation:** The Finance Department should ensure that sanction orders for surrenders by controlling officers are timely, complete and valid as stipulated under the guidelines.

### 2.2.10 Misclassification of expenditure

As per the Indian Government Accounting Standard-2 (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 of permanent character, or of reducing recurring liabilities.

However, during 2017-18, the State Government provided and booked minor construction works amounting to ₹ 79.05 crore under various capital heads instead of revenue heads. Expenditure on grants-in-aid amounting to ₹ 232.77 crore and other expenditure amounting to ₹ 636.72 crore (total ₹ 948.54 crore) has been incurred under capital section, whereas it should be expended as revenue expenditure. Details are given **Appendix 2.14**.

Similarly, expenditure of ₹ 319.10 crore and ₹ 13.68 crore (total ₹ 332.78 crore) were also booked under the head- 'Machinery' and 'Major Works' respectively under revenue section which were to be classified as capital expenditure. Details are given **Appendix 2.15**.

During the exit conference (April 2019), FD replied that, corrective action would be taken while preparing budget for finance year 2019-20.

### 2.2.11 Rush of expenditure

According to para 26.13 of the Madhya Pradesh Budget Manual (MPBM), rush of expenditure, particularly in the closing months of the financial year, will ordinarily be regarded as a financial irregularity.

It was observed that 100 *per cent* expenditure was incurred in 13 cases<sup>42</sup> of 10 grants/appropriations amounting to ₹ 2,948.76 crore during March 2018. Details are given in **Appendix 2.16**.

Further, it was also noticed that amount of ₹ 1,027.95 crore was withdrawn and transferred into PD accounts in March 2018. Therefore it is not possible to ascertain whether expenditure actually occurred for the purpose for which it was meant. The State Government may like to carry out a holistic review of all balances in PD accounts. Detailed para on PD account is at **Paragraphs 3.2.1, 3.2.2 and 3.2.3** of the Report.

**Recommendation:** The Finance Department should review the pattern of expenditure and take corrective measures to avoid rush of expenditure at the end of the financial year.

### 2.2.12 Drawal of funds and parking in Civil Deposit

As per the provisions of the Madhya Pradesh Treasury Code (MPTC) Part I Subsidiary Rule 284, no money should be drawn from the treasury unless it is required for immediate disbursement.

During 2017-18, a sum of ₹ 93.72 crore was drawn on 31 March 2018 and transferred to 8443-Civil Deposits-800-Other Deposits by showing the amounts as final expenditure under the relevant central schemes in the accounts, as

<sup>42</sup> Where expenditure during last quarter exceeded ₹ 10 crore.

shown in **Appendix 2.17**. Thus, funds were drawn in advance of requirement to avoid lapse of Central funds, which was contrary to the codal provision.

During the exit conference (April 2019), FD stated that, parking of funds in Civil Deposit had been discouraged. Transfer to Public Account from Consolidated Fund was done in exceptional cases and the particular case would be looked into.

### 2.3 Outcome of Review of Selected Grant

After voting on Demands for grants has been completed in the Legislative Assembly, an Appropriation Bill is introduced for appropriation out of the Consolidated Fund of the State for moneys required to meet (a) the grants made by the Assembly and (b) the expenditure charged on the Consolidated Fund. After the Governor's assent to the Bill, amounts shown in the Appropriation Act and schedules thereof become the sanctioned grants for expenditure under various Demands.

We reviewed (July-August 2018) the budgetary procedure and control over expenditure pertaining to Grant no. 53—Financial Assistance to Three Tier Panchayati Raj Institutions.

#### 2.3.1 Summarised position

The details of amount budgeted for, expenditure incurred and savings under Grant no. 53 during 2017-18 are summarised in **Table 2.3**.

**Table 2.3: Summarised Appropriation during 2017-18**

(₹ in crore)

Section	Original Budget	Supple- mentary Budget	Total Grant	Actual Budget Allotted to BCOs	Expenditure		Savings	
					As per BCOs	As per Appropri- ation Account	As per BCOs	As per Appropriation Account
Revenue (Voted)	24,968.71	6,436.69	31,405.40	31,216.48	28,795.53	28,792.44	2,420.95	2,612.96
Capital (Voted)	221.50	-	221.50	221.50	138.43	7.02	83.07	214.48
<b>Total</b>	<b>25,190.21</b>	<b>6,436.69</b>	<b>31,626.90</b>	<b>31,437.98</b>	<b>28,933.96</b>	<b>28,799.46</b>	<b>2,504.02</b>	<b>2,827.44</b>

(Source: Information received from BCOs and Appropriation Accounts 2017-18)

As can be seen from the above table that, under section Revenue (voted), original budget as approved by the legislature was ₹ 31,405.40 crore and actual budget allotted to Budget Controlling Officers (BCOs) by Finance Department (FD) was ₹ 31,216.48 crore. Thus, there was a short release of ₹ 188.92 crore under revenue (voted) to the BCOs from the actual budget approved by the legislature.

Further, the expenditure as reported by BCOs under section Revenue (voted) and Capital (Voted), was more by ₹ 3.09 crore and ₹ 131.41 crore respectively than depicted in the Appropriation Account which indicates, lack of responsibilities of BCOs/Drawing Disbursing Officers (DDOs) towards the regular reconciliation of the accounts with the Accountant General.

#### 2.3.2 Substantial Savings

We observed that in 30 schemes there were substantial savings of ₹ 2,193.25 crore where savings were ₹ 10 crore or more in each case, ranging from five to



100 per cent of the total grant/appropriation during 2017-18. The details are shown in **Appendix 2.18**.

Further, records relating to monitoring by BCOs such as records in the form of registers as per Madhya Pradesh Budget Manual (MPBM) Vol-1, in respect of expenditure incurred against budget allocation were not found/maintained at BCOs level. BCOs, however, stated that the on-line proposal for demand of budget was received from DDOs and to avoid savings under schemes, discussion with officers in charge was done and instructions were issued in this regard.

The fact remains that demand of budget and expenditure under schemes, were inefficiently monitored at BCOs level as a result there was substantial savings under the schemes.

### 2.3.3 Unutilised provisions in various schemes

In six cases the entire budget allotment made under various schemes aggregating to ₹ 72.20 crore remained unutilised. The details of unutilised provision in various schemes during 2017-18 are given in **Table 2.4**.

**Table 2.4: Details of unutilised provision in various schemes during 2017-18**

(₹ in crore)

Sl. No.	Name of Scheme	Total budget allotment	Expenditure	Amount of saving	Percentage
1	2501-02-7466-0703-V-42-009 (Neeranchal Project)	3.15	0	3.15	100
2	2216-03-198-5131-0102-V-42-009 (Mukhya Mantri Antyodaya Awas Yojna)	14.40	0	14.40	100
3	2216-03-198-5131-0103-V-42-009 (Mukhya Mantri Antyodaya Awas Yojna)	15.87	0	15.87	100
4	2515-00-198-0647-0701-V-42-007 (Gram Swaraj Abhiyan)	18.67	0	18.67	100
5	2515-00-198-0647-0702-V-42-009 (Gram Swaraj Abhiyan)	11.49	0	11.49	100
6	2515-00-198-0647-0703-V-42-009 (Gram Swaraj Abhiyan)	8.62	0	8.62	100
	<b>Total</b>	<b>72.20</b>		<b>72.20</b>	

(Source: Information furnished by the concerned BCOs)

On this being pointed out, BCOs (Development Commissioner and Directorate Panchayat Raj) stated that due to non-receiving of matching central share, non-allotment of target to districts under the scheme, releasing of grant directly to implementing agency and expenditure not incurred by the implementing agency against it, there was a saving under these schemes, which were surrendered at the end of the financial year.

The fact remains that schemes did not receive funding and the savings under the above schemes were not surrendered within the time limit i.e. before 15th January, as prescribed in budget manual.

### 2.3.4 Funds kept in Personal Deposit Account

Rule 6 of MPFC and Subsidiary Rule 284 of MPTC provide that withdrawal of funds from Consolidated Fund of the State without immediate requirement is totally prohibited. In view of transferring funds to Panchayats through

e-payment, FD granted (March 2015) permission for depositing funds in PD Account.

Audit found an amount of ₹ 538.56 crore of various schemes were drawn on 28<sup>th</sup> March 2018 and 31<sup>st</sup> March 2018, and kept in PD Account as detailed in **Appendix 2.19**.

Joint Director (Finance), Directorate Panchayat Raj stated (November 2018) that amount drawn of various schemes in PD Account with the prior permission of FD.

The fact remains that transfer of funds to PD Account in last week of financial year, inflated the expenditure for the year under the Consolidated Fund of the State and resultantly the fiscal deficit of the State.

### **2.3.5 Incorrect provision for supplementary/re-appropriation grant**

Expenditure relating to the National Rural Employment Guarantee Scheme (NREGS), was accounted for under the scheme head 2505-01-198-6923. During 2017-18, grant amounting to ₹ 600 crore of this scheme was re-appropriated (October 2017) to Pradhan Mantri Awaas Yojana (PMAY) and, an amount of ₹ 600 crore was provided to NREGS through Supplementary grant-II.

Further, the grant of ₹ 600 crore of NREGS, re-appropriated in PMAY, remained unutilised as the saving of ₹ 758.14 crore under PMAY, was more than the amount re-appropriated in it. Besides, a huge saving to the extent of ₹ 531.47 crore under NREGS, revealed that the provision for re-appropriation as well as supplementary grant in both of the schemes, was not called for.

On this being pointed out, BCO stated (July 2018) that there were savings due to non-releasing of central grant as per previous allocation in the NREGS.

Reply of BCO is not tenable because requirement for re-appropriation should take into account all facts likely to affect the expenditure.

### **2.3.6 Extra burden on Consolidated Fund of the State on account of payment of interest**

As per sanction issued (October 2017) by Ministry of Finance, GoI had sanctioned ₹ 1,17,078.50 lakh as 2<sup>nd</sup> installment of basic grant (2017-18) under XIV Finance Commission (FC). According to the letter, sanctioned amount should be released within 15 days from the date of issuance.

We, however, noticed that sanctioned amount was released with the delay ranging from three to nine days to Gram Panchayats by the BCOs. As a result there was an extra burden of ₹ 64.38 lakh on Consolidated Fund of the State on account of payment of interest in January 2019 to Gram Panchayats (GPs).

Joint Director (Finance), Directorate Panchayat Raj stated (November 2018) that delay of release of amount was due to delay in integration of online payment of gateway National Payment Corporation of India (NPCI) with bank accounts of some Gram Panchayats.

The fact remains that, payment of interest on account of delay in releasing of XIV FC grant to GPs despite the prior provision of XIV FC grant in State budget was an extra burden on Consolidated Fund of the State.

### **2.3.7 Budget provision against performance grant not surrendered**

Against budget provision of ₹ 2,642.40 crore (General Basic Grant ₹ 2,341.57 crore, Performance Grant ₹ 300.83 crore) under XIV FC grants, Performance Grant was not received from GoI. However, Directorate, Panchayati Raj, drew ₹ 300.83 crore (31<sup>st</sup> March 2018) against the budget provision for XIV FC grants from state budget and deposited it into Personal Deposit (PD) Account after availing permission from Finance Department (31<sup>st</sup> March 2018).

The fact remains that, performance grant was not released by GoI and the amount of ₹ 300.83 crore drawn against budget provision which is kept in PD account.

