



**European Union**  
*State Partnership Programme*  
**Chhattisgarh**



Assisted by: **gtz** - International Services

**FINAL REPORT**  
**ON**  
**Public Financial Management System**  
**Chhattisgarh**  
**December 2010**  
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# FINAL REPORT ON PUBLIC FINANCIAL MANAGEMENT SYSTEM, CHHATTISGARH

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## **List of Abbreviations**

DIF	-	Directorate of Institutional Finance
DPI	-	Directorate of Public Instructions
EC-SPP	-	European Commission- State Partnership Program
FRBM	-	Fiscal Responsibility and Budget Management Act
GAAP	-	Generally Accepted Accounting Practice
GAR	-	General Accounting Rules
GDP	-	Gross Domestic Product
GoC	-	Government of Chhattisgarh
MEP	-	Monthly Expenditure Plan
MES	-	Monthly Expenditure Statement
MTFP	-	Mid Term Fiscal Policy
NRHM	-	National Rural Health Mission
PETS	-	Public Expenditure Tracking System
PFMS	-	Public Financial Management System
PIP	-	Project Implementation Plan
QEA	-	Quarterly Expenditure Allocation
SCERT	-	State Council of Educational Research & Training

# EXECUTIVE SUMMARY

## **Study Background**

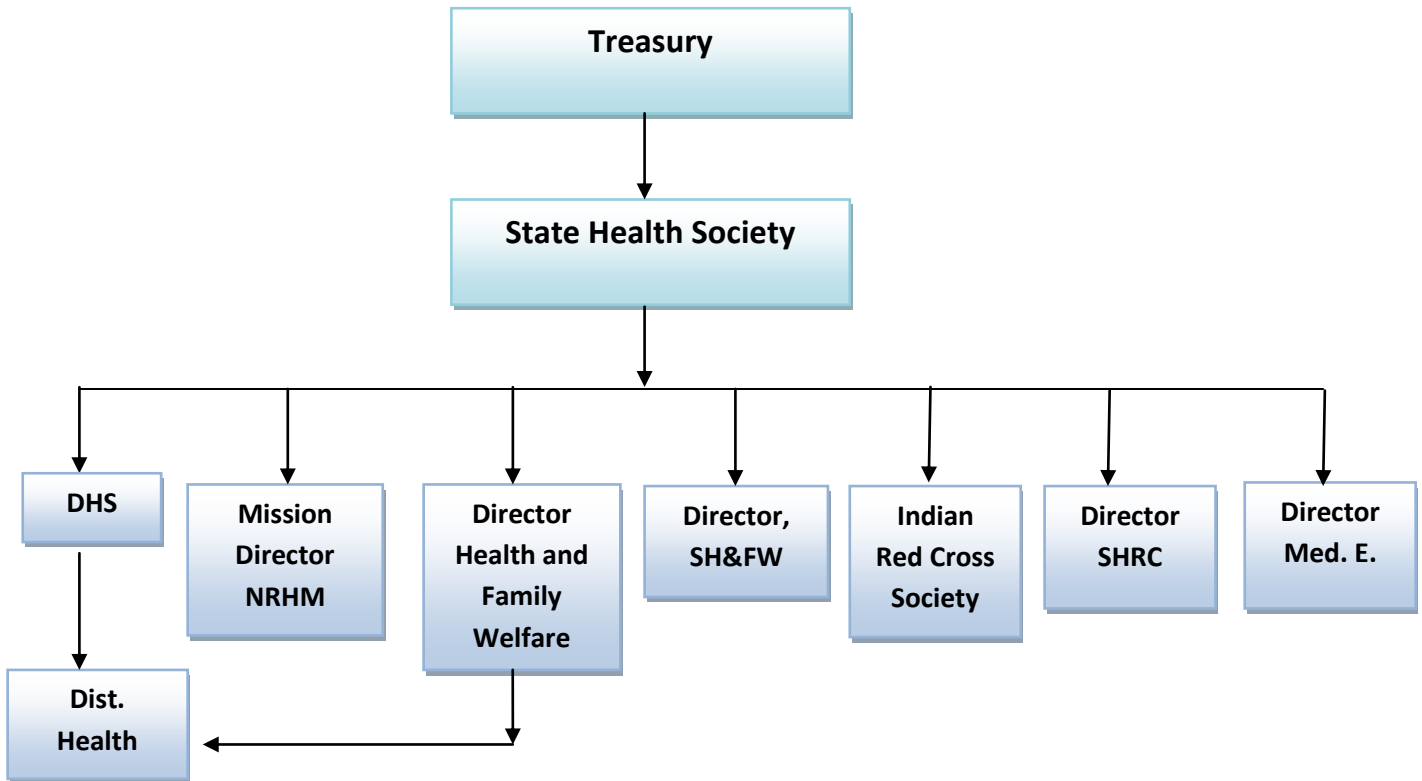
The Medium Term Review Mission of the European Commission State Partnership Program recommended, inter-alia, that there is a need for strengthening monitoring & evaluation system for tracking physical and financial progress of the line departments concerned responsible for the implementation of the State Partnership Program. Accordingly, a public financial management system study has been commissioned by GTZ IS in consultation with the Department of Finance, Government of Chhattisgarh.

The overall objective of the public financial management system study is to help the Directorate of Institutional Finance of the Government of Chhattisgarh to identify gaps and weaknesses in expenditure tracking for health and education sectors, and help to move towards output budgets in the medium term. The study covers public expenditure reporting issues, for the health and education sectors. However, the study is not an audit or investigation but an evaluation of existing public expenditure reporting system of Health & Family Welfare and School Education Departments of the Government of Chhattisgarh, identification of areas of improvement, and envisioning an improved and strengthened system.

## **Health & Family Welfare Department**

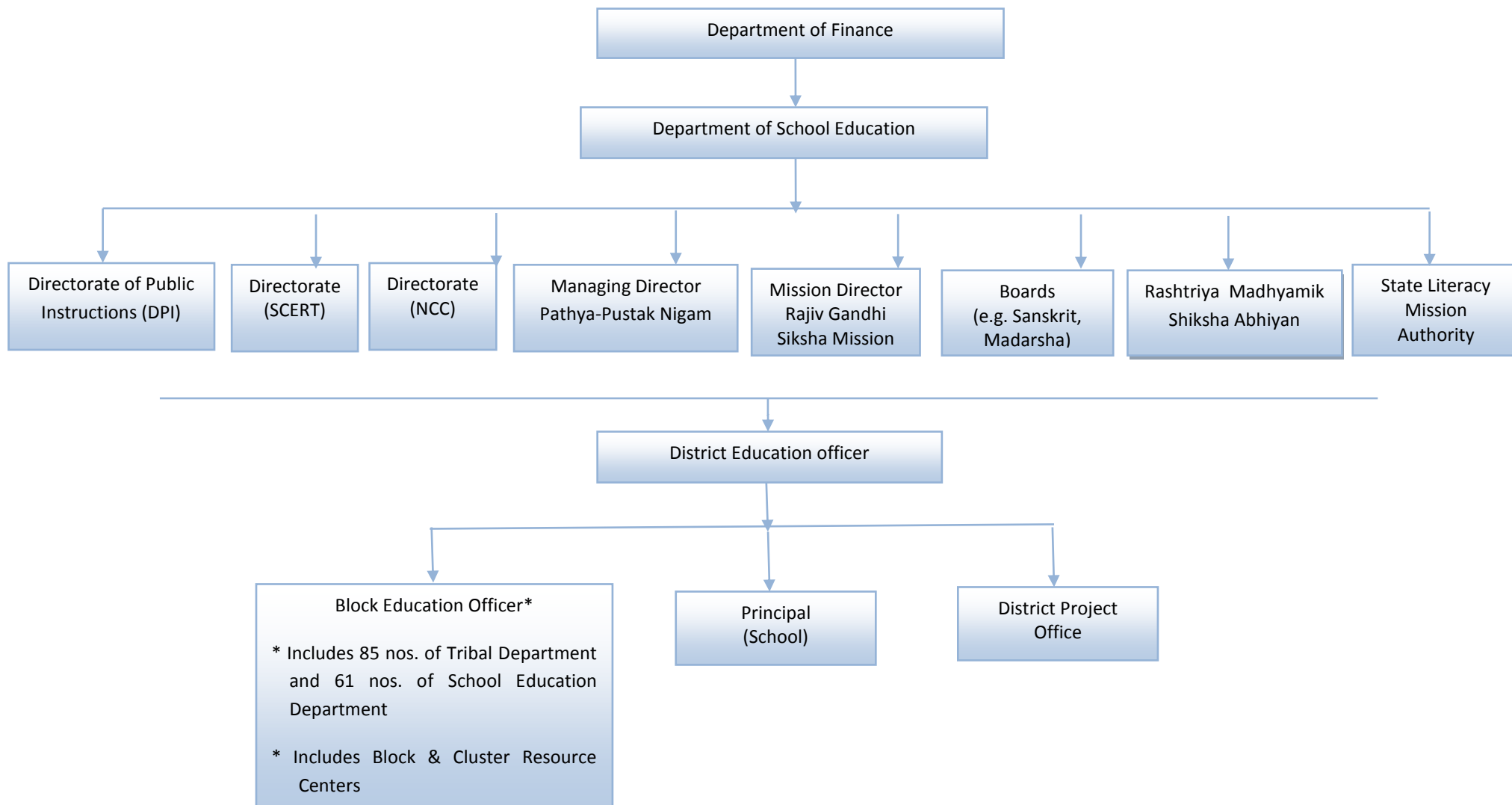
The Government of Chhattisgarh (GoC) is committed to achieve the level of mental, physical and social well-being of its citizens through empowerment of local communities, framing of equity and gender sensitive policies, reduction of poverty and provision of comprehensive health services. To fulfill the vision, the Department is carrying out a number of programs sponsored by the Central Government, the State Government and international donor agencies.

The flow of funds under EC SPP to the spending units is depicted in the diagram below.



### School Education Department

GoC has formulated and adopted a comprehensive policy on education providing for all round development of the personality of the student population. The responsibility for education at the elementary and secondary level lies with the School Education Department. However, a part of this responsibility is also shared by the Tribal, Scheduled Caste & Backward Classes Welfare Department. The flow of funds under EC SPP to the spending units is depicted in the diagram on the next page.



## **Directorate of Finance**

Directorate of Institutional Finance (DIF) is a Directorate under Department of Finance. It is headed by a Director. DIF is basically entrusted with responsibilities relating to coordination of procurement of institutional finance for all externally aided projects of the State Government. It also coordinates with various Government Departments, Corporations, Boards, Financial Institutions, Reserve Bank of India, and Government of India in the matter relating to institutional finance and implementation of Government sponsored programs.

## **Resource Disbursement**

After the funds for expenditure are estimated and approved, the important features of public expenditure are:

- Spending agencies should be provided in a timely manner with the funds needed to implement the budget;
- Spending agencies should plan and develop capability to spend the money received economically, effectively and efficiently.
- The expenditure should be within the budgeted allotment and meet the targeted physical outcome.

From the past trends it is observed that both the revenues and expenditures are significantly lower in the first half of the financial year than in the second half.

Allotment provided through budget appropriation is used by the Departments as per delegation of financial power. However, for allotments which cannot be used by the department without prior consent of the Department of Finance, time taken to release the money is fairly long, stretching at times to beyond three months. The Treasury issues cheque to different drawing agencies of the State Government and time frame for transfer of money is within reasonable limits.



## **Budget Execution**

It is observed that there are some spending units which failed to spend the money allocated under the budget on a timely basis.

A common explanation of the slow progress is the delay in disbursement of funds from the allocation of the Central Government. Another factor contributing to it is the requirement of the approval of the Department of Finance for the line departments on spending beyond specified limits. Besides, lack of appropriate staff in terms of quality & number to execute the project also results in under-spending. In addition, involvement of multiple departments in execution of projects lead to delayed progress. Further, at times, seasonality of the nature of work causes non-fulfillment of the target.

## **Impact of Expenditures**

The expenditures incurred have resulted in considerable progress in the State in school education and health sectors. However, the predominant part of expenditure, especially for school education is on revenue account with inadequate provision for renovation and up-gradation of existing capital assets or their replacement. Besides, there are instances of under-utilization and diversion of funds as well as instances of irregular expenditure. Hence, the impact of expenditure has been mixed.

## **Findings**

The findings that emerged from the present study are broadly categorized into:

- A. System & Procedural Issues
- B. Transactional Issues
- C. Institutional Issues
- D. Capacity Related Issues

## **System & Procedural Issues**

### **Expenditure Recording**

- Cash outflow or disbursement is accounted for as expenditure and reconciliation of advances with actual expenditure supported by proper vouchers is lacking at the spending unit level.
- Considerable delay in submission of Monthly Expenditure Statement (MES) to the Department concerned as obtaining the expenditure information from the block level to the district level is a fairly protracted exercise, presumably because of multiplicity of spending units and lack of trained manpower. Also, on an average, 35 to 40 columns in the MES format become inhibiting factor in preparing the statement within a reasonable time limit. Delayed submission of MES at the Department level impacts the departmental review of the MES in terms of its correctness and authenticity of expenditure. The format of monthly expenditure statement may be reviewed by the Finance Department to examine the feasibility of streamlining and simplifying it in terms of number of columns that the statement presently has and that are required to be filled in.
- Submission of utilization certificate by the spending units for expenditure made out of funds received is found to be irregular. Delayed submission of utilization certificate leads to delayed release of funds to the spending units when the condition for release of subsequent tranche of money is contingent on submission of utilization certificate.
- Reporting of physical outcome of an approved expenditure is generally found to be only in absolute number without reference to target; and no measurable physical indicators of actual achievement are mentioned. At times, expenditure reports do not even contain any information on physical outcome and reasons for variation from target. Hence, co-relation between financial and physical progress and assessment of achievement in physical terms is difficult. The executing departments should look into the matter of determination of meaningful physical outcome indicators for appropriate way of reporting physical achievements and linking financial and physical progress.

## **Transactional Issues**

### **Responsibility with Multiple Units**

- Multiplicity of spending units causes cumbersomeness in coordination and more so when an activity is shared by two departments. Especially, multiple departments like School Education and Tribal Welfare are involved in executing a common program as in case of EC-SPP for education. To avoid complication in coordination and financial tracking the funds may be separately allocated to each department for their respective tasks instead of allocating the full fund to the School Education Department which then passes a part of the funds on to the Tribal Welfare Department.
- If there are mismatches between the State Budget and the Program Implementation Plan of the sponsoring agency, approval for re-appropriation of budget is a lengthy, time-consuming process and delays the release of fund to the spending unit. To bring symmetry between state budgetary provision and PIP for EC-SPP, preparation and approval of PIP should follow the same timeline as applicable to state budget exercise.

## **Institutional Issues**

### **Monitoring**

- Evaluation function at the Department is primarily restricted to desk level. There are no periodical routine or schedule of monitoring of programs at the field/site level through field visit or inspection on sample basis and interaction with the stakeholders and intended beneficiaries of the programs. Consequently, the ground realities remain limited to the contents of the expenditure reports and unchecked by an independent evaluator.

## **Capacity Related Issues**

### **Manpower**

Observance of systems and procedures largely depend on in-house capacity. It is observed that at the spending unit level, particularly the district and block, there is shortage of skilled and trained manpower. Besides, the same set of people are engaged in a number of

programs/schemes and activities. Therefore, the priority and the desired level of delivery that expenditure tracking and reporting deserve could not be attained.

### **Information Technology**

Though many of the spending units have computerized work systems, there are others which are working in manual or semi-manual environment. This affects speed and accuracy and has bearing on expenditure reporting in terms of timeliness and accuracy.

### **Recommendations**

Recommendations have been developed to address the four issues - System &Procedural, Transactional, Institutional, and Capacity Building.

To avoid uneven pattern of expenditure, back-loading a large part of the expenditure, rushing of expenditure in March and concluding with sums of unspent budget provision at the year end, there is an urgent need for a paradigm shift in the existing public expenditure management system. In this context, **Cash Management System** may be introduced on the line of modified exchequer control based expenditure management and restrictions on expenditure during the last quarter of the financial year which has been successfully implemented in the Ministries of Government of India.

There is lack of understanding and clarity at the spending unit level on accounting and recording of expenditure, which form the backbone of expenditure tracking and reporting.

To overcome this issue, it is suggested that the Departments should provide a **guideline** in simple and understandable format to all the spending units under their respective administrative control.

Considering the possible factors inhibiting timely preparation and submission of expenditure report, such as inadequate trained manpower, long forms, multiple reporting formats to be filled, etc., it is suggested that a **simple uniform reporting statement for expenditure** may be followed. It is also suggested that with the quarterly expenditure report the spending units should **mandatorily submit the utilization certificate** till date.

Determination of physical outcome indicators for different programs is found to be, by and large, in accordance with accepted criteria. The real issue lies in not reporting or vague reporting (e.g. only in absolute number without indication of target achieved or in comparison with the target) of the physical outcome by the spending units. It is therefore suggested that physical outcome reporting should follow the mode of indicators, as appropriate to the relevant activity of the program. In this context, it may be mentioned that the physical indicators being used under Sarva Shiksha Abhiyan and National Rural Health Mission could be adapted for physical progress reporting of activities under different programs in the health and education sectors in the State

The prime responsibility of monitoring publicly funded programs/schemes lies on the line department entrusted with the execution of the program. However, as stated earlier, monitoring of the programs at the ground level by the department headquarters is found to be severely inadequate both for School Education and Health & Family Welfare Departments. At the same time, DIF, which has an overall responsibility of tracking and reporting Central Government and donor funded programs, cannot totally shy away from ground level monitoring duty. Presently DIF neither has sufficient staff nor the system to undertake ground level monitoring exercise.

Considering the capability constraints of the line departments, it is suggested that **independent evaluators could be deployed by the departments** to inspect the program sites and carry out ground level monitoring on sample basis. Besides, a **Monitoring & Inspection Unit could be set up at the DIF** by recruiting suitable staff and training them to carry out the site monitoring exercises on sample basis of all programs and schemes for which DIF has overall responsibility role.

Further to monitoring exercise as described hereinabove, GoC could consider to have Public Expenditure Tracking Survey (PETS) on sample basis. PETS is 'following the money' from where it is disbursed to end users such as schools and primary health centers. PETS track the flow of resources through the various levels of government to see how much of the allocated resources reach each level and ultimately reaches the end user.

Apart from PETS, another alternative that could be considered is **Performance Evaluation**, which aims to assess the performance of selective publicly funded programs. One of the more

analytically robust and powerful instrument to evaluate performance of the spending units draws on a private sector practice of soliciting feedback from citizens and compiling “report cards”. The methodology involves administration of a survey of intended clientele of the selected program to determine quality of, access to and satisfaction with the targeted services expected from the program.

### **Capacity Building Measures**

Capacity building is not only about skill development. It is also about the development of frameworks, work cultures, policies, systems and processes – all aspects of an organization that facilitate good performance. However, for the purpose of the present study, the issue of capacity building is restricted to systems and processes. The suggestions include –

- Proper guidance at the spending unit level through documentation in check list format of heads of account (with explanatory notes); basis and procedure of recording of expenditure (with illustrative examples); and routine exercises such as settlement of advance payments
- Develop the requisite skills, acquire knowledge, implement and sustain change of the personnel of the spending units through intensive training.
- Computerize the record keeping at all spending units to make public financial expenditure reporting to be fully effective and timely.
- Recruit personnel with minimum eligibility criteria in terms of educational qualification and experience as suitable for recording and reporting of public expenditure on contractual basis for the spending units.

### **Suggested Implementation Plan**

To implement the public expenditure tracking and reporting system meaningfully, a time frame of 5 years is envisaged. This period is segregated into short term (6 months to 1 year), medium term (1 year to 3 year), and long term (3 year to 5 year). A suggested time frame for implementation of the recommendations is presented below.

## Suggested Implementation Time Plan

SERIAL NO.	AGENDA	SHORT TERM	MEDIUM TERM	LONG TERM
1	Guidelines to Spending Units	x		
2	Determination of Core Indicators for Physical Outcome	x		
3	Expenditure Reporting Format	x		
4	Training	x	x	
5	Monitoring Unit	x	x	
6	Utilization Certificate	x		
7	Recording Procedures	x	x	
8	Public Expenditure Tracking System		x	x
9	Performance Evaluation			x
10	IT Development and Application	x	x	
11	Augmentation of Human Resources	x	x	
12	Cash Management System	x	x	x

# **Part I**

## **Introduction and Sector Overview**



# CHAPTER 1

## Background of the Study

### Background

- 1.1 The overall objective of the State Partnership Program between the European Commission and the State of Chhattisgarh is to achieve a 'more equitable delivery of and access to quality health and education services as well as improved forest-based tribal livelihood through governance and institutional reform and capacity development on state and decentralized levels'. The core to achieving this goal is effective governance.
- 1.2 During the Medium Term Review of the State Partnership Program, it was observed that public financial management is an essential part of the governance process. Public financial management includes resource mobilization, prioritization of programs, the budgetary process, efficient management of resources and exercising controls.
- 1.3 The Medium Term Review Mission recommended, inter-alia, that there is a need for strengthening monitoring & evaluation system for tracking physical and financial progress of the line departments concerned responsible for the implementation of the State Partnership Program. Accordingly, a public financial management system study has been commissioned by GTZ IS in consultation with the Department of Finance, Government of Chhattisgarh.

### Study Objective

- 1.4 The overall objective of the public financial management system study is to help the Directorate of Institutional Finance of the Government of Chhattisgarh to identify gaps and weaknesses in expenditure tracking for health and education sectors, and help to move towards output budgets in the medium term.

## **Study Scope**

- 1.5 The study covers donor funded and government funded schemes and programs of the Health & Family Welfare and School Education Departments of the Government of Chhattisgarh. The study covers public expenditure reporting issues, for the health and education sectors. The health and education sectors cover all spending by the respective departments and their dependent institutions, all local administrations (i.e. districts) expenditure on health and education related interventions, and all health and education related donor projects funded or implemented through the State Government. However, the exercise does not cover out of pocket expenditure by households or expenditures by private entities.

It may be underlined that this study is not an audit or investigation but an evaluation of existing public expenditure reporting system of Health & Family Welfare and School Education Departments of the Government of Chhattisgarh, identification of areas of improvement, and envisioning an improved and strengthened system.

- 1.6 Issues include:

### **Analysis of past and current situation:**

- Comparison of stated policy objectives and expenditure allocations
- Procedure for collection, analysis and reporting of financial information
- Approved budgets vs. actual disbursements and actual expenditures
- Impact of expenditures (outputs) vs. stated policy objectives
- Financial Reporting System
- Sector institutional framework – suitability and efficiency; implications for public expenditure and capacity building needs

### **Forward-looking analysis:**

- Accuracy and implementability of projections for future spending based on likely resource allocations

- Modeling of financial management reporting system of public expenditure for health and education
- Recommendations on adapting financial management reporting system in order to ensure accuracy, timeliness, materiality and consistency
- Training needs for government officials in adapting accurate, timely, complete, reliable and consistent information from field and related agencies and providing adequate financial management reporting for review and decision-making

### **Focus of Present Study**

- 1.7 For the purpose of this Study, the central focus is on tracking of public expenditure for Health & Family Welfare and School Education Departments. In other words, to facilitate effective and efficient use of funds approved under the budget and released, a streamlined system of proper recording and authentic reporting of expenditure on timely basis at regular intervals (say, monthly or quarterly, as appropriate) is the central theme of the present study.
- 1.8 In addition, to facilitate the implementation of the public expenditure tracking system, capacity constraints and measures for capacity building form a part of this study.
- 1.9 The exercise is built on existing work and analysis, including any public financial management study previously carried out, wherever possible; and consultations were held with different departments and institutions of the State Government's health, school education and finance; as well as donors and end-users.
- 1.10 For the purpose of this study, it is necessary to understand the Government Budgeting Process and Public Financial Management System in general. Accordingly, both these aspects have been briefly discussed in **Appendix 1.1 and Appendix 1.2.**

## **Report Structure**

1.11 This Report is structured in five parts:

Part I – Introduction and Sector Overview

Part II – Analysis of Public Expenditure in the Health and Education Sectors

Part III – Findings and Recommendations

Part IV - Capacity Building Needs of the Institutional Finance, Health and Education Sectors

Part V – Suggested Implementation Plan

## **Government Budgeting Process: An Overview**

Traditionally, government financial management in India has been viewed as a process that enabled central agencies like the Department of Finance to keep “spending units under control through continuous review and specification of inputs and verification of documents, submitted for payment. As an extension of this approach, government financial management was considered as being restricted to budget implementation, administration of payment systems, accounting and reporting in the states of funds received and spent.”<sup>1</sup>

The basic framework of the financial management system in India is provided in the Constitution. This has been elaborated further through Legislations and Rules.

The Constitution of India provides that in respect of every financial year, a statement of the estimated receipts and expenditure of the Government of any State for that year is to be laid down before both the houses of the State Legislature. This is referred to as the “annual financial statement” of the concerned State Government (Article 202). To meet such expenditure, appropriations have to be made out of the Consolidated Fund of the respective States in the manner provided in the Constitution (Articles 203 to 207 and 209). Provisions contained in Chapter I, Part XII of the Constitution of India necessitate the maintenance of government accounts in three parts with regard to receipts – (1) the Consolidated Fund of the States, (2) the Public Account of the States and (3) the Contingency Fund of the States (Articles 266 and 267).

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<sup>1</sup>Premchand (2005), Controlling Government Spending, the Ethos, Ethics, and Economics of Expenditure Management, Oxford, p.5

**APPENDIX – 1.1 (Contd.)**  
**(Refer Para 1.10)**

Based on the Constitutional provisions and provisions contained in the General Financial Rules (GFR), General Accounting Rules (GAR), Budget Manual (in the States), a statement of estimated annual receipts and expenditure (Annual Financial Statement), commonly known as the Budget, is prepared by the State Government and presented to its Legislature. In this statement, the sums required to meet the expenditure charged upon the Consolidated Fund of the State and the sums required to meet other expenditure proposed to be met from the Fund are shown separately. Further, the expenditure on revenue accounts is distinguished from other expenditure (Articles 112 & 202 of the Constitution). As stated earlier, the Annual Financial Statement shows the receipts and expenditure of Government in three separate parts under which Government accounts are maintained viz. (i) Consolidated Fund of the State<sup>2</sup> (ii) Contingency Fund of the State<sup>3</sup> and (iii) the Public Accounts<sup>4</sup>.

The part of the estimates pertaining to expenditure charged upon the Consolidated Fund is not submitted to the vote of the Legislature (although it is open to discussion in the Legislature). The part of the estimate which is concerned with other expenditures is submitted to the Legislature in the form of Demands for Grants on the recommendation of the Governor of the State. Normally, a separate Demand is presented for each Department or the major services under the control of a Department. The number of Demands for Grants and their coverage is decided by the Department of Finance. Each Demand generally includes the total provisions required for a service, that is, provisions on account of revenue expenditure, capital expenditure, and also loans and advances relating to that service. The estimated expenditure

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<sup>2</sup> Consolidated Fund consists of all revenues received by the Government, loans raised by the Government and receipts in terms of recoveries of loans granted by it. All expenditures incurred from this fund are with prior authorization.

<sup>3</sup> Contingency Fund is used by the Government under unforeseen circumstances but the incurred expenditure has to be authorized by the Legislature ex-post.

<sup>4</sup> Public Accounts maintain deposits, reserve funds, remittances and so on, which are not part of Consolidated Fund and from which the Government can spend without approval of the Legislature.

**APPENDIX – 1.1(Contd.)**  
**(Refer Para 1.10)**

included in the Demands for Grants are for gross amounts. The receipts and recoveries taken in reduction of expenditure are shown by way of footnotes.

After the Demands have been passed by the Legislature, an Appropriation Bill is introduced to provide for the appropriation out of the Consolidated Fund of the State for all moneys required to meet:

- a. The Grants made by the Legislature, and
- b. The expenditure charged on the Consolidated Fund, but not exceeding in any case the amount shown in the statement previously laid before the Legislature. (This charged expenditure is referred to as Appropriation).

No money can be withdrawn from the Consolidated Fund until this Bill is passed by the Legislature. Once this Bill is passed, it becomes the Appropriation Act. The sums authorized in the Appropriation Act are intended to cover all the charges including the liability of past years to be paid during a financial year or to be adjusted in the accounts of that year. Any unspent balance lapses and is not available for utilization in the following year.

Within the amount of each Grant or Appropriation as shown in the schedule to the Appropriation Act, all allotments and re-appropriations within sub-heads and sub-divisions of sub-heads may be sanctioned by the Government or by such subordinate authorities as are duly authorized to do so. This is, however, subject to the limitation that any expenditure not falling within the scope or intention of a Grant may not be authorized from funds provided under that Grant. Any allotment or re-appropriation may be authorized at any time before, but not after the expiry of the financial year to which such Grant or Appropriation relates. Generally, re-appropriations from one Grant or Appropriation to another Grant or Appropriation are not permissible.

**APPENDIX – 1.1(Contd.)**  
**(Refer Para 1.10)**

Commonly, line item budget system is followed in India. It is defined as “the budget in which the individual financial statement items are grouped by cost centers or departments. It shows the comparison between the financial data for the past accounting or budgeting period’s and estimated figures for the current or a future period”

In line item budget system, expenditures for the budgeted period are listed according to objects of expenditure, termed as “line-items.” These line items include detailed ceilings on the amount an unit would spend on salaries, travelling allowances, office expenses, etc. The focus is on ensuring that the agencies or units do not exceed the ceilings prescribed. A central authority or the Department of Finance keeps a watch on the spending of various units to ensure that the ceilings are not violated.

The line item budget approach facilitates centralized control and fixing of authority and responsibility of the spending units. Its major disadvantage is that it does not provide enough information to the top levels about the activities and achievements of individual units.

In line item budget system, the linkages of budget outlays with productivity of public expenditure and delivery of public services generally remain nebulous. In line item budgeting, the major focus is on ensuring that agencies do not exceed the specified allocation. Financial compliance is sought to be achieved in this system through a detailed budgetary specification of inputs and to achieve this, detailed procedures are designed for expenditure control. The budgeting system at the State level in India continues to be conventional and input based. In other words, budgeting is the process of estimating the availability of resources and then allocating them to various activities according to a pre-determined priority. Sanction of a budget means the approval to various spending units to utilize the allocated resources.



## **Public Financial Management System**

### **Reform Initiatives**

To overcome the weaknesses of conventional government financial management system and to introduce improved systems, the last decade has witnessed large scale reforms in the public finance management systems in India.

### **Fiscal Responsibility and Budget Management Act**

As part of this reform exercise, legislation has been enacted at the national and sub-national levels to ensure prudence in fiscal management and fiscal stability by progressive elimination of revenue deficit, reduction in fiscal deficit, prudent debt management consistent with fiscal responsibility, greater transparency in fiscal operations of the Government and conduct of fiscal policy in a medium term framework. The Government of Chhattisgarh enacted such law – Fiscal Responsibility and Budget Management Act (FRBM) in 2005.

After the adoption of FRBM, the Government started presenting fiscal policy strategy documents and projected major fiscal indicators in the medium term. This has provided better understanding of Government fiscal policies relating to revenue generation and expenditure prioritization. The budget documents also contain relevant information on macro-economic forecasts, fiscal deficit indicators, deficit financing sources, Government borrowings and debt stock, prior year budget out-turns, and outlines of new tax policies and fiscal data. The extent of unreported Government operations is limited and the financial operations of extra-budgetary funds are reported in the budget. However, these are not accounted for in the estimation of the fiscal deficit.

**APPENDIX – 1.2 (Contd.)**  
**(Refer Para 1.10)**

The enactment of the FRBM Act and stipulation of presenting a Medium Term Fiscal Policy (MTFP) along with the budget brought back the issues once again into the budgeting system. However, while the MTFP mandates presentation of three year rolling targets relating to major fiscal indicators such as revenue deficit, fiscal deficit, tax revenue and outstanding liabilities as percent to Gross Domestic Product (GDP), a detailed medium term expenditure framework for various sectors is not worked out by projecting expenditure implications of programs undertaken for outward years. The budgeting thus remains strictly annual without a multi-year perspective relating to expenditure commitments of various sectors.

Thus, the economic planning and budget differ in their scope and time span. While plans provide a conceptual framework by focusing on various sectors in the economy, the budget is more concerned with systems of control over the use of funds by Government and pays more attention to financial aspects. It is not uncommon to initiate major projects and schemes which are not provided for in the plan. Further, in the context of current budgetary practice, the link between the plan and the budget is weak. In the process of budget preparation the plan allocations are dispersed over various heads and sub-heads of expenditure; while the debt information including both from external and internal sources are regularly reported by the Government.

**Expenditure Commitment Control**

Also, the expenditure commitment controls need to be more effective. The Appropriation Act, meant for authorizing withdrawals from the Consolidated Fund for incurring expenditure based on the approved budget estimates, do not distinguish between commitment and expenditures. The budget preparation exercises faults on overlooking expenditure arrears as there is no provision in the budget for the ensuing year to discharge the expenditure arrears of the

previous year(s). The statutory requirements for budget implementation focus exclusively on controlling expenditures with respect to budget appropriations. The cash management system is not integrated with control over commitments. Lack of an effective cash management mechanism in the Line Departments is a stumbling block to implement commitment control system. The expenditure ceiling, which is communicated to the Departments at the pre-budget formulation stage by the Department of Finance, mostly relate to the line item control. There is no instrument to assist and guide the Head of the Line Departments or controlling officers to know that sufficient unencumbered funds are available at the time of entering into obligations.

### **Outcome Budget**

Good public financial management constitutes collection of sufficient resources from the economy in an appropriate manner along with allocating and use of these resources efficiently and effectively. Public Financial Management System (PFMS) basically deals with all aspects of resource mobilization and expenditure management in Government. The essential components of PFMS are resource generation, resource allocation and expenditure management (resource utilization). Initially the term 'public financial management' was defined quite narrowly and was confined to budgeting, accounting, monitoring and evaluation. But, it is now widely accepted that it includes taxation and other resource mobilization, debt and cash management, budgetary process, accounting systems, information systems and internal and external audit. In other words, PFMS includes resource mobilization, prioritization of programs, the budgetary process, efficient management of resources, and exercising controls.

**APPENDIX – 1.2 (Contd.)**  
**(Refer Para 1.10)**

Thus, PFMS entails:

- a) Improving the collection of revenue through properly resourced and motivated revenue services to collect tax more efficiently.
- b) Efficient management of debt and cash, especially, proper management of the government's borrowing program to reduce the cost of funding.
- c) Effective planning and allocation of resources by institutionalizing planning processes at all levels of government; following transparent and inclusive budgeting process; focusing on outputs rather than on mere expenditure and related inputs, with strong accounting and reporting procedures.
- d) Effective oversight and monitoring with clear rules on transparency and reporting, as well as enforceable sanctions for failure.

## **CHAPTER 2**

### **Institutional Structure**

#### **Health & Family Welfare Department**

##### **Vision**

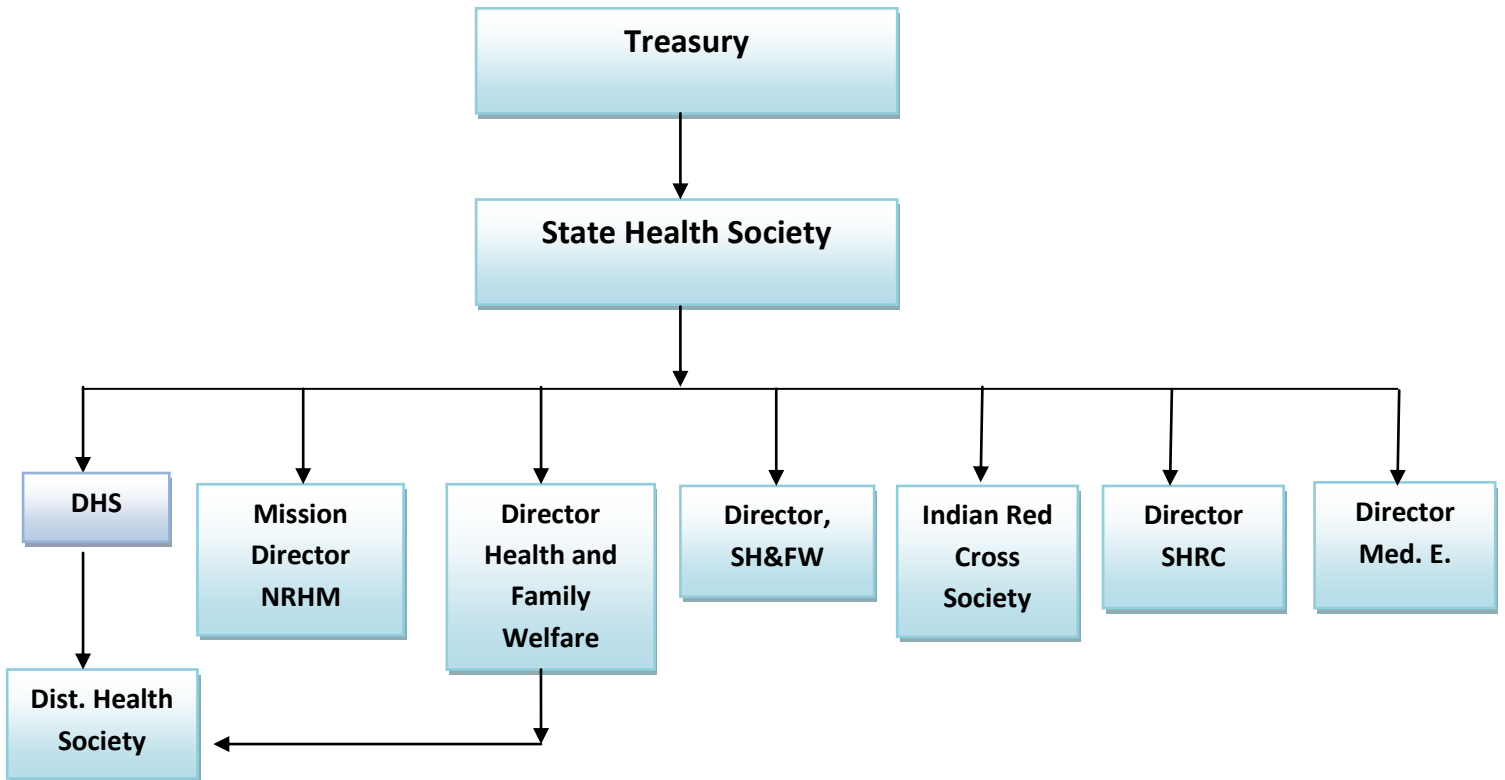
- 2.1 The Government of Chhattisgarh (GoC) is committed to achieve the level of mental, physical and social well-being of its citizens through empowerment of local communities, framing of equity and gender sensitive policies, reduction of poverty and provision of comprehensive health services.
- 2.2 The mandate for carrying the vision and goal of the health sector bestows on the Health & Family Welfare Department of GoC. To fulfill the vision, the Department is carrying out a number of programs sponsored by the Central Government, the State Government and international donor agencies.

##### **Organization**

- 2.3 The Health Minister is in charge of the Department, which for administrative, operation and policy related matters is headed by the Secretary and supported by the Commissioner of Health Services.
- 2.4 The Department is segregated into four Directorates – (i) Directorate of Health Services, (ii) Directorate of Family Welfare, (iii) Directorate of Medical Education and (iv) Directorate of Ayush.
- 2.5 Besides, the Mission Directorate of National Rural Health Mission (NRHM) within the Department is responsible for NRHM programs / schemes. In addition, there is State Health Society separately registered and District Health Societies, also separately registered. Further, there are village and sanitation committees in different villages.

## Flow of Funds

2.6 The flow of funds under EC SPP to the spending units is depicted in the diagram below.



## **School Education Department**

### **Goal**

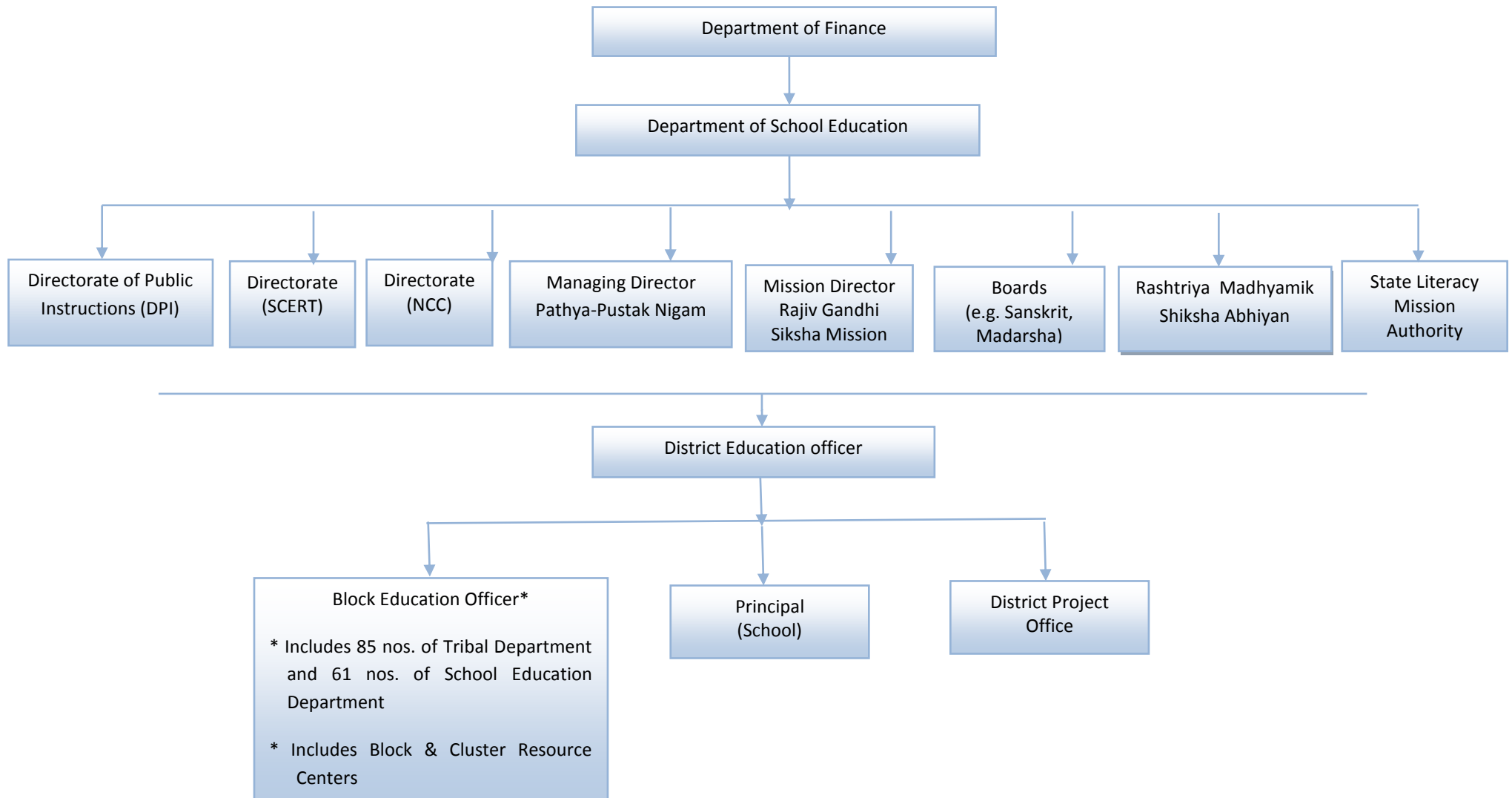
- 2.7 GoC has formulated and adopted a comprehensive policy on education providing for all round development of the personality of the student population. The responsibility for education at the elementary and secondary level lies with the School Education Department. However, a part of this responsibility is also shared by the Tribal, Scheduled Caste & Backward Classes Welfare Department.

### **Organization**

- 2.8 The Department is in overall charge of the Minister for School Education. The Secretary of the Department is responsible for administrative, operation and policy related matters.
- 2.9 The Department has three Directors, viz., Director of Public Instruction, Director of State Educational Research & Training, and Director of National Cadet Corps. Besides, there are two Boards (viz. Madarsha Board and Sanskrit Board), a Text Book Corporation and Secondary Education Council under the administrative control and jurisdiction of the Department. In addition, there are two Mission Directorates – Sarva Shiksha Abhiyan and State Literacy Mission.

### **Flow of Funds**

- 2.10 The flow of funds under EC SPP to the spending units is depicted in the diagram on the next page.





## CHAPTER 3

### Directorate of Institutional Finance

#### Objective & Responsibility

3.1 Directorate of Institutional Finance (DIF) is a Directorate under Department of Finance. It is headed by a Director.

3.2 DIF is basically entrusted with responsibilities relating to coordination of procurement of institutional finance for all externally aided projects of the State Government. It also coordinates with various Government Departments, Corporations, Boards, Financial Institutions, Reserve Bank of India, and Government of India in the matter relating to institutional finance and implementation of Government sponsored programs. Broad responsibilities of DIF are as under:

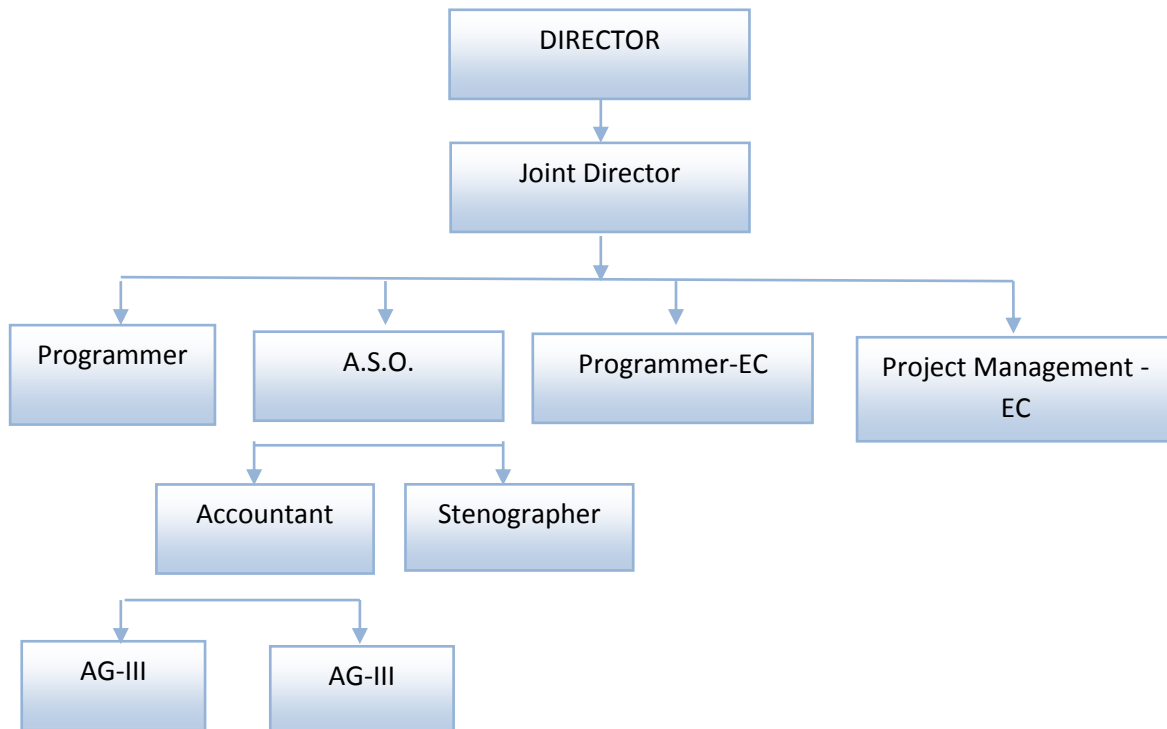
- Promotional role to maximize institutional finance for development activities of the State.
- Intermediary role to coordinate with banks/ other financing institutions to sort out problems between Governmental agencies and banks.
- Monitoring role for ensuring adequate flow of institutional finance for several Government sponsored programs.
- Project Management and Coordination for externally aided projects as well as to provide general project preparation/ planning support to concerned departments and agencies of Government.
- Monitoring progress of externally aided projects in the State.
- To draft yearly State Credit Plan for government sponsored employment-oriented schemes under poverty alleviation. The objective is to prepare State Credit Plan so as to dovetail Government plans with banks plan, thereby to assist district level bank functionaries to formulate their district credit plans.

- Implementation of Bank Recovery Incentive Scheme.

3.3 As stated earlier, DIF is entrusted with the overall responsibility of oversight and monitoring of programs/schemes, which is of paramount importance.

3.4 The organization structure of DIF is given as below:

#### ORGANOGRAM OF DIF



## **Part II**

# **Analysis of Public Expenditure in the Health and Education Sectors**

## CHAPTER 4

### Analysis of Public Expenditure

4.1 After the funds for expenditure are estimated and approved, the important features of public expenditure are:

- Spending agencies should be provided in a timely manner with the funds needed to implement the budget;
- Spending agencies should plan and develop capability to spend the money received economically, effectively and efficiently.
- The expenditure should be within the budgeted allotment and meet the targeted physical outcome.

4.2 Each of these features in respect of Health & Family Welfare Department and School Education Department are discussed in the ensuing paragraphs.

#### Resource Disbursement

4.3 The Budget Unit of the Department of Finance formulates the State Financial Plan, including annual cash plan, budget implementation plan, monthly cash plans and in-month forecasts. The formulation of monthly cash planning is made on the basis of budgetary appropriations and the trends of incomes and expenditures flow for which information is obtained from the revenue and spending departments. From the past trends it is observed that both the revenues and expenditures are significantly lower in the first half of the financial year than in the second half<sup>5</sup>. In view of this, monthly cash

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<sup>5</sup> In the event of Central Government sponsored projects, the first installment is obtained smoothly which is meant for utilization in the first half of the fiscal year, but the second installment, to be used in the second half of the fiscal year, is released only when the spending agency provides utilization certificate of at least 60% of the funds of the first installment. Usually, many spending agencies falter in producing the utilization certificate and consequently the disbursement of funds from the Central Government gets delayed.

planning is made in which the volume of inflow and expenditure is set at higher level in the third and fourth quarters.

- 4.4 Allotment provided through budget appropriation is used by the Departments as per delegation of financial power. Usually, after the budget is presented to the State Legislature and the budget is approved, the budget document along with funds approved are allocated and informed to the departments concerned. Thereafter, the departments allot the funds as per approved budget to the respective spending units or subordinate offices and this process is completed usually between end of May and middle of June, except the establishment expenses like payroll, which are made available from April.
- 4.5 However, for allotments which cannot be used by the department without prior consent of the Department of Finance, time taken to release the money is fairly long, stretching at times to beyond three months.
- 4.6 The Treasury issues cheque to different drawing agencies of the State Government<sup>6</sup> and time frame for transfer of money is within reasonable limits.

### **Budget Execution**

- 4.7 State's resources in the education sector consist of provisions in the state budget, support from the European Commission State Partnership Program (EC-SPP)<sup>7</sup>, which has a component for education, and funds under Central Government sponsored scheme.
- 4.8 The constituents in respect of State's resources for the health sector are similar to that of the education sector.
- 4.9 It is observed that there are some spending units which failed to spend the money allocated under the budget on a timely basis. Two examples in this regard are given in **Appendix 4.1** and **Appendix 4.2** respectively.

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<sup>6</sup>The mechanism is that the Drawing & Disbursing Officer (DDO) of different departments produces bills before treasuries/sub-treasuries for payment. The Treasury issues a treasury cheque to the DDO concerned. Each treasury is associated with one or more authorized banks. The cheque is produced by the DDO to the related bank. Some of the departments have self-cheque drawing facility. Cheques are issued to these departments by the Treasury against approved limits.

<sup>7</sup>This fund is routed through the Central Government to the Department of Finance of the State Government and eventually to the spending Departments concerned.

- 4.10 A common explanation of the slow progress is the delay in disbursement of funds from the allocation of the Central Government.
- 4.11 Another factor contributing to it is the requirement of the approval of the Department of Finance for the line departments on spending beyond specified limits. It may be cited that the funds allotted under EC-SPP for the education component is routed through the State Budget under separate Demand Numbers (e.g. Demand No.27 Scheme No. 6725 for School Education, Demand No.41 Scheme No. 6725 for Tribal Areas Sub-Plan) with detail budget line items. Considering the time lag between the preparation and approval of the budget on one hand, and preparation and approval of Project Implementation Plan (PIP) on the other hand, there is likelihood of variations among budget line items between the State Budget and the PIP. In such an event, no allotment of funds to subordinate offices or spending units can be made by the department concerned without re-appropriation among the budget line items as per the approved PIP. This requires approval of the Department of Finance, which is a protracted process, and causes delay in allotment/release of funds to the spending units and consequent delay in expenditure.
- 4.12 Besides, lack of appropriate staff in terms of quality & number to execute the project also results in under-spending. In this connection, status of manpower for allopathic system and Ayush is given by way of example in **Appendix 4.3** and **Appendix 4.4** respectively.
- 4.13 In addition, involvement of multiple departments in execution of projects lead to delayed progress. Further, at times, seasonality of the nature of work causes non-fulfillment of the target.

#### **Impact of Expenditures**

- 4.14 Expenditure on school education has been steadily increasing over the years. It is also increasing as a percentage of total expenditure. There has been spectacular increase in the budgetary allocations since 2006-07, as is evident from **Appendix 4.5**.

- 4.15 However, an analysis of the budgeted outlay shows that there is a large component of revenue expenditure for plan outlays and the non-plan expenditure is entirely on revenue account. The significant issues are high component of salary largely due to increase on mid-day meal and teachers' training; and inadequate provision for renovation and up-gradation of existing capital assets or their replacement.
- 4.16 On an overall perspective, the outcome indicators in the school education sector demonstrate a strong positive trend. The net primary and upper primary enrolment rates have risen, number of primary and upper primary schools has increased, a substantial number of teacher posts has been filled up and induction training has been completed and a comprehensive curriculum framework has been prepared to augment quality in education.
- 4.17 Notwithstanding the status outlined hereinabove, the following audit observations are pertinent to note.

#### **Audit of Transactions**

##### **SCHOOL EDUCATION DEPARTMENT**

###### **Irregular hiring of vehicles**

Diversion of fund from SSA on hiring of vehicles Rs 22.70 lakhs

###### **Unauthorized expenditure**

Unauthorized expenditure under Sarva Shiksha Abhiyan on printing and free distribution of quarterly magazines to the extent of Rs 8.97 crores

###### **Lack of response to audit**

Failure on the part of the departments in settlement of outstanding objections and lack of response to audit

*Source: Excerpts of State Audit Report 2007-2008 (Civil & Commercial)*

- 4.18 Through a combination of means – increased provision of physical infrastructure, increased recruitment and training of health staff and introduction of health sector reforms, including new strategies for human resources deployment and interventions for improved quality of service provision – the State of Chhattisgarh has made considerable progress in the health sector. There has been a substantial improvement in the basic outcomes of the health sector. The decentralization, responsiveness to local needs, and paradigm shift in health management system has improved the facilities and their credibility among the community.
- 4.19 Some of the major achievements are – successful placement of community health activists (Mitanins), involvement of panchayat raj institutions, establishment of hospital development committees, posting of rural medical assistants in tribal areas, etc. A few key indicators are reproduced below.

### Key Progress Indicators of Reproductive and Child Health

INDICATOR	CHHATTISGARH	NATIONAL
Maternal Mortality Ratio	335 (379)	254
Infant Mortality Rate	57 (70)	55
Total Fertility Rate	3.1 (3.3)	2.7

Source: Chhattisgarh Health Department Financial Management & Budget Allocation Report 2005 to 2009

**Note:** Figures in parenthesis indicate past trends.

- 4.20 However, there are certain areas of concern as would be evident from the following observations:



- Only 32% amount (36.68 Crores) against the PIP approved (113.79 Crores) has been utilized under RCH-II as compared to National level expenditure against the approved PIPs which is 71%.
- Under the activities of Tribal RCH and Institutional Strengthening, the expenditure was incurred without any approved amount in PIP.
- Only 51.88% expenditure was booked under Management costs whereas all other components of NRHM showed less than 37% expenditure against the approved PIP

4.21 Further, the audit report on National Rural Health Mission work in Chhattisgarh provides a vignette of areas that need urgent corrections.

## **PERFORMANCE AUDIT**

### **Health & Family Welfare Department**

#### **National Rural Health Mission**

##### **Audit Objectives**

The objectives of the performance audit were to assess whether:

- Stage-wise planning was done starting from surveys at the village level,
- Accounting and utilization of funds was efficient and effective,
- The scheme achieved strengthening of physical and human infrastructure at different levels as per the Indian Public Health Standard norms,
- The performance indicators and targets fixed in respect of reproductive and child health care as well as immunization and disease control programs were achieved and
- The scheme was being monitored as provided in the guidelines.

##### **Scope and Coverage of Audit**

The performance audit of the scheme was conducted during April 2008 to May 2009 for the period from April 2005 to March 2009. The coverage of audit included the SHS and four districts of the State selected by the Simple Random Sampling without Replacement (SRSWOR) method. The four selected districts had 47 CHCs, 204 PHCs and 1,429 SHCs, out of which 12 CHCs, 24 PHCs and 48 SHCs were selected by the SRSWOR method.

The performance audit commenced with an entry conference with the Secretary, Public Health and Family Welfare Department on 4 April 2008. An exit conference was held on 10 September 2009 to discuss the audit findings.

##### **Highlights**

The National Rural Health Mission was launched in April 2005 with the aim of providing accessible, affordable, accountable, effective and reliable health care facilities in rural areas. The State Government spent Rs 634.55 crore from the inception of the scheme till March 2009. There were substantial savings of Rs 250.96 crore. The availability of health care infrastructure, doctors and supporting staff was not adequate. While there were significant achievements in some interventions, the indicators of maternal and infant mortality remained short of interim targets, even though the major expenditure under the scheme was for reproductive and child health. Some important audit findings are given below:

## PERFORMANCE AUDIT (Contd.)

- An amount of Rs 21.30 crore, including Rs 9.27 crore meant for Mobile Medical Units and Rs 1.90 crore for a Health Management Information System, remained unutilized;
- Funds amounting to Rs 3.46 crore, received for health care of urban poor, were diverted;
- There was excess expenditure of Rs 25.54 lakh on purchase of blood lancets;
- There were delays of upto 730 days in the payment of cash incentives of Rs 59.64 lakh to 4,646 beneficiaries of the '*Janani Suraksha Yojna*';
- Payments totaling Rs 4.83 crore for folk dance programs organized to spread health awareness, were not supported by prescribed certificates and photographs; and
- Only 52 *per cent* of reports were being received in respect of the Integrated Disease Surveillance Project.

### Conclusion

Implementation of the National Rural Health Mission in the State had various shortcomings. There were cases of under-utilization and diversion of funds as well as instances of irregular expenditure. Stage-wise planning was not done.

The health centers did not have adequate infrastructure, facilities, doctors and support staff. While there were significant achievements in some interventions and the health indicators accordingly showed improvements, there were shortfalls in administration of iron-folic acid tablets, gender imbalance in sterilization, low institutional deliveries, low detection of sputum positive cases and non-achievement of the norms of annual parasitic incidence. The indicators of maternal and infant mortality remained behind the interim targets. The level of community participation as envisaged in the scheme had not been achieved.

Besides, the Audit Report (Civil & Commercial) on the transactions of the Health & Family Welfare Department for the year 2006-2007 observed:

- 1) Purchase of disposable syringes at higher rates, extra payment to firms in addition to agreed rates and non-availing of discount resulted in loss of Rs. 77.67 lakh.
- 2) Payment of Rs. 5.96 crores to fictitious/ fraudulent suppliers of medical equipment, and fraudulent supply of equipment of different specifications worth Rs. 1.88 crores have totaled to fraudulent supply of equipment worth Rs. 7.84 crores.

Again, the Audit Report for the year 2008-2009 observed penalty of Rs. 26.52 lakh was not imposed on suppliers for delayed supply of material which resulted in excess payment.

Further, in regard to EC-SPP, the audit report of the Directorate of Treasury, Accounts and Pension, observed:

- In the year 2006-07 out of Rs.14.32 crores received for construction of 172 sub-health centers and 18 primary health centers, there was lack of control and monitoring.
- Of the funds received in advance in 2006-07, the amount remained unutilized during 2007-08 for nearly a year.
- During 2007-08, a sum of Rs.944 lakhs provided to the Directorate of Health Services for utilization in different health centers, no information or expenditure statement in regard to the aforesaid amount was submitted by the Directorate. The Directorate of Health Services also did not issue any directions or guidelines to the relevant spending units / subordinate offices for utilization of the funds.
- The Directorate did not follow the financial rules in regard to expenditure to the tune of Rs.25.57 lakhs during the year 2007-08.
- Even after completion of two years, no utilization certificate has been submitted by the Health Department for the funds received and used under EC-SPP.

4.22 In sum, the impact of expenditure has been mixed.

**NATIONAL RURAL HEALTH MISSION**

**Financial Status of last 3 years**

<i>S. No.</i>	<i>Component</i>	<i>Opening Balance</i>	<i>Funds Sanctioned &amp; Received</i>	<i>Total funds Available</i>	<i>Expenditure Incurred (Net of Refund)</i>	<i>Opening Balance of District (Adjusted)</i>	<i>Closing Balance</i>
<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>3+4=5</b>	<b>6</b>	<b>7</b>	<b>8=5-6+7</b>
<b>2007-08</b>	<i>Part A RCH Flexipool</i>	283.17	3580.00	3863.17	6584.38	3105.08	383.86
	<i>Part B NRHM Special Initiative</i>	3378.39	6422.90	9801.29	1811.93	864.04	8853.40
	<i>Part C Immunisation Activity</i>	9.07	25.68	34.75	186.20	387.62	236.17
	<i>Others Activities -</i>						0.00
	<i>Special IEC For FWP &amp; RCH</i>	205.60		205.60			205.60
	<i>RCH Phase -I</i>	313.50	-38.15	275.35	17.40	484.83	742.77
	<i>Pulse Polio</i>	12.88	372.56	385.45	358.62	1.54	28.36
	<i>Sector Investment Program(SIP)</i>	2.50		2.50	124.11	172.58	50.97
	<i>Unicef Activities</i>	-12.61	10.94	-1.67	6.59	3.73	-4.53
	<i>MNGO Preperatory Grant</i>	232.50		232.50			232.50
	<i>PMU Training(NIHFW)</i>	0.00		0.00			0.00
	<i>European Union State Partnership</i>		512.90	512.90			512.90
	<i>AYUSH Dispensaries</i>		162.50	162.50			162.50
	<i>Teledicines</i>			0.00			0.00
	<i>State Contribution</i>		1200.00	1200.00			1200.00
	<i>Interest Income</i>	216.62	101.23	317.86			317.86
<b>Total Rs...</b>	<b>4641.63</b>	<b>12350.56</b>	<b>16992.19</b>	<b>9089.24</b>	<b>5019.42</b>	<b>12922.37</b>	
<b>2008-09</b>	<i>Part A RCH Flexipool</i>	383.86	6301.00	6684.86	4565.64		2119.23
	<i>Part B NRHM Special Initiative</i>	8853.40	5418.00	14271.40	891.58		13379.83

**NATIONAL RURAL HEALTH MISSION**

**Financial Status of last 3 years**

	<i>Part C Immunisation Activity</i>	236.17		236.17	193.86		42.30
	<b>Others Activities -</b>						
	<i>Special IEC For FWP &amp; RCH</i>	205.60		205.60			205.60
	<i>RCH Phase -I</i>	742.77		742.77	0.37		742.40
	<i>Pulse Polio</i>	28.36	671.80	700.16	630.71		69.45
	<i>Sector Investment Program(SIP)</i>	50.97		50.97	4.39		46.58
	<i>Unicef Activities</i>	-4.53		-4.53			-4.53
	<i>MNGO Preperatory Grant</i>	232.50		232.50	82.28		150.22
	<i>PMU Training(NIHFW)</i>	0.00		0.00			0.00
	<i>European Union State Partnership</i>	512.90		512.90	3.23		509.67
	<i>AYUSH Dispensaries</i>	162.50		162.50			162.50
	<i>Telemedicines</i>		50.00	50.00			50.00
	<i>State Contibution</i>	1200.00	3500.00	4700.00			4700.00
	<i>Interest Income</i>	317.86	250.61	568.46			568.46
	<i>Miscell Income</i>	0.00	15.35	15.35			15.35
	<b>Total Rs...</b>	<b>12922.37</b>	<b>16206.76</b>	<b>29129.12</b>	<b>6372.05</b>	<b>0.00</b>	<b>22757.07</b>
<b>2009-10 (Up to Dec 2009)**</b>	<i>Part A RCH Flexipool</i>	2119.23	5784.00	7903.23	2944.35		4958.88
	<i>Part B NRHM Special Initiative</i>	13379.83	3272.00	16651.83	1254.00		15397.83
	<i>Part C Immunisation Activity</i>	42.30	439.50	481.80	113.18		368.63
	<b>Others Activities -</b>	0.00					
	<i>Special IEC For FWP &amp; RCH</i>	205.60		205.60			205.60
	<i>RCH Phase -I</i>	742.40		742.40	0.09		742.31
	<i>Pulse Polio</i>	69.45	447.75	517.20	19.89		497.30
	<i>Sector Investment</i>	46.58		46.58			46.58

**NATIONAL RURAL HEALTH MISSION**

**Financial Status of last 3 years**

<i>Program(SIP)</i>						
<i>Unicef Activities</i>	-4.53		-4.53	1.61		-6.14
<i>MNGO Preperatory Grant</i>	150.22		150.22			150.22
<i>PMU Training(NIHFW)</i>	0.00		0.00			0.00
<i>European Union State Partnership</i>	509.67		509.67			509.67
<i>AYUSH Dispensaries</i>	162.50		162.50			162.50
<i>Telemedicines</i>	50.00		50.00			50.00
<i>State Contribution</i>	4700.00		4700.00			4700.00
<i>Interest Income</i>	568.46	438.14	1006.60	28.64		977.95
<i>Miscell Income</i>	15.35		15.35			15.35
<i>Navjat Shishu Suraksha Karyakram</i>		4.83	4.83			4.83
<b>Total Rs...</b>	<b>22757.07</b>	<b>10386.21</b>	<b>33143.28</b>	<b>4361.76</b>	<b>0.00</b>	<b>28781.52</b>
<i>*Unspent balance of District have been added back (previously shown as expenditure)</i>						
<i>**Unaudited (Provisional) figures.</i>						
<i>The above figures are for Part A, B &amp; C only of NRHM PIP</i>						

**Source: National Rural Health Mission, PIP Chhattisgarh, 2010-11, Department of Health and Family Welfare, Chhattisgarh, Raipur**

**APPENDIX 4.2**  
(Refer Para 4.9)

**Allocation and Expenditure under Sarva Shiksha Abhiyan**

(Rs. in Crores.)

Year	Approved Outlay	Gol Release	State Release	Opening Balance as on 1 <sup>st</sup> April	Other Receipts	Total Funds Available	Expenditure
1	2	3	4	5	6	7	8
2006-07	803.90704	506.6049	158.8325	8.22903	8.5904	682.25683	635.31247
2007-08	751.30141	455.5859	245.31	45.90544	11.80284	758.60418	651.8069
2008-09	864.38498	495.9731	266.06	81.53445	0.37667	843.94422	635.3971

Source: MTEF Report, 2009 for Health and Education Sectors, Chhattisgarh prepared under EC-SPP.



**Status of Sanctioned and Vacant Posts (Allopathic)**

S.No.	Posts	Approved	Working	Vacant
1.	Specialist	701	248	453
2.	Medical Officer	2147	773	1350
3.	Radiographer	153	99	54
4.	Lab Technician	731	357	374
5.	Ophthalmic Assistance	620	167	453
6.	Pharmacist Grade-2	974	614	360
7.	MPS	872	722	150
8.	Male Health Worker	4784	2514	2270
9.	Dresser	936	630	306
10.	Senior Sister Tutor	2	2	0
11.	Principal	9	4	2
12.	Public Health Tutor	19	16	6
13.	Sister Tutor	26	21	8
14.	House Keeper	13	6	7
15.	Nursing Superintendent	7	0	7
16.	Matron	17	10	7
17.	Nursing Sister	185	39	146
18.	Staff Nurse	889	865	24
19.	LHV	1034	749	235
20.	ANM	5585	4605	980
21.	BEE	130	88	42
22.	Head Clerk	31	5	26
23.	Assistant Grade II	211	122	89
24.	Assistant Grade III	253	241	12
25.	Junior Auditor	16	1	15
26.	Store Keeper	22	1	21
27.	Steno Typist	16	10	6
28.	Assistant Statistical Officer	17	13	4
29.	Computer cum Data Operator	159	81	78
30.	Refrigerator Mechanics	16	10	6
31.	Malaria Inspector	25	5	20
32.	NMS	147	113	34
33.	Male Supervisor (MPS)	872	722	150
34.	Lab Assistant	30	18	12

Source: MTEF Report, 2009 for Health and Education Sectors, Chhattisgarh prepared under EC-SPP.

**Position of Sanctioned and Vacant Posts : Ayush**

<b>S.No.</b>	<b>Posts</b>	<b>Sanctioned</b>	<b>In Position</b>	<b>Vacant</b>
<b>1.</b>	Specialist	6		6
<b>2.</b>	Medical Officer	1154	573	581
<b>3.</b>	Para Medics	725	483	242
<b>4.</b>	Dispensary attendant	759	529	230
<b>5.</b>	Auxiliary Workers	692	573	119
<b>6.</b>	Mahila Swasthya Karyakarta	76	54	22
	<b>Total</b>	<b>3412</b>	<b>2212</b>	<b>1200</b>

Source: MTEF Report, 2009 for Health and Education Sectors, Chhattisgarh prepared under EC-SPP.

**Expenditure on School Education**

	Heads	(Rs. in crores)		
		2006-07	2007-08	2008-09
<b>A.</b>	<b>Budgetary Expenditure</b>			
<b>1</b>	Revenue Expenditure	1236.94	1794.96	2044.61
<b>2</b>	Non Plan	577.90	692.87	801.88
<b>3</b>	Plan	659.04	1102.09	1242.73
<b>B</b>	<b>Capital Expenditure</b>	73.88	140.39	190.81
<b>4</b>	Non Plan	-	-	-
<b>5</b>	Plan	73.88	140.39	190.81
<b>6</b>	Total Budgetary Expenditure on school Education	1310.82	1935.35	2235.42
<b>7</b>	Percentage Growth over Previous year (%)	23.20%	47.64%	15.50%
<b>8</b>	As % of Total Budgetary Expenditure	11.13%	11.60%	12.22%

Source: MTEF Report, 2009 for Health and Education Sectors, Chhattisgarh prepared under EC-SPP.

# **Part III**

## **Findings and Recommendations**

## CHAPTER 5

### Findings

5.1 The findings that emerged from the present study are broadly categorized into:

- A. System & Procedural Issues
- B. Transactional Issues
- C. Institutional Issues
- D. Capacity Related Issues

**A. System & Procedural Issues**

**5.2 Expenditure Recording**

5.2.1 The core of expenditure tracking and reporting lies on proper manner of recording expenses. A fundamental issue that has been noticed, and especially in case of Health & Family Welfare Department, is that an amount of fund released by the Department to the subordinate office or the spending unit is treated as expenditure, which in effect resembles advance for expenditure to be made by the recipient of the fund. As the government accounting system is on cash basis, presumably cash outflow or disbursement is accounted for as expenditure. However, this is not in conformity with the Generally Accepted Accounting Practice (GAAP). The fund disbursed/paid/released by the Department should be distinguished between advance payment (or, suspense account as per government accounting parlance) and actual expenditure supported by appropriate vouchers evidencing the expenditure made duly approved by the competent authority. Similarly, at the spending unit level, treating release of funds to other entities to carry out the planned activities as per approved programs/schemes cannot be construed as “real” expenditure; but has to be considered as advance given for expenses.

- 5.2.2 The abovementioned practice leads to misrepresentation of expenditure reporting and impedes expenditure tracking.
- 5.2.3 Following from the phenomenon described in the preceding paragraphs, reconciliation of advances with actual expenditure supported by proper vouchers is lacking at the spending unit level.
- 5.2.4 Further, understanding and clarity of what each head of account represents is vastly lacking at the district and block levels. As a result, there is unintentional misclassification of expenditure leading to erroneous presentation in expenditure reporting. However, where such misclassification of head of accounts causes to show an item or items of expenditure exceeding the respective budget allocation, the Department carries out reconciliation with the Treasury records and makes the necessary rectifications.

### **5.3 Monthly Expenditure Statement**

- 5.3.1 Block and District Units are required to prepare Monthly Expenditure Statement (MES) and submit to the Department from which funds are received. It is noticed that there is considerable delay in submission of MES to the Department concerned. It is understood that obtaining the expenditure information from the block level to the district level is a fairly protracted exercise, presumably because of multiplicity of spending units and lack of trained manpower. Also, on an average, 35 to 40 columns in the MES format become inhibiting factor in preparing the statement within a reasonable time limit.
- 5.3.2 Delayed submission of MES at the Department level impacts the departmental review of the MES in terms of its correctness and authenticity of expenditure recorded as there is paucity of time between the receipt of MES and review at the Secretary level of the Department, as well as, for reporting of expenditure to DIF. In view of the infirmities in expenditure recording as discussed in the preceding section and shortage of time for detailed review of MES, a shadow of doubt casts on the quality and authenticity of reported expenditure.

5.3.3 In light of the discussions in the preceding paragraphs on the deficiencies in expenditure recording and delayed submission of MES, it follows that public expenditure tracking and reporting is considerably affected. It may also be cited that the Audit Report of Expenditure under EC-SPP (forwarded to DIF by the Directorate of Treasury, Accounts and Pension through its letter dated 28<sup>th</sup>. January, 2010) observed that under EC-SPP, funds were released by the Directorate of Public Instruction to Rajiv Gandhi Shiksha Mission, State Literacy Mission. Secondary Education Council but no expenditure statements were submitted by these spending agencies to the Directorate. The Audit Report of Expenditure under EC-SPP also observed that in case of Health & Family Welfare Department, no bill register, cash book, vouchers, etc. were available at the department for expenditure made under this program.

#### **5.4 Utilization Certificate**

5.4.1 Submission of utilization certificate by the spending units for expenditure made out of funds received is found to be irregular; and predominantly only when followed-up and summoned by the Department. The Audit Report of Expenditure under EC-SPP for Health & Family Welfare Department referred to in the previous paragraph observed that till the financial year 2008-09, no utilization certificate along with statement of expenditure and supporting vouchers were available at the Department of Health & Family Welfare.

5.4.2 Non-submission or delayed submission of utilization certificate leads to delayed release of funds to the spending units when the condition for release of subsequent tranche of money is contingent on submission of utilization certificate. In this connection, reference may be made to Chapter 4 of Part II of this Report, wherein it is stated that for Central Government sponsored programs, funds are released only when the spending agency provides utilization certificate.

#### **5.5 Reporting of Physical Outcome**

5.5.1 Reporting of physical outcome of an approved expenditure is generally found to be only in absolute number without reference to target; and no measurable physical indicators of actual achievement are mentioned. At times, expenditure reports do not even

contain any information on physical outcome and reasons for variation from target. Hence, co-relation between financial and physical progress and assessment of achievement in physical terms is difficult, albeit non-feasible.

## **B. Transactional Issues**

### **5.6 Responsibility with Multiple Units**

5.6.1 As is evident from the charts depicting the flow of funds presented in Chapter 2 of Part I of this Report, it leads to cumbersomeness in coordination and more so when an activity is shared by two departments.

5.6.2 This gives rise to ambiguity in determining the sphere of responsibility and consequent accountability of expenditure approved in the budget as well as impacts expenditure reporting. There is likelihood of two units reporting the expenditure as far as their respective activities are concerned and the holistic status of the expenditure intended for remains unrevealed. Thus, tracking of expenditure for the purpose that is intended for remains unaddressed. Especially, multiple departments like School Education and Tribal Welfare are involved in executing a common program as in case of EC-SPP for education. To avoid complication in coordination and financial tracking the funds may be separately allocated to each department for their respective tasks instead of allocating the full fund to the School Education Department which then passes a part of the funds on to the Tribal Welfare Department.

### **5.7 Mismatch between State Budget and the PIP**

5.7.1 For donor funded programs, such as EC-SPP, the funds are routed through the State Budget. At the time of preparation of the State Budget, the PIP for the donor funded program is not approved; as in case of EC-SPP for education sector program for 2010-11. At the time of preparation of the State Budget, estimations are made on the basis of parameters considered relevant at the then time and the estimates are included and in the State Budget with detailed break-up by line items. When the PIP is approved, there is possibility of mismatch between the line items included in the State Budget and those



approved in the PIP, as well as, difference in allocation among the line items in the State Budget and in the approved PIP. As a result, release of fund by the Department to the subordinate office or the spending unit would require approval of the Department of Finance for re-appropriation, if there are mismatches between the State Budget and the PIP. Such approval is a lengthy, time-consuming process and delays the release of fund to the spending unit. It is given to understand that School Education Department has been affected on this account in the past. To bring symmetry between state budgetary provision and PIP for EC-SPP, preparation and approval of PIP should follow the same timeline as applicable to state budget exercise.

## **C. Institutional Issues**

### **5.8 Monitoring**

5.8.1 Evaluation is a fundamental principle to ensure good decision-making, sound management of assistance and good use of available resources. In case of the various programs/schemes, it is observed that the evaluation function at the Department is primarily restricted to desk level. There are no periodical routine or schedule of monitoring of programs at the field/site level through field visit or inspection on sample basis and interaction with the stakeholders and intended beneficiaries of the programs. Consequently, the ground realities remain limited to the contents of the expenditure reports and unchecked by an independent evaluator.

### **5.9 Multiple Spending Units**

5.9.1 There are a number of spending units. Hence, collection, collation and preparation of reports on expenditure for the purpose of tracking and review pose a humongous task. Besides, there are a few spending units which receive small amount of funds through DIF and sufficient priority or attention is not given by these spending units on timely reporting of expenditure. Often, no reports are submitted.

**D. Capacity Related Issues**

**5.10 Manpower**

5.10.1 Observance of systems and procedures largely depend on in-house capacity. It is observed that at the spending unit level, particularly the district and block, there is shortage of skilled and trained manpower. Besides, the same set of people are engaged in a number of programs/schemes and activities. Therefore, the priority and the desired level of delivery that expenditure tracking and reporting deserve could not be attained.

**5.11 Information Technology**

5.11.1 Though many of the spending units have computerized work systems, there are others which are working in manual or semi-manual environment. This affects speed and accuracy and has bearing on expenditure reporting in terms of timeliness and accuracy.

## CHAPTER 6

### Recommendations

6.1 Based on the findings that are discussed in the preceding chapters, recommendations have been developed to address the four issues - System & Procedural, Transactional, Institutional, and Capacity Building. This chapter addresses the first three issues and the following chapter deals with capacity building measures.

#### 6.2 Cash Management System<sup>8</sup>

6.2.1 To avoid uneven pattern of expenditure, back-loading a large part of the expenditure, rushing of expenditure in March and concluding with sums of unspent budget provision at the year end, which are indicative of infirmities of the existing systems and processes, there is an urgent need for a paradigm shift in the existing public expenditure management system.

6.2.2 In this context, Cash Management System may be introduced on the line of modified exchequer control based expenditure management and restrictions on expenditure during the last quarter of the financial year which has been successfully implemented in the Ministries of Government of India. The new system has the following objectives:-

- Even pacing of expenditure within the financial year;
- Reducing rush of expenditure during the last quarter especially in the last month of the financial year;
- Front loading of expenditure in the first three quarters of the financial year so that corrective measures can be taken in the mid- year to achieve the fiscal objectives;

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<sup>8</sup>It may be mentioned that Government of Orissa has vide Circular No. 22460(10)/F dated 10<sup>th</sup>. May, 2010 of the Finance Department has introduced the Cash Management System in the State Government through Monthly Expenditure Plan (MEP) and Quarterly Expenditure Allocation (QEA) effective from the Financial Year 2010-11. The system is applicable to 10 Demand for Grants administrated by large spending departments, which include Works, School & Mass Education, Health & Family Welfare, Housing & Urban Development, Panchayati Raj, Water Resources, Agriculture, Rural Development, Women & Child Development, and Higher Education.

- Curbing the tendency of parking of funds outside Government Account;
- Effective monitoring of the expenditure pattern;
- Improving the quality of expenditure.

6.2.3 The system may be initially adopted in respect of the Demand for Grants administered by Health & Family Welfare Department and School Education Department and gradually for Demand of Grants administered by other large spending Departments.

6.2.4 In respect of each Demand for Grant, Monthly Expenditure Plan (MEP) for State Plan, Central Plan, Centrally Sponsored Plan and Non-Plan should be worked out and furnished in the format specified in **Appendix 6.1** to the Budget Section of the Department of Finance. The MEP and the Quarterly Expenditure Allocation worked out on that basis should also be posted in the website of the Department.

6.2.5 The MEP would form the basis of Quarterly Expenditure Allocation (QEA) which should not be exceeded by the Administrative Departments without prior approval of the Department of Finance.

6.2.6 The Administrative Departments may finalize the Monthly Expenditure Plan on the following lines:-

- MEP for the month of March should not exceed, say, 12% of the Budgeted Provision (Budget Estimate) except in case of Non Plan maintenance expenditure.
- MEP for the month of January to March may be so fixed that the QEA for the last quarter should not exceed 30% of the Budgeted Provision, (Budget Estimate) except in case of Non-Plan maintenance expenditure.
- The Administrative Departments may be authorized to sanction expenditure other than works under Non-Plan, State Plan, Central Plan and Centrally Sponsored Plan Schemes up to the limit of MEP/QEA including expenditure for grants and subsidies.
- In case of Central Plan and Centrally Sponsored Plan Schemes funds could ordinarily be released on receipt of Central Assistance. However, funds can be

sanctioned/released in anticipation of receipt of central assistance in case of on-going schemes during the first three quarters.

- If there is firm commitment for sanction and release of funds by the concerned Line Ministry of Government of India, funds for new schemes could be sanctioned/released by the Administrative Departments for three quarters.
- In case of Externally Aided Projects in the pipe line, expenditure could be incurred only if agreement with the Donor Agency has been signed and the date of effect of the agreement has been notified.
- Sanction of funds for schemes where the norms of expenditure are yet to be approved and cases involving change in the norms of existing schemes having financial implication would require prior concurrence of the Department of Finance.
- If, any provision in the Budget Estimate is surrendered in one Demand and equivalent additional provision is taken in another Demand in the Supplementary Statement of Expenditure, then the budgeted provision would be deemed to have been reduced to that extent and the MEP & QEA are to be modified accordingly.

6.2.7 The limits indicated in the MEP and QEA is to be calculated at the Demand for Grant level as a whole allowing inter-se variations between months within a quarter and across the sectors i.e., Non-Plan, State Plan, Central Plan and Centrally Sponsored Plan. The Administrative Departments and the Controlling Officers should distribute allotment under each sector among the Drawing & Disbursement Officers broadly in accordance with the MEP & QEA for the entire year.

6.2.8 Funds should not be drawn from the Treasury/Bank without immediate requirement for payment. As such no withdrawal should be made to make advance payments except in terms of valid agreements in order to meet the monthly/quarterly targets.

### **6.3 Guidelines to Spending Units**

6.3.1 There is lack of understanding and clarity at the spending unit level on accounting and recording of expenditure, which form the backbone of expenditure tracking and reporting. The Audit Report of Expenditure under EC-SPP for Health & Family Welfare

Department and School Education Department referred to in the previous Chapter observed that there were no directives issued by the Departments to its spending units or subordinate offices on the different programs/schemes in regard to procurement, items of expenditure that could be incurred, reporting requirements and reporting contents.

6.3.2 To overcome this issue, it is suggested that the Departments should provide a guideline in simple and understandable format to all the spending units under their respective administrative control. The Guideline should contain, but not limited to:

- The objective of the program/scheme;
- The components of the program/scheme;
- The salient terms & conditions for funding of the program/scheme (e.g. submission of utilization certificate for subsequent release of fund);
- The reporting requirements to the sponsor of the program/scheme and periodicity of reporting;
- The procurement conditions and rules, especially if specially laid down by the program sponsor (e.g. DFID, UK, at times, stipulates special procurement norms and rules for programs/schemes sponsored by it; and the variation, if any, in the procurement guidelines of the State Government should be explained as to applicability); especially the items that need to be covered are - design of clear guidelines with regard to the procurement of civil works, development of criteria for the evaluation of contractors, establishment of specific building standards;
- The requirements for Departmental review of statement of expenses and utilization certificates;
- Assessment and quantification of physical outcome of the financial expenditure through core comparative indicators.

6.3.3 It may be underlined that the guidelines should be separate for each program unless the programs have substantial elements of commonality. These guidelines should be issued to every spending unit or subordinate office prior to the commencement of the

program/scheme. However, it should be ensured that the respective spending units are provided the guidelines only on programs/schemes for which they are specifically responsible. Needless to state, that clarifications, if any, sought on the guidelines by the spending units should be forthwith provided by the Department. The guidelines should be made available on the Department website.

6.3.4 The guidelines should be further supplemented by training as discussed in the subsequent chapter of this Report.

#### **6.4 Indicators for Physical Outcome**

6.4.1 Output indicators are designed to measure the activities directly realized within the program's measures, and are often measured in physical and monetary units. In regard to monetary indicators, the reporting measures consist of budget approved and actual amount expended. In respect of physical progress, output indicators should relate to activity, such as in case of vocational training program, the appropriate indicators would be actual number of training participants and number of training days as compared to the target

6.4.2 The criteria that should be used for selecting physical outcome indicators need to consider the following:

- Relevance to the program objectives and priorities (e.g. number of school buildings to make elementary education accessible to all)
- Quantification
- Reliability in terms of clarity of definition and ease of aggregation

Determination of physical outcome indicators for different programs is found to be, by and large, in accordance with the aforesaid criteria. The real issue lies in not reporting or vague reporting (e.g. only in absolute number without indication of target achieved or in comparison with the target) of the physical outcome by the spending units.

6.4.3 It is therefore suggested that physical outcome reporting should follow the undernoted mode of indicators, as appropriate to the relevant activity of the program-

- a) Actual physical number as against the target (e.g. in case of teachers to be trained, the reporting should be in terms of absolute number of teachers trained as against the target fixed for number of teachers to be trained).
- b) Percentage of physical progress with reference to construction or other physical work plan till the work is complete in entirety (e.g. construction of health center or school would progress in stages and the progress could be measured in percentage terms in conjunction with scheduled time-frame; or procurement of bicycles for distribution to rural girl students)
- c) Actual physical number reaching the end-users as against the target in case of materials/supplies procured and distributed to the intended beneficiaries (e.g. distribution of bicycles to rural girl students)
- d) Statement of factual position with explanation where the physical outcome is not amenable to expression in quantitative terms (e.g. establishment of patient welfare society can be stated as to whether it has formed and is operational or still to be operational; and if there are more than one such society is targeted for, the number of society formed and the operational status should be provided)

6.4.4 In other words, the physical outcome indicators are to be made meaningful through suitable means of criteria identification that provides clear picture of the progress and attainment of the scheduled work/activity. In this context, it may be mentioned that the physical indicators being used under Sarva Shiksha Abhiyan and National Rural Health Mission could be adapted for physical progress reporting of activities under different programs in the health and education sectors in the State. The indicators under both these centrally sponsored schemes are time-tested and are used across the country. The executing departments should look into the matter of determination of meaningful physical outcome indicators for appropriate way of reporting physical achievements and linking financial and physical progress.



## 6.5 Expenditure Reporting

- 6.5.1 Apart from the Monthly Expenditure Statement referred to in the previous chapters of this Report, there are other reporting formats (e.g. Sarva Shiksha Abhiyan format, National Rural Health Mission format, EC-SPP format, etc.) which the line departments and their subordinate offices are required to follow. The reports of the subordinate offices are collated and compiled at the Department Headquarters and submitted to the sponsor agencies of the respective programs (i.e. donors and central government) and to the DIF.
- 6.5.2 However, as stated earlier in this Report, it is observed that these reporting formats are not always duly adhered to and do not necessarily contain the desired and prescribed information required. Also, there is delayed submission and, at times, default in submission of expenditure report.
- 6.5.3 Considering the possible factors inhibiting timely preparation and submission of expenditure report, such as inadequate trained manpower, long forms, multiple reporting formats to be filled, etc., it is suggested that a simple uniform reporting statement for expenditure may be followed. The core objective of this reporting form is to capture the desired financial and physical information and ensure acceptable standard of data integrity. The suggested reporting format could be used as a practical tool for public expenditure tracking and review by the line department and the DIF at both aggregate and sub-aggregate levels.
- 6.5.4 The suggested format of the public expenditure report is provided in **Appendix 6.2**. As regards the physical progress indicators, the reporting format should be in line with the pertinent core indicators determined as discussed in the preceding section of this chapter. The format of monthly expenditure statement may be reviewed by the Finance Department to examine the feasibility of streamlining and simplifying it in terms of number of columns that the statement presently has and that are required to be filled in.

## 6.6 Monitoring Unit at DIF

6.6.1 The prime responsibility of monitoring publicly funded programs/schemes lies on the line department entrusted with the execution of the program. However, as stated earlier, monitoring of the programs at the ground level by the department headquarters is found to be severely inadequate both for School Education and Health & Family Welfare Departments. At the same time, DIF, which has an overall responsibility of tracking and reporting Central Government and donor funded programs, cannot totally shy away from ground level monitoring duty. Presently DIF neither has sufficient staff nor the system to undertake ground level monitoring exercise.

6.6.2 Considering the capability constraints of the line departments, it is suggested that independent evaluators could be deployed by the departments to inspect the program sites and carry out ground level monitoring on sample basis. Besides, a Monitoring & Inspection Unit could be set up at the DIF by recruiting suitable staff and training them to carry out the site monitoring exercises on sample basis of all programs and schemes for which DIF has overall responsibility role. Needless to add, the Monitoring Unit would be independent of other activities so as to avoid any prejudices or preferences and would not be an audit wing or superior in hierarchy to the line departments. In other words, the Monitoring Unit in DIF would provide effective internal control and act as check and balance of financial spending and physical outcome achievement at the ground level.

6.6.3 In carrying out the monitoring exercise, the following steps are suggested:

- **Determination of criteria for selection of sample sites:** Criteria for choosing the unit of analysis could vary with context. It could be, i) a sector receiving the largest amount of public funds, ii) service units that are most directly related to the poor, iii) service units that have sensitive mandates, or iv) service providers plagued with high volume of anecdotal complaints from users, etc.

- **Sampling:** The three crucial criteria for selecting a sector and a unit of analysis are, i) the units must be an important source of service delivery, such as primary health center in rural areas, ii) the units must exist in big numbers for a credible statistical analysis, and iii) they must be relatively homogenous in characteristics for comparable analysis of features like cost-efficiency, However, The need for a critical sample size has to be squared off with budgetary, time, and human resource constraints. After an appropriate aggregate sample size has been determined, allocations would have to be made to appropriately cover representative geographic regions; and interactions should be held with the stakeholders and the intended beneficiaries of the programs to assess the real outcome.
- **Dissemination:** The findings of the monitoring exercise should aim at being constructively critical. It would be unhelpful if the goal is solely to embarrass or laud the public service provider. This is why it is important to share the preliminary findings with the department concerned or the spending unit itself so that the reform proposals are incorporated and there is actually an improvement in the quality of service delivery. An opportunity for the department to respond to some of the serious criticisms must be made, and genuine grievances, such as staffing or budgetary constraints should be fed back to the report.

## 6.7 Other Suggestions

### Utilization Certificate

- 6.7.1 It is imperative for the spending units to prepare and submit utilization certificate in respect of funds used by them. The Department under which has the administrative control over the spending units is responsible to ensure that utilization certificates are duly prepared and submitted. However, as stated earlier, there is serious lapse in preparation and submission of utilization certificates.
- 6.7.2 It needs to be understood that this deficiency is more a manifestation of a work culture that needs to be strengthened rather than a systematic or procedural weakness. Hence,

to effect a transformation in this regard, it is suggested that with the quarterly expenditure report the spending units should mandatorily submit the utilization certificate till date. The Department should meticulously ensure that this requirement is adhered to by the spending units. In addition, awareness among the staff of the spending units should be built up on the importance and necessity of preparation and timely submission of utilization certificate. It is only through the concerted efforts with top-down approach that the transformation could be achieved over a period of time.

### **Public Expenditure Tracking Survey (PETS)**

- 6.7.3 Further to monitoring exercise as described hereinabove, GoC could consider to have Public Expenditure Tracking Survey (PETS) on sample basis.
- 6.7.4 PETS is 'following the money' from where it is disbursed to end users such as schools and primary health centers. PETS track the flow of resources through the various levels of government to see how much of the allocated resources reach each level, and ultimately reaches the end user – such as the pupil or the sick person, or the people whose role it is to help them: the teacher, the nurse, and so on. An example would be: whether money for classroom building does reach school level, and whether the money spend on classrooms improves attendance and the quality of education.
- 6.7.5 To begin with, the PETS should aim only to map the existing flow of resources and try to show how funds are being spent. This would include capturing the aggregate (overall total) figure for each source of funding, and for district and sub-district expenditure. Once those involved are used to getting and using such information, it would be possible to collect more disaggregated financial information as well. Initially PETS could be once a year and subsequently semi-annually.
- 6.7.6 However PETS is not intended as an audit of expenditure. Rather, the aim is to bring to the public's attention what resources reach the district, and to help them understand how the budgeting and expenditure is managed.

6.7.7 The overall objective of PETS is to provide information useful for improving the effectiveness of public expenditure and service delivery. It assesses the leakage of public funds or resources prior to reaching the intended beneficiary. The specific objectives of PETS are to:

- Provide quantitative evidence on delays in the execution of state budget expenditures, focusing on the transfer of resources from the Treasury to district and facility level;
- Provide in-depth analysis of the procurement process at different levels, the distribution of resources from district to facility level, and the management of resources at facility level;
- Provide baseline data and diagnostic information on important characteristics of say, health and education sectors, including inputs and outputs;
- Assess quality and efficiency in service delivery at facility level;
- Assess the impact of delays and inefficient use of the resources at facility level, and on efficiency and quality of service delivery;
- Provide evidence on what explains differences in performance across facilities and therefore contribute to the definition of policies aimed at addressing diagnosed problems.

6.7.8 PETS could be carried out through a participatory approach and through a reputed and experienced civil society organization or a public finance professional institute. A case example of PETS carried out on a pilot basis for Mid-Day Meal Scheme of school children in Chittorgarh district of Rajasthan is provided in **Appendix 6.3**.

### **Performance Evaluation**

6.7.9 An alternative to PETS could be Performance Evaluation Technique. It is one of the more analytically robust and powerful instruments to evaluate performance of selected public funded programs. It is drawn on private sector practice of soliciting feedback from citizens and compiling “report cards”. The methodology involves administration of a survey to intended clientele of public services to determine quality of, access to, and

satisfaction with such services. There are two practices – one where an independent group conducts the survey and the other where citizen groups carry out the exercise. An example of performance evaluation survey conducted in Bengaluru, Karnataka, is given below.

### **BENGALURU REPORT CARDS**

Complementing a body of anecdotal evidence on the inefficiency of public agencies, quantification of user perceptions in Report Cards provided credible indicators of the extent of dis-satisfaction triggering public services. Although the quality of service could not have been radically overhauled in Bengaluru between 1994 and 1999 just as a result of one Report Card findings, of the eight agencies surveyed in 1993, four made attempts to respond to public dis-satisfaction. The worst rated agency – Bengaluru Development Authority reviewed its internal systems for service delivery, introduced training for junior staff and along with Bengaluru Municipal Corporation, began to host joint forum of civil society and public agencies to consult on solving high priority problems. Another agency surveyed also formalized periodic dialogues with resident associations to garner feedback from users. Two other agencies tried to strengthen their grievance redressal systems. However, the remaining four remained indifferent to the results.

*Source: An Issue Paper on Participation in Public Expenditure Systems prepared by SwarnimWagle and Parmesh Shah, Social Development Department, The World Bank.*

#### **General**

6.7.10 With respect to the recommendations made, it may be mentioned that these suggestions have been tested under different public funded programs that are fairly effectively operated. In particular, Sarva Shiksha Abhiyan , which is being carried out in Chhattisgarh, and officials and staff involved in this program are familiar with the program monitoring requirements include the components suggested as measures for public financial expenditure tracking and reporting. These are briefly as follows and are considered as best practices:

- Independent and regular field visits to monitor performance by Social Science Monitoring Institutes.

- Independent assessment/study to be carried out for candid feedback on implementation of the program.
- Results framework to measure outcomes against the pre decided targets and baseline.
- Statement of expenditure in each school to be a public document
- Capacity building training programs

**APPENDIX 6.1**  
**(Refer Para 6.2.4)**

**MONTHLY EXPENDITURE PLAN FOR THE FINANCIAL YEAR -**  
**(Budget Estimate)**

**(Rs. In lakh)**

<b>Month</b>	<b>Non-Plan</b>	<b>State Plan</b>	<b>Central Plan</b>	<b>Central Sponsored Plan</b>
<b>April</b>				
<b>May</b>				
<b>June</b>				
<b>July</b>				
<b>August</b>				
<b>September</b>				
<b>October</b>				
<b>November</b>				
<b>December</b>				
<b>January</b>				
<b>February</b>				
<b>March</b>				



**EXPENDITURE REPORT**

**NAME OF PROGRAM/SCHEME:** \_\_\_\_\_

**FUNDED BY:** \_\_\_\_\_

**FOR THE MONTH OF \_\_\_\_\_, 20\_\_\_\_**

<b><u>FUND POSITION</u></b>	
<b>1. SANCTIONED FUND</b>	<b>Rs.</b>
<b>2. FUND RELEASED</b>	<b>Rs.</b>
<b>3. FUND EXPENDED</b>	<b>Rs.</b>
<b>4. FUND UNSPENT (2-3)</b>	<b>Rs.</b>
<b>5. FUND COMMITTED</b>	<b>Rs.</b>
<b>6. FUND AVAILABLE [1 – (3+5)]</b>	<b>Rs.</b>

Sl. No.	Major Head of Account	Activity	Physical Progress				Financial Progress				Remarks*
			Target	This Month	Year to Date	Committed	Budget	This Month	Year to Date	Committed	
(1)	(2)	(3)	(4)	(5)		(6)	(7)	(8)	(9)		(10)

Note: The \_\_\_\_\_ program site(s) has/ have been inspected by the DIF/Independent Evaluator/Departmental Staff Team. (if inspected, attach a copy of the inspection report).

Prepared by: \_\_\_\_\_

Checked by: \_\_\_\_\_

Date: \_\_\_\_\_

\_\_\_\_\_

(Name/Designation/Signature of Reporting Officer)

**(Refer Para 6.5.4)**

- The reasons for variations, if any, between target and actual should be recorded together with remedial measures contemplated to overcome the variations. Few examples of reasons for variation are- delayed release of funds, time taken in approval for re-appropriation of budget line items, protracted procedure in tender invitation, bid evaluation and approval, shortage of staff, delayed delivery of materials by vendors, Acts of God, etc.
- Attach Utilization Certificate on quarterly basis

## **Case Example**

### **Rajasthan: An Assessment of the Mid-Day Meal Scheme in Chittorgarh District**

#### **Overview of Mid-Day Meal Scheme**

The National Program of Nutritional Support to Primary Education, commonly known as the Mid-Day Meal Scheme (MDMS), was launched in India in August 1995. The MDMS covers all students in primary schools run or funded by the government throughout the country. While initially the MDMS provided 3 kilograms of food grain per student per month, on November 28 2001, India's apex court, the Supreme Court, directed all State Governments to provide cooked mid-day meals instead of raw food grains. The State of Rajasthan began implementing the MDMS throughout the State in July 2002. In 2005-06 the Government of Rajasthan provided mid-day meals to approximately 10.2 million children enrolled in 75,000 primary schools in Rajasthan. Initially, students were distributed boiled wheat supplemented with groundnut and jaggery (Gur). Since April 2005, cooked meals according to a menu based on children's preferences and local availability of raw materials, and decided by a district level committee, have been given to students. Under this scheme the Central Government provides 100 grams food grain (wheat or rice) per child per school day, free of charge, and Rs. 1.005 per student per day toward cooking conversion costs. The State Government also contributes Rs.1.00 per student per day toward cooking conversion charges. The infrastructure for the MDMS is supposed to be developed by the State Government from funds available under other schemes. The MDMS is also being used to support administration of six monthly doses of de-worming medication and Vitamin A supplementation, weekly doses of iron and folic acid supplements, and other micronutrients depending on common deficiencies found in the local area.

### **Mid –Day Meal Scheme (MDMS) in Rajasthan**

In Rajasthan, the Panchayati Raj Department is responsible for the overall implementation of the MDMS. At the state level, the Mid-Day Meal Commissioner monitors and supervises implementation of the scheme. At the district level, the Zilla Parishad implements the MDMS. At the district level, the MME (Management, Monitoring and Evaluation) Committee oversees implementation of the MDMS. A village-level MME committee, formed by the Gram Panchayat, comprising of a male and female ward member, a school headmaster, two representatives from parents, the local auxiliary nurse midwife (ANM), and the secretary of the Gram Sabha, is responsible for monitoring and supervising implementation of the MDMS in the village. The meal is supposed to be prepared and served in the presence of at least three members of the committee. A monthly target based approach is predominantly used to measure the impact of the MDMS with quantitative indicators such as quantity of food grains lifted from the warehouses, quantity delivered to schools, attendance, increase in enrollment, and so forth. There is an absence of indicators to measure the quality of service delivery. In addition to the committees described above, a School Management and Development Committee (SMDC) is responsible for overall management of school activities, including MDMS.

### **Pilot Evaluation of MDMS in Rajasthan**

A pilot project was undertaken to evaluate implementation of the MDMS in 211 schools in the Chittorgarh District of Rajasthan. The pilot was also expected to develop and test a methodology that could provide regular user feedback to service providers which would be useful in better implementation of the MDMS in the State. A total of 2,110 students, 2,110 parents, 422 teachers and 211 cooks were interviewed during the pilot study. Also the release of funds and food grains across four tiers, i.e. state, district, block and village levels, was tracked to assess timeliness and efficiency of the MDMS.

### **Evaluation Process**

The pilot study broadly contained the following seven steps: (i) Project scoping through village visits and stakeholder discussions (including a workshop); (ii) developing, field testing, and finalizing survey instruments; (iii) conducting the actual surveys and participatory expenditure tracking; (iv) collecting secondary data on budget allocations, utilizations, and fund flows; (v) analyzing data; (vi) conducting stakeholders workshops to discuss and finalize results; and (vii) finalizing the report and disseminating results.

### **Evaluation Results**

The surveys resulted in a massive amount of data that yielded numerous interesting insights and observations, the significant ones are –

- Unutilized quantity of food grains is increasing over the years, while the quantity being lifted and utilized by the state is declining;
- Irregularity in the reimbursement of conversion costs, which in turn affected implementation of the MDMS;
- Schools lack basic infrastructure to implement the MDMS effectively; and especially, most schools lack adequate cooking and storage facilities;
- Huge unspent conversion cost and unutilized food grain balances are a major cause of concern;
- Even though Gram Panchayats have been entrusted with the responsibility of monitoring the implementation of the MDMS, in reality, they are playing a marginal role;
- Delays for some schools in receiving budget and food grain allocations;

(Refer Para 6.7.8)

### **Evaluation Impacts**

The dissemination of the pilot findings has resulted in a number of changes in the implementation of the MDMS, such as timely transfer of funds, improvement in quality of food grains, improvement in basic infrastructure and increased involvement of teachers and parents.

*Source: Adapted from the case study prepared by George Cheriyan and K.C. Sharma of the CUTS Center for Consumer Action, Research & Training (CART), J.V.R. Murty of the Water and Sanitation Program, and Sanjay Agarwal and Parmesh Shah of the South Asia Sustainable Development Department at the World Bank for the workshop on "Application of Social Accountability Mechanisms in CDD and Decentralization Programs in South Asia: Experiences from Pilot Projects" in Hyderabad, India, in March 2007.*

## **Part IV**

# **Capacity Building Needs of the Institutional Finance, Health and Education Sectors**

## CHAPTER 7

### Capacity Building

7.1 Based on the findings as discussed in Part 3 of this Report, there is need for capacity building to effectively implement public expenditure tracking and reporting in the health and school education sectors in the State. Capacity building is not only about skill development. It is also about the development of frameworks, work cultures, policies, systems and processes – all aspects of an organization that facilitate good performance. However, for the purpose of the present study, the issue of capacity building as discussed in the following paragraphs, is restricted to systems and processes. These suggestions pertain to Health & Family Welfare Department, School Education Department and the Directorate of Institutional Finance.

#### **Recording Procedures**

7.2 Recording and accounting of expenditure form the basis of expenditure reporting and tracking. It is therefore important to strengthen the recording process at the spending unit level, especially at the district and block stages. This would require proper guidance at the spending unit level through documentation in check list format of heads of account (with explanatory notes); basis and procedure of recording of expenditure (with illustrative examples); and routine exercises such as settlement of advance payments and reconciliation of suspense account<sup>9</sup> balances.

#### **Individual Capacity Building**

7.3 Building the capacity of the departments would largely depend on the capacities of individuals within the departments, particularly at the spending unit level, to develop the requisite skills, acquire knowledge, implement and sustain change.

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<sup>9</sup> Suspense Accounts are temporary holding accounts for financial information and are used to book large entries quickly or hold certain items that would be broken down at a later time; and need to be reconciled periodically to ensure that all the financial information are posted to proper heads of account.



## **Training Methodology & Process**

- 7.4 For this purpose, 'on-the-job' training is most effective. It implies learning by doing as part of 'real' work; and could be complemented with 'off-the-job' training (or, class-room training) being the development of theoretical frameworks to underpin practical abilities and their transference to the workplace. Seminars and in-country courses are also valid methods for transferring skills to individuals, but it is important to identify the appropriate and relevant ones to ensure they support the desired and the required capacity building needs.
- 7.5 To provide effective training, manuals in simple form and language understandable to the trainees are useful tools as both reference sources and for operational instruction. Further, it is necessary to train the trainers to be familiarized with the contents, level and depth of training as well as the training pedagogy so as to enable the trainers to impart training in proper and effective manner.
- 7.6 Also, to assess the extent to which the training has enhanced the skill application on work, there is need to have regular follow-up with the participants. This would facilitate to ensure that the participants are applying their knowledge to operations, and to design and develop enhanced training programs.

## **Training Coverage**

- 7.7 The areas that need to be covered in the training program are:
- i) Clarification on purpose, components, and reporting requirements of various schemes and programs that are being undertaken;
  - ii) Explanation on classification of heads of account and items that are to be booked or charged under respective heads of account;
  - iii) Procedure for recording of expenditure; in terms of cash or kind;
  - iv) Need and process for settlement of advances and reconciliation of suspense accounts;

- v) Collation of data and information of financial expenditure and physical outcome achieved;
- vi) Matching of approved budgeted expenditure with corresponding actual expenditure and physical outcome attained as compared to target;
- vii) Preparation of public expenditure reporting in formats recommended in Part 3 of this Report;
- viii) Elementary and simple computer application.

### **Training Agencies**

7.8 Suitable competent agencies having the requisite experience and resources need to be selected through a transparent and competitive appointment process for development of training materials, imparting training, and handholding covering the geographical spread of the State and the number of personnel to be trained. A few agencies which could be considered for this purpose are cited by way of examples – National Institute of Financial Management, Faridabad, Ministry of Finance, Government of India; National Institute of Public Finance & Policy, New Delhi; Institute of Public Auditors of India, New Delhi; Indian Institute of Public Administration of Madhya Pradesh, Bhopal; Chhattisgarh Administrative Academy, Raipur; Harish Chandra Mathur Rajasthan State Institute of Public Administration, Jaipur.

### **Information Technology Extension**

7.9 To make public financial expenditure reporting to be fully effective and timely, it is necessary to computerize the record keeping at all spending units. Suitable software system needs to be developed to meet the expenditure tracking and reporting system. Also, the computerization needs to be linked between the spending units and the headquarters of the department concerned so as to have easy and speedy transmission of data and information.

7.10 In this context, it may be mentioned that the pilot project on education management information system in Kabirdham (Kawardha) district of Chhattisgarh may be examined and reviewed so as to assess the feasibility of up scaling and extending the software for the purpose of public expenditure tracking and reporting system. Alternatively, National Informatics Centre could be approached for either ready-made software, if available, or customized software development.

#### **Augmentation of Human Resource**

7.11 Based on volume of work (i.e. technical operations, administrative & financial functions), and number of persons at deployed, a need assessment of required manpower is to be undertaken at the spending unit levels in the districts and blocks. Following this assessment, recruitment of personnel should be made with minimum eligibility criteria in terms of educational qualification and experience as suitable for recording and reporting of public expenditure. The selection should be through written tests and interviews by the respective departments and appointment could be on contractual basis.

#### **Monitoring Unit at Directorate of Institutional Finance**

7.12 With limited resources available, it is essential to ensure that the best use is made of them. It is therefore suggested to familiarize the staff concerned of the Monitoring Unit with the objectives of monitoring, the procedures and selection of sample projects/sites for evaluation. Especially, understanding of output and result indicators need to be fully explained and clarified to the designated staff with reference to assessment of effectiveness and efficiency of expenditures made. In this connection a short-term training course of the staff of the Monitoring Unit would be useful; and subsequently refresher courses should be conducted, including sharing of experiences among the participants.

**Part V**  
**Implementation Plan**

## CHAPTER 8

### Suggested Implementation Plan

- 8.1 Implementation of effective public expenditure tracking and reporting system cannot be undertaken without adequate preparation. This entails a period of time before public expenditure tracking and reporting system could become fully operational.
- 8.2 To implement the system meaningfully, a time frame of 5 years is envisaged. This period is segregated into short term (6 months to 1 year), medium term (1 year to 3 year), and long term (3 year to 5 year). A suggested time frame for implementation of the recommendations contained in the earlier chapters of this Report is given in **Appendix 8.1**.
- 8.3 However, the suggested implementation plan is only indicative. It could be firmed up in consultation with Department of Finance, DIF, GTZ IS and the Health & Family Welfare and School Education Departments.

### Suggested Implementation Time Plan

SERIAL NO.	AGENDA	SHORT TERM	MEDIUM TERM	LONG TERM
1	Guidelines to Spending Units	x		
2	Determination of Core Indicators for Physical Outcome	x		
3	Expenditure Reporting Format	x		
4	Training	x	x	
5	Monitoring Unit	x	x	
6	Utilization Certificate	x		
7	Recording Procedures	x	x	
8	Public Expenditure Tracking System		x	x
9	Performance Evaluation			x
10	IT Development and Application	x	x	
11	Augmentation of Human Resources	x	x	
12	Cash Management System	x	x	x