8. Financial Administration

INTRODUCTION

Finance is the fuel for the engine of Public administration. Mr. Lloyd George is reported to have once remarked that Government is finance. This is quite correct, because almost everything the Government does, requires money. According to Kautilya, "All undertakings depend upon finance. Hence, foremost attention shall be paid to the treasury."

Financial administration consists of those operations the object of which is to make funds available for the Governmental activities, and to ensure the lawful and efficient use of these funds. These operations are performed by the following agencies :

(1) The Executive, which needs funds;
(2) The Legislature, which alone can grant funds;
(3) The Finance Ministry which controls the expenditure; and
(4) The Audit which sits in judgement over the way in which the funds have been spent.

Financial-administration is a dynamic process, which falls into five well defined divisions namely :

(1) Preparation of the budget, i.e., of the estimates of the revenue and expenditure for the ensuing financial year,
(2) Getting these estimates passed by the Legislature called 'Legislation of the Budget',
(3) Execution of the budget, i.e., regulation of the expenditure and raising of revenue according to it,
(4) Treasury management, i.e., safe custody of the funds raised, and due arrangement for thenecessary payments to meet the liabilities; and
(5) Rendering of the accounts by the executive and the audit of these accounts.

According to L.D. White, "Fiscal management includes, as its principle sub-divisions, budget making followed by the formal act of appropriation, executive supervision of expenditure (budget execution), the control of the accounting and reporting system, treasury management and revenue collection and audit."

So far, the best known machinery for fiscal management is the budget system.

BUDGET

Concepts : The nineteenth century encountered the growth of the problem of public finance on a gigantic scale. The problem arose, owing to the growth of the functions of the State in all directions, the establishment of parliamentary control over public finance, the necessity of check in financial administration to prevent fraud and waste, and to secure the highest possible results from public expenditures, and the growth in credit operations which resulted in the creation of central banks as the bankers of the Government. To solve this problem, there arose a new system in England, called Budgetism or the Budget system, which was wholly unknown until 1803.

Etymologically speaking, the word 'budget', derived from the French word 'bougette', means a sack or pouch from which the Chancellor of Exechequer used to take out his papers, for laying before the Parlia-ment, containing the Government's financial scheme for the ensuing year. Now, the term 'budget' refers to the financial papers, certainly not to the sack.

The budgets began to develop in the late Middle Ages, which were characterised by the presence of absolute regimes in England as well as in Europe. The budget was a statement of revenue and expenditure, and was regarded as the business affair of the King and secret of the State. This was so because the revenue was derived from the King's domain. It was not until the revolution of 1688 that the principle of 'no taxation without representation' could be generally recognised. Even at that period all Government expenditures were not subject to parliamentary control. Full legislative control of the purse strings is the feature of this century.

There is no unanimity among writers regarding the definition of the term 'budget'. It ha; been defined differently by different writers of public administration.

Dimock — "A budget is a financial plan summarising the financial experience of the past stating current plan and projecting it over a specified period of time in future."

Munro — "A plan of financing for the incoming fiscal year. This involves an itemised estimate of all revenues on the one hand and all expenditures, on the other."

W.F. Willoughby — According to him, a budget comprises of three components:

(a) A statement of the sums required for the due conduct of public affairs during the period to which such estimate relates;
(b) An estimate of the probable income from revenue and loans on the basis of existing provisions of law regarding public dues and credit operations;
(c) A statement showing conditions of treasury in terms of assets and liabilities.

So, it is very clear that the budget is the cornerstone of financial administration and the various operations in the field of public finance are correlated through the instrument of budget.

Budgeting involves :

(1) Preparation of the estimates,
(2) Collection and custody of funds,
(3) Disbursement and control of expenditure,
(4) Recording of all the transactions whose legality and regularity are duly varified and reported to the Legislature by an independent audit.

Budgeting serves as a powerful tool of coordination, and, negatively an effective device of eliminating duplication and wastage. These ends are served by devices, such as, justification of estimates, super-vision of the use of appropriated funds, timing of the rate of expenditures, and the like. It inculcates, or should inculcate, cost-consciousness and this feeling should permeate all levels of administration including the operating level. Budgeting presents an opportunity for evaluating programmes and policies, thereby identifying obsolete or unnecessary activities and giving a call for their discontinuance. It is, in this sense, pre-audit. Harold D. Smith sets out eight budgetary principles to accomplish the above tasks.

These principles are as follows :

1. Executive Programming : Budget, being the programme of the Chief Executive, goes hand in hand with programming and consequently must be under the direct supervision of the Chief Executive.

2. Executive Responsibility : The Chief Executive must see that the departmental programmes fulfil the intent of the legislature and due economy is observed in the execution of the programme.
3. Reporting : Budgetary process like preparation of estimates, legislative action and the budget execution must be based on full financial and operating reports coming from all levels of administration.
4. Adequate Tools: The Chief Executive must have an adequately equipped budget office attached to him, and an authority to earmark monthly or quarterly allotment of appropriations.
5. Mutiple Procedures : The method of budgeting may vary according to the nature of operations. Thus, the budgeting of quasi-commercial activities may be different from that of purely administrative activities.
6. Executive Direction : Appropriations should be made for broadly defined functions of the department allowing, thereby, sufficient discretion to the executive to choose means of operation to realise the main purpose.
7. Flexibility in Timing : Budget should have provisions to accommodate necessary changes in the light of changing economic situation.
8. Two-Way Budget Organisation ; Efficient budgeting depends upon the active co-operation of all departments and their sub-divisions.

Utility of Budget: Budget today has become one of the primary tools of financial as well as developmental administration. It is a management tool and sets out programmes and projects for socio-economic development. The utilities of budget are as follows :

(a) **As a Tool of Financial Control :** It is through the budget that a balance is tried to be maintained between scarce resources and limitless demands. Financial control through budget is exercised at various stages — from the preparation of estimates to expenditure making, the subor-dinate agencies within a department are involved in the initiation of the estimates. Heads of these offices scrutinize the estimates in terms of their needs and spending capacity. This process moves upwards to the hands of big departments who are expected to moderate the estimates in the light oI accepted policies of the Government. Finally, the central budgetary authority takes up the task of final consolidation and scrutiny in terms of national policies and priorities, norms of expenditure and constraints of resources.

(b) **As a Tool of Administration :** It embraces all the activities of Government departments as well as public corporations and Government aided agencies. An approved budget gives the admin-istrator a summary of the financial environment within which he has to work. It makes readily available to him information on varied features of his department's plan and prospects which need to be taken into account in considering any change in policy. The emphasis is on projects, programmes and activities for which there is administrative responsibility in terms of cost, time and accomplishment.

(c) **As anlnstrument of Public Policy :** The budget is vital, because it is the device whereby plans and policies are put into action. It converts broad ideas into concrete activities and resources. In doing so, the budget serves as the final determinant of the degree to which legislatively enunciated policy will be translated into reality. The budget as an instrument of fiscal policy, i.e., as a fiscal tool for consciously influencing the operations and directions of an economy, is one of its most important aspects. It is through budget that the Government tries to influence the size and direction of private investment expenditure by declaring concessions and incentives. Budgetary policy can also encourage capital formation and check inflation. The scope of public sector is another area influenced through budgetary policies.

(d) **As a Tool of Accountability :** The objective is to ensure the financial and legal accountability of the executive Government to the Legislature, and, within the executive Government, to ensure a similar accountability on the part of each subordinate authority to the one immediately above in the the hierarchy of delegation. There is also a system of audit. It is undertaken in order to check whether the expenditure conforms to the authority and that the expenditure is incurred as per budgetary sanctions and as per the purpose sanctioned in the budget.

(e) **Budget and Planning :** The planning application has always been latent in the budgetary process.Planning attempts to translate long term goals into medium term operational objectives and make allocation of human, physical and financial resources to programmes designed to achieve these objectives most effectively at the least cost. Budget may be said to take over where planning leaves off. An evaluation of the programmes in terms of the policies embodying the goals of the Government is the meeting place of planning and budgeting. The planner evaluates the programmes when he completes the task of identification and elaboration of goals and policies.The budgeteer performs this function from the opposite end of the spectrum when he completes the task of assessing the resources required to implement the proposed programmes.

(f) **Informative Role :** The budget document contains valuable information for various sections. The functional classification of budget gives a clearer picture of the Government's effort in each field. The budget contains a lot of data on various economic indicators such as national income, consumption, expenditure, capital investment, deficit financing, etc. For the business community and the industrialists, it provides a significant information which may affect their business in the ensuing year. The budget is also anxiously awaited by the common people.

(g) **Role in Performance Evaluation:** The budgetary data could provide information about the overallperformance and the specific data indicate the performance of a project, programme of aparticular department. Unit performance from year to year can be compared. Cost benefit analysis can help in restructuring, reallocating or changing the objectives or activities. This performance data collected on a continuous basis strengthens the data base for evaluating and reformulating the policies, priorities and programmes.

It is because of such a mounting importance of budget that the budgetary process needs to be handled with tmost care and professionalism.

FORMS OF BUDGET

Budgets can be classified into various categories viewed from different view points. A brief description of the major budget types is given below :

Long-term Budgeting : It is contended that a country's needs for a single year cannot be intelligently budgeted for, without consideration of its long term needs. Many of the improvements needed, e.g., the strengthening of defences, extension of communication, economic and industrial development, etc., are costly and cannot be effected within a single year. Long-term budgeting is, therefore, essential to make suitable provision for these.

Steps :

(1) To determine and forecast the needs of the counting over a period of several years, and the outlay required to meet them.

(2) To arrange the various improvement projects in order of their relative priority.
(3) To explore 'the possible sources—taxation, savings, borrowings, etc., of raising the amount of outlay required.
(4) To prepare a balanced programme for the entire period, which should contain the various items of development agreed upon, and should also be flexible enough to permit modifications according to the prevailing circumstances.
(5) To incorporate in each year's annual budget a portion of the long-term budget according to the time-schedule, and to get it duly passed by the legislature, to do the necessary revision for the future year's programme in the light of the prevailing circumstances, and to add the forecast for an additional year for the one which has been transferred to the current budget.

Balanced Budget : When the estimated amount of revenues and expenditures is equal, it is called a balanced budget. But if the anticipated revenues fall short of the anticipated expenditures, it is termed as a deficit budget. Conversely, if a budget shows more income than expenditure, it becomes a surplus budget. Most of the countries, however, resort to deficit budgeting. A deficit budget is an indication of the country's economic progress, but the deficit should not be too much. The deficit is generally covered by printing more currency notes but if there is too much of release of national currency, it leads to high inflation. But balanced budget has been rejected on many grounds. The grounds are :
(a) The balanced budget hinders the provision of the much needed goods and services for the community.
(b) It induces extra caution on Government spending.

Cash and Revenue Budgets : Wherein the estimate of income and expenditure is shown to be actually received and spent in one financial year, it is a cash budget. In U.K., U.S.A. and India there is a system of cash budgeting. If the income and expenditure, accruing in one financial year, are shown in the budget of that financial year but may not be actually realised, it is called a revenue budget. In France and other continental countries, there is a system of revenue budgeting.

Line-Item Budget : The budgetary system that evolved in England during the 18th and 19th centuries, was viewed primarily as a legal and accounting instrument, and the budget agency had the main responsibility for consolidating money estimates of expenditure needs from the various departments each year. This conventional pattern of Government budgeting serves the sole purpose offiscal accountability and is a document for parliamentary control of the financial operations of the Government. The entire expenditure, is presented for grants. Every Ministry presents one demand for its own requirements and separate demands for each of its subordinate organisations. The demands for grants, thus follow the organisational pattern and the details in each of these demands are on the basis of objectwise classification. This type of budget is known as the line-item budget with its focus on itemised classification of expenditure. It provides the basis for maximum control. We still adhere to this type of budgeting system to a great extent.

Criticism : The criticisms are as follows:
(a) It does not help decision makers to evaluate unit costs and programme accomplishment.
(b) It cannot show the relationship between programme inputs and outputs.
(c) It does not show the existing personnel situation and the condition of management and equipment.
(d) It has no educative value to citizens.

Executive Budget: It is a 20th century phenomenon. It is based on the principle of 'executive leadership' which means entrusting the formulation of the' estimates, and the execution of the budget, as approved by the Legislature, to the chief executive. The executive budget in this way facilitates more accountability of administration against any deficiencies in financial procedures, as well as disappointing programmer results.

Lump-sum Budgeting : Under it, transfers of funds may be made not only between objects but also between organisation units and approved work activities. As expenditure abuses were corrected in the first years of executive budgets some use was made of the lump-sum principle.

It provides a quick idea of the overall distribution at the national level and the allocation can be amended by the Legislature sector by sector.

Programme Budget: This budget is considered as a step towards performance budgeting. Here the focus was on achieving work results. In the U.S.A., it came to be known as the 'management approach' to budgeting rather than the accountant.

Performance Budgeting : After World War II, attempts to make the management approach effective were intensified and performance budgeting was urged. Much of the stimulus came from the first Hoover Commission. The commission recommended that "the whole budgetary concept of the federal Government should be refashioned by the adoption of a budget based upon functions, activities and projects", and designated this the 'performance budget'. A performance budget presents public expenditure in terms of functions, programmes and activities, and, thus, stands out from the line-item budget which only emphasises staff, furniture, equipments, etc. A performance budget starts off by analysing the objectives of an organisation and deciding under what general headings its expenditure can be best analysed functionally. A function, in this context, means a major grouping or division of the total organised effort which is directed towards the accomplishment of the organisation's purpose. A programme is a segment of a function, whereas an activity or project is a division of a programme into homogeneous units of work. These terms may be explained with the help of an illustration. The Department of Education has as its function 'Education'. A programme under this function may be 'primary education'. The project and activity under this programme could be construction of a school building and training of primary school teachers respectively.

Planning-Programming-Budgeting (PPB) : Due to the shortcomings of performance budgeting, the concept of Planning-Programming-Budgeting evolved in the U.S., in the 1960's.

PPB was practised by the American automobile company — 'General Motors' as early as in 1924. Later on in 1964 PPB was adopted for the entire department of defence. Impressed by its success President Johnson prescribed PPB system for the entire federal budget in 1965.

Planning is the determination of the basic goals of the organisation and the selection of the programmes best calculated to achieve these goals. Programming entails the scheduling and execution, as efficiently as possible, of the specific projects required to implement these programmes. Budgeting is the process of converting the goals, programmes and projects into money estimates for review within the administrative branch and final action by the legislation.

According to Nigro, "Planning-Programming-Budgeting was an attempt to integrate budgeting with overall planning for the Government as a whole, and to make the planning, execution, and evaluation of Government policies as rational as possible." This PPB system is viewed as an input-output system based on rigorous analysis seeking to discover the relative advantage of given solutions compared widi other possible ones. The centre for PPB system is the budget, the methods used are planning and decisionmaking, the purpose is a more viable economy and improved co-ordination. Hence the four main elements are :

(i) clear goals for the Government and its programmes;
(ii) the identification of future-year implications;
(iii) the analysis of all pertinent costs; and
(i) the systematic analysis of alternative courses of action and anticipated outcomes.

It involves laying down of socio-economic objectives at each level and for each project and programme in the light of national objectives. It stresses identification of alternatives with their respective cost-benefit analysis. Further, it requires continuous inter-agency co-ordination and periodic reviews and evaluations in terms of national goals.

Limitations :

(i) It was essentially of an analytical nature which did not appeal to the bureaucrats.
(ii) It failed because it did not penetrate the vital routines of putting together and justifying a budget.

This system can be found in some of the Scandinavian and Western European countries.

Zero-Base Budgeting (ZBB) : It originated in U.S.A. It was developed by Peter.A. Phyrr in the Texas Instruments Company. In 1977, the U.S. President Jimmy Carter, adopted ZBB in the federal Government.

ZBB can be defined broadly as an evaluation of all programmes and expenditures of every year requiring each manager to justify his entire budget request in detail.

Steps : The introduction of ZBB in an organisation involves the following steps :

(a) Identification of decision units,
(b) Decision packages,
(c) Ranking of decision packages in terms of cost benefits,
(d) Formulation of Budget, and
(e) Follow up and Revision.

Peculiar Features : It has some peculiar features.

These are :

(i) It is based upon a comprehensive analysis of priorities, goals and objectives which makes it more realistic;
(ii) Cost effectiveness can be enforced in a better way as the ZBB requires the evaluation of operational activities in terms of costs and benefits;
(iii) It provides an effective mechanism for planning and control functions. Targets are specified;
(iv) It ensures better participation of executives, which leads to better communication, development of inter-personal relationships and better learning and personnel development.

Problems: The implementation of ZBB poses certain
Problems. These are :

(i) The problem of effective administration and communication is bound to arise.
(ii) It requires costly infrastructure and trained personnel.
(iii) Ranking of decisions poses another problem.
(iv) It requires handling of large data-making which is a tough task.
(v) The role of human bias in the selection of decision packages cannot be ruled out.

In India, the decision of introducing ZBB was taken in 1986 by Mr. V.P. Singh, the then Finance Minister. ZBB was adopted by various departments and Ministries at the Union level in 1987-88. All the above types of budgets are in use in some or the other form and often in combination in the Governments of today.

Commencement of the Financial Year

Period	Countries
(a) 1st April	India, England and most of the Commonwealth countries.
(b) 1st July	U.S.A., Australia, Italy, Sweden.
(c) 1st January	France and other Continental countries.

Budgetary Process

The budgetary responsibilities of a modern Government are vast and grave. Article 112 of the Constitution of India refers to the lay ing of an Annual Financial Statement,' which is a statement of the estimated receipts and expenditure, of the Government of India for the ensuing financial year. The Annual Financial Statement consists of (a) Statement of Revenue, (b) Statement of Expenditure, and (c) an overall statement. This Annual Financial Statement shows the sums charged on the Consolidated Fund of India and the money required to meet other expenditures.

The budgetary process in India involves the following operations :

(1) Preparation of the budget
(2) Legislative authorisation of the enactment of the budget
(3) Execution of the budget
(4) Accounting
(5) Audit

FORMULATION OF THE BUDGET

There is no single budget for the entire country; States have their own budgets, the Constitution being federal. Even at the Union level, there are two budgets — (i) the General Budget and (ii) the Railway Budget. The Railway budget was separated from the General budget in 1921. The advantages of this arrangement is, first, that a business approach to the railway policy is facilitated, and, secondly, the railways after paying a fixed annual contribution to the general revenue of the country, can keep their profit for their own development.

Formulation of the budget involves, in India, the following operations which follow in the order given below :

(1) Preparation of the preliminary estimates by the heads of offices.

(2) The scrutiny and review of those estimates by the controlling officers.
(3) Scrutiny and review of the revised estimates by the Accountant-General and the administrative department.
(4) Scrutiny and review of the revised estimates by the Finance Ministry.
(5) The final consideration of the consolidated estimates by the Cabinet.

The responsibility for the preparation of the budget estimates rests on the executive who is responsible for running the administration and is, therefore, in the best position to say what funds are required for it.

The Finance Ministry has the overall responsibility for the framing of the budget, but it is the admini-strative ministries which have the detailed knowledge of administrative requirements. For incorporating the plan priorities in the budget, the Finance Ministry has to be in close touch with the Planning Commission. Also, the Comptroller and Auditor-General comes into the picture since it is he who makes available the accounting skills — so necessary for the preparation of the estimates.

The work in connection with the preparation of the budget estimates begins 6 to 8 months before the commencement of the next financial year. Since the Indian financial year commences on April 1, budget preparation begins in India in the month of September. The ball is set rolling by a circular of the Finance Ministry (or the Finance Department in case of States) to the various administrative Ministries or departments asking them to start the preparation of the estimates. These pass on the directive to the disbursing officers, i.e., the heads of offices. Printed forms are supplied wherein the estimates and the other requisite information have to be filled in. Each form contains columns for

(a) actuals of the previous year,
(b) sanctioned estimates for the current year,
(c) revised estimates for current year,
(d) budget estimates of the next year,
(e) actuals of the current year (at the time of the preparation), and
(f) actuals of the corresponding period of the previous year.

The estimates of the coming year are made on the basis of

(1) the revised estimates for the current year;
(2) the 12 month's actuals of the last year;
(3) any recognisable irregularity in past year's figures; and
(4) any special circumstances causing variations.

The estimates are prepared in two parts. Part I relates to the existing revenues and charges, and Part II to new schemes of expenditure and to the proposals for the abandonment of any existing source of revenue.

The disbursing officers send the estimates to the head of the department, who consolidates them for the whole department, after such review and revision as he may consider necessary. In the course of such review, the head has to judge the relative importance of the proposals from the various branches and sections of the department for new expenditure in the light of the possible grant for the department as a whole, and accept some of them and reject others. The estimates from the various departments are sent to the appropriate Secretariat/Department to be scrutinised there once again in the light of its general policy, and finally the Secretariat departments send the estimates to the Finance Ministry or department.

In India, the estimates pass through the hand of the Accountant-General also who supply the actual and certain other information from their account books.

Scrutiny of the estimates by the Finance Ministry :

The estimates received from the various departments are finally scrutinised by the Finance Ministry and, after such revision or modification as may be necessary, are consolidated together into the budget of the Government as a whole. Its scrutiny is different in character from that of administrative Ministry. It does not go into the policy of the expenditure — this is, in the main, the responsibility of the administrative Ministry itself. The scrutiny of the estimates by the Finance Ministry is from the financial point of view, i.e., of economy and availability of funds. It does not question the policy underlying the proposals of the administrative Ministries for which they themselves are reesponsible.

The Finance Ministry is given tremendous control over the estimates of the other departments because of two reasons. Firstly, the Finance Ministry itself is not a spending department and can act as a dis-inter-ested guardian of the tax payers' interest. Secondly, the Finance Ministry has to find the money to meet the proposed expenditure and so it must have a say in deciding whether it should be incurred or not.

The operation of the Finance Ministry's scrutiny is best seen in case of proposals for new expenditure, e.g., over a new social service, or the extension of an existing activity in a new direction.

The imperative demands of the Five Year Plan, the policy decisions of the Cabinet, the current conditions in the country—all these must find a reflection in the budget and, to the degree, restrict the Finance Minister's say. The Finance Ministry closely looks into all proposals that impose a new, or an increased charge on the Government.

New charges are of two classes — (i) grants for purchases, constructions, etc. and (ii) grants for establishment. Big purchases or constructions, like the atomic energy reactor in Mumbai, are undertaken with the concurrence of the Cabinet. Evidently, the Finance Ministry's control in regard to the inclusion of such charges in the budget may appear to be somewhat restricted. But it watches closely the establishment proposals involving extra expenditure. If the Finance Minister cannot reconcile himself to the decision of the Cabinet, he may resign. Anyway, the Finance Minister's position in the Cabinet is a strong one; the Cabinet must give special weight to his views, at any rate when the expenditure at stake is of a significant dimension.

In Britain, the treasury and in the U.S.A. the Bureau of the Budget exercises over the budget estimates, the control which the Ministry of Finance does in India.

Criticism : The Finance Ministry's control over the estimates has been subjected to a good deal of criticism in recent years. The criticism are as follows :

(i) The natural instinct of the Finance Ministry is to say 'no' to a new proposal. It thus acts as a brake on progressive policies.

(ii) The competence of the Finance Ministry or Treasury to exercise judicious control over departmental estimates is questioned. The result is that proposals are arbitrarily accepted or rejected. It is prone to reject small proposals, while accepting the big ones without much ado.

(iii) The propriety of vesting into one Ministry the control over the estimates of other Ministries is doubted. It is said that if there must be such control, it should be into the hands of some super-departmental agency headed by the Prime Minister.

These criticisms are not without their substance, but control over estimates by some control agency like Finance Ministry or Treasury is a valuable instrument of balancing the budget and securing co-ordination of the activities of the Government.

Consideration of the consolidated estimates by the Cabinet: The Finance Minister examines the budget estimates and in consultation with the Prime Minister, prepares the financial policy with regard to taxation, etc. This, however, is kept a close secret. The consolidated figures are submitted to the Cabinet for consideration. The Budget Division of the Ministry of Finance then incorporates the necessary changes in accordance with the orders of the Cabinet and there after brings revised estimates for the current year uptodate. When it is finally approved by the Cabinet, the budget is ready for submission to the Parliament.

Enactment of the Budget

The budget is formally presented by the Finance Minister but it requires to be recommended by the President before it is presented to Parliament for legislative authorisation. In fact, it is an important step in the completion of the budget, as a control instrument of financial administration. It is a cardinal principle that no taxation can be levied and no expenditure incurred without the prior approval of Parliament in all parliamentary democracies.

The role of the Legislature in budgeting is shaped by several co-ordinated influences. These are as follows :

(1) Influence from the executive : The executive authority proposes the programmes that the Legislature must review, modify and adopt.
(2) Influence from the internal organisation of legislative body : It determines the importance attached to the budgetary actions and relationship between budgeting and other legislations.
(3) Influence from the legislators themselves : The legislators themselves determine their individual and collective interests and abilities in fiscal affairs.

In Parliament, the budget goes through the following five stages :

1. Introduction in the Legislature
2. The general discussion
3. The voting of the demands for grants
4. The consideration and passing of the Appropriation Bill, and
5. The consideration and passing of the taxation proposals, i.e., the Finance Bill.

1. Introduction : It has become customary in India to frame, introduce, and pass the budget in two parts — the Railway budget, and the General budget. The railway budget is regularised by rule 134 of the Rules of Procedure and Conduct of Business in Parliament, which makes provision for the submission of budget in two or more parts, each part to be dealt within the same manner as if it were budget. The procedure in case of both is the same except that the railway budget is introduced and piloted by the Railway Minister while the general budget is introduced by the Finance Minister. The railway budget precedes the general budget.

The powers of Parliament in respect of the enactment of the budget are enshrined in the Constitution itself. The relevant Articles are 112 to 117. The following provisions in this respect may be worth noting :

1. No demand for a grant shall be made except on the recommendation of the President.
2. No proposal relating to expenditure can be brought without the recommendation of the President.

3. Parliament cannot increase tax though it is empowered to reduce or abolish it.
4. ‘Charged’ expenditure on the Consolidated Fund of India shall not be submitted to the vote of Parliament, though it is subject to discussion.
5. Parliament cannot amend the Appropriation Bill in a way as to have the effect of varying the amount of any ‘charged’ expenditure.
6. Powers of the Rajya Sabha are quite restricted in financial matters. Voting of demands for grants is the exclusive privilege of the Lok Sabha. In the case of Finance Bill, the Rajya Sabha has severely limited powers. It must give its concurrence, with or without any recom-mendation, within 14 days. The Lok Sabha may accept or reject any or all of these recom-mendations. The Finance Bill, however, does not go again to the Rajya Sabha; it is submitted to the President for assent. For the first time, in 1977, the Rajya Sabha made some changes in the Finance Bill. But the Lok Sabha reasserted its supremacy by rejecting these changes and adopting the Finance Bill in its original form.

The Finance Minister presents the budget to the Lok Sabha on the last working day of February. If on the last working day of February the House is not scheduled to meet, the House is summoned to meet specifically on that day at 5.00 p.m. for the resentation of the budget. The budget is presented first in the lower House by the Finance Minister. He makes a speech introducing the budget which contains

(a) General economic condition of the country
(b) Financial policy of his Government
(c) Explanation for the differences which occur between the budget estimates and the revised estimates of the current year.

This speech is eagerly awaited by the business and the financial circles as it gives them the first intimation of the taxation proposals, the tariff trends, protection to the industries, and the general economic and financial policy of the Government for the ensuing financial year. The budget speech is a lengthy document and printed copies of it, of the budget estimates, and explanatory memoranda are circulated among members.

The budget is also laid before the Council of States (Rajya Sabha), though this chamber can only discuss it and has no power over grants at all.

2. **General Discussion :** The general discussion of the budget begins a few days after its presentation. Two or three days are allotted for it. It is confined to the general principles or policy underlying the budget. Details of the budget are, however, not discussed. There is no voting, nor are cut motions allowed. General discussion of the budget is a hang-over from the past when the Indian Legislature had no power to vote the budget but could only discuss it. Under the new dispensation, it serves some purposes — the members have an opportunity to discuss revenue estimates, the ways and means programme of the Government, and, what is perhaps the most important purpose, the ‘charged’ expenditure. To the Government, this stage provides a foretaste of the feelings of the House on budget proposals for taxes as well as expenditure. At the end of the debate, the Finance Minister gives a general reply, rebutting, as is to be expected, the various charges made by the members.

3. **Voting of Demands for Grants :** Here voting is restricted to the votable parts of the expenditure; the ‘charged’ expenditure is not submitted to vote. The voting of demands is the exclusive privilege of the Lok Sabha. Lok Sabha at this stage examines the estimates thoroughly and much of the time is taken in the discussion of the estimates. The demands for grants are

discussed and presented Ministry-wise. This arrangement facilitates the House to consider the demands and the working of each Ministry.

The total number of days allotted for the voting of demands is 26 days in India. The Speaker, in consultation with the leader of the House,- fixes a time limit for each demand as well as for the entire expenditure part of the budget. A demand is subjected to vote as soon as the time limit fixed for it, is reached. On the last day of the allotted period, the Speaker puts all the remaining demands to vote whether the discussion on the demand is complete or not.

The General budget is divided into 109 demands, 103 for civil expenditure and 6 for defence dependiture.The Railway budget contains 32 demands. Eachdemand is subject to vote. The demand is introduced by the Minister in charge of the subject, with a speech, which is largely political, very seldom financial. This is the stage of active discussion. The discussion is sparked off by moving cut motions, the idea behind these is that members specify the precise points on which they wish to concentrate discussion. Cut motions are of three kinds :

(a) Policy Cut : It is to disapprove of the policy underlying a demand. The motion is to reduce the demand to Re. 1.
(b) Economy Cut: It is to highlight the possibility of effecting economy in the proposed expenditure. The motion for economy cut is to reduce the proposed expenditure by a specified amount.
(c) Token Cut: It is to ventilate a specific grievance within the sphere of the responsibility of the Government of India. The motion is to reduce the demand by Rs. 100.

The principal merit of these cut motions lies in exposing and publicising the lapses of administration. The cut motion is, of course, defeated because of the majority behind the Cabinet. A demand becomes a grant after it has been duly voted.

Charged Expenditure : There is one part of the estimates of expenditure which is not submitted to the vote of the House at all though it can be discussed by it. This part is known as Charged Expenditure, that is, expenditure charged on the Consolidated Fund. The reason for excluding these items from the vote of the House is that they are of a fixed or inevitable nature and admit of no reduction or variation.

4. **The Appropriation Bill :** When the House of People has voted all the demands, they, together with the demands for ‘charged expenditure’ are incorporated into a bill called the Appropriation Bill. The passage of this Bill is necessary to legalise thedemands as voted and to authorise the withdrawal of money from the Consolidated Fund of India. Article 114 of the Constitution provides that no money can be withdrawn from the Consolidated Fund of India except under appropriation made by law. It follows the same procedure in the House of People as any other bill except that in this no amendment can be made to the Bill, as all the grants embodied in it have already been voted; the ‘charged’ expenditure is never put to vote. After being passed by the House of People it is certified by the Speaker as money bill and sent to the Council of States. The Council of States cannot amend or reject it; it returns the bill with its recommendations within 14 days. The House of People may accept or reject any or all of these recommendations. It is, then, sent to the President for assent, which is given as a matter of course. The purpose of passing the Appropriation Bill is to authenticate the supply voted by the House to facilitate the work of the Comptroller and Auditor - General.

5. The Finance Bill : With the passing of the Appropriation Act, the disposal of the expenditure part of the budget is complete. Money for expenditure, however, must come from somewhere and for that resort has to be had to taxation. Article 265 of the Constitution lays down that no tax shall be levied or. collected except by authority of law. Since Parliament is the law-making body, it is this august body which must give consent to the taxation proposals of the Government, some of the taxes are permanent and their rates are fixed by the Government under the provisions of the Acts governing them. Others are to be authorised annually by the legislature as for example, the income tax, customs, etc.

All the taxation proposals of the Government for the ensuing financial year are embodied into a single bill known as the Finance Bill which has to be passed by Parliament every year. It is open to general and clause by clause discussion. Unlike the Appropriation Bill amendments may propose the abolition or the reduction of any tax and are sometimes even accepted by Government but not any new tax nor an increase in the rate of any existing tax. But on the recom-mendation of the President, a proposal to increase a tax or introduce a new tax can be introduced. After the passage of the Finance Bill in theLokSabha, it is sent to the Rajya Sabha for its concurrence. The latter has to return the Bill with its recommendations within fourteen days. The lower House may accept or reject any or all of the recommendations. In any case, it is sent to the President for his assent; after the assent it becomes the law of the land.

It may be recalled that the budget embodies ordinary annual estimates, both of receipts and expenditures.
It is likely that, under special or extraordinary circumstances, provision has to be made for the following kinds of grants which the House of People may be asked to make, viz.,

- (i) Vote on Account
- (ii) Vote on Credit
- (iii) Special Grant
- (iv) Excess Grant
- (v) Token Grant
- (vi) Supplementary Grant

(i) Vote on Account: Vote on Account is an advance grant made by the House of People in respect of the estimated expenditure for a part of the ensuing financial year, pending the regular passage of the budget.

(ii) Vote on Credit: The Lok Sabha can grant vote on credit to meet an expenditure whose amount or details cannot be precisely stated on account of the magnitude or the indefinite character of the service (for example, war). It is, thus, a sort of blank cheque given to the executive. The Constitutional provision has been made for vote on credit in Article 116(b), though this device has not so far been used in India.

(iii) Special Grant: The special grants form no part of the current service of any financial year. When unforeseen expenditure not provided for in any of these ways, suddenly arises, it can be met from advances made by the President out of the Contingency Fund of India. These advances have to be duly authorised by the Parliament later.

(iv) Excess Grant : Excess grant is voted after the financial year. Since the disbursing authorities are spread all over the country, it is obviously not possible to keep the expenditure within the limit set up by Parliament. Excess money is sometimes spent. Such expenditure is regularised by obtaining an excess grant from Parliament. All such demands for excess grants need first be approved by the Public Accounts Committee before submission to the Lok Sabha.

(v) Token Grant: Token grant must not be confused with token vote which is a device of taking parliamentary approval for a self-financing scheme when funds to meet the proposed expenditure on a new service can be made available by reappropriation, a demand for a token amount (say, Rs. 10) is put to vote, and funds may be made available on Parliament’s approval of the demand. This is known as token grant.

(vi) Supplementary Grant : A supplementary financial statement can be laid before the House if

(a) the budget grants for any service are later found to be insufficient; or

(b) expenditure incurred on any service exceeds the amount provided for in the budget; or

(c) expenditure on some' new service becomes necessary. It has to be passed by the usual procedure for the Appropriation Bills.

It need be pointed out that the system of supple-mentary demands not only weakens parliamentary control over public expenditure, it also amounts to a breach of contract between the Government and the Parliament. Recourse to the Supplementary grants should be made only sparingly.

Thus, with the passage of the Appropriation Bill and the Finance Bill, the enactment of the budget is over.

EXECUTION OF BUDGET

A budget is of no use unless it is enforced, i.e., revenue and expenditure are regulated according to it. The execution of the budget is the responsibility of the executive Government, and therefore, the distribution of powers within the executive Government determines the procedure for the execution of the budget. Efficient execution depends on the extent to which financial control combines operational freedom and flexibility with accountability for performance. Besides, it requires strong central direction and control.

Control of expenditure within the terms of the budget is a far more complex affair than the collection of revenue and in budget execution, the primary emphasis is placed on it. The objects of control of expenditure are

(1) To see that it does not exceed the budgetary grant under any head, and

(2) To ensure that it is not improper, extravagant, wasteful.

The amounts voted in the budget are the maxima upto which the executive may spend for the specified purposes, and which must not be exceeded in any case without fresh legislative sanction. This does not mean that the executive may spend so much without due regard to necessity and economy. It is always implied that notwithstanding budgetary provision the executive shall spend on any object only the minimum amount absolutely necessary as an ordinarily prudent person does in private life.

The machinery of executive control over expenditure consists of

(a) the Finance Ministry, and (b) the heads of various administrative departments.

(a) **The Finance Ministry :** In India, the Ministry of Finance has been given the responsibility to exercise over-all control over the budget execution. As an instrument for carrying out the financial policies of the Government, the Ministry of Finance supervises the finances of spending authorities by checking over their expenditure at three stages. These are :

(i) approval of programmes or policies in prin-ciple;

(ii) acceptance of provisions in the budget esti-mates;

(iii) prior concurrence to incurring of expenditure subject to such powers as may have been delegated to the administrative Ministries/ departments.

In fact, it is the control at the first and third stages that generally, engages much of the attention and time of the Finance Ministry and that impinges on the day-to-day working of the administrative Ministries.

The Finance Ministry also performs a number of other duties in connection with the carrying out of the budget. These are :

- (i) Seeing that administrative Ministries do not receive more funds, during the financial year than they can spend, and that they surrender unspent balances as early as possible before the close of the financial year;
- (ii) Watching the progress of expenditure in the spending departments through periodic reports from them, and cautioning them when necessary;
- (iii) Supervising revenue collection through the Central Board of Revenue which collects the more important union taxes;
- (iv) Sanctioning reappropriations beyond the competence of the controlling officers; and
- (v) Giving financial advice and guidance to the administrative Ministries generally.

(b) **The Departmental Heads :** Subject to the overall control of the Finance Ministry, the head of each administrative department is designated as the controlling officer in respect to the expenditure occurring in his department. It is the responsibility of the controlling officers to keep a continuous watch over the current and anticipated expenditure with an object to see that the amounts so placed at their disposal are spent on the specified purposes. The Accountant-General watches the progress of expenditure against the Parliamentary sanction under each detailed head.

There is also continuous review and appraisal of the budget execution. The preliminary review takes place in the month of September, when four month's figures of actual expenditure are taken into account. The next review takes place in the month of December. Similarly, the third review is undertaken in January. It is at this point of time, revised estimates, based upon nine months' actuals, are prepared. Finally, there is, a modified appropriation for the final estimates. During these reviews it is also ascertained whether there is some necessity to go to the Parliament for additional funds. If the Finance Ministry feels satisfied it, presents a supplementary budget.

It is quite often that excess and deficiencies take place under different heads within the same grant. The department, where necessary, in consultation with the Finance Ministry, can sanction transfers from one head to another. Those departments which do not require the full amount of grant, surrender it to the Finance Ministry to be utilised elsewhere.

Execution of budget rests on the

- (i) Proper collection of revenues;
- (ii) Proper custody of collected funds; and
- (iii) Proper disbursement of funds.

(i) **Proper Collection of Revenues :** Collection of revenue is the first step and involves two major operations — assessment of revenue and its collection. Assessment is nothing but an act determining what amount is to be collected from various bodies or individuals in accordance with the authority given by the legislature. It requires a high sense of judgement and discretion. On the other hand, collection is the act of actually collecting the amount assessed. It requires a high degree of accuracy and integrity and the collecting agency cannot use its own discretion. In India, the Department of Revenue of the Finance Ministry exercises overall control and supervision over the machianery engaged in the collection of direct and indirect taxes. Such control is exercised through two Boards — the Central Board of Direct Taxes and the Central Board of Excise and Customs.

(ii) **Custody of Funds :** The main aim is to avoid all possibilities of embezzlement and misappropriation and to ensure convenience and promptness in money transactions. The financial administration of any country, from the custody point of view, depends upon its history, its area and the banking facilities. The Government Treasuries for the custody of Government funds are fast disappearing due to the emergence of the wide banking network. Through the use of the banking system it is no longer necessary to carry on all the financial transactions through cash as now most of the work may be done through cheques, drafts, hundies, and bank bills. The modern tendency is for governments to have their own Central or Reserve Banks. This has a number of advantages such as financial stability, safety and security and no dangers of corruption and malpractices.

(iii) **Disbursement of Funds :** The disbursement system in India is based upon the British system. A heavy duty lies on the disbursing officer who withdraws the money from the treasury and disburses it.

DEFICIT FINANCING

The term 'Deficit financing' as used commonly in other countries, refers to that part of the Government expenditure which is in excess of its current revenues. Therefore, any expenditure which is met by borrowing from the public is considered a part of the deficit in the budget. In India, deficit financing refers to the excess of total disbursements (revenue and capital account) over total receipts (revenue and capital). The Government of India generally meets its deficit by sale of Treasury Bills to Reserve Bank of India and decrease in its cash balances.

Deficit financing in India has been restored mainly to enable the Government to obtain the necessary resources for the plans. The levels of outlays in the plans laid down are of an order which cannot be met only by taxation and borrowing from the public. The Government attempts to raise resources through external borrowings but when external assistance is not enough to fill the gap, deficit financing has to be restored to. Deficit financing is a device which helps transfer of resources to the Government. The real resources required for economic development must exist in the form of materials, equipment, skill and labour. The major evil of deficit financing is the inflationary rise of prices. Deficit financing leads to increase in money supply and, therefore increase in demand for goods and services.

When the Government resorts to deficit financing, it usually borrows from the Reserve Bank of India. The interest paid to the Reserve Bank actually comes back to the Government in the forms of profits. Through deficit financing, resources are used much earlier than they can be otherwise. This technique enables the Government to get resources without much opposition. Through deficit financing, the Governments gets resources quickly but in a concealed manner which does not rouse the opposition of public. The financing pattern for the Ninth-Five Year Plan does not visualise resource to deficit financing, which is defined as the monetised deficit of the

Government of India which accounted for 6% of the Centre's resources for the Eighth-Five Year Plan.

PUBLIC DEBT

The Government of a country meets its expenditure out of its income. Its income consists of what is called public revenue and public debt. Public revenue in its widest sense includes all kinds of income and hence it includes also the money that a Government borrows. The amount borrowed in one year constitutes the income of that year. But since it has to be paid back to the people from whom it is borrowed it does not constitute the income of the Government. Public revenue therefore consists of the money that the Government is not obliged to return to the very individuals from whom it is obtained. Public debt carries with it the obligation on the part of the Government to pay the money back to the individuals from whom it has been obtained. In some cases public debt is not redeemable, that is, the Government does not promise to pay it back. But in some cases the interest on the loan continues to be paid regularly to the lenders. And that amounts more or less to the same thing as paying the principal back and then again borrowing it. In so far as public debt is concerned, the State is more or less in the same position as a private borrower. The relation between the State and the loan holders is the same as that between a private borrower and a private lender.

Governmental field of activity has vastly expandedin all the countries of the world and the state has come to act more and more as a manufacturer of goods and supplier of services. Our life has become more complicated, division of labour and mechanised system of production arc fast replacing older methods of production. Systems of production are becoming more and more round about. For all these reasons we need more capital than before, and capital comes from saving. If the Government has not got its own saving it must borrow from the people their savings. Thus, the importance of public debt has therefore increased everywhere. The volume of public debt has expanded both absolutely and relatively. With the development of scientific methods of manufacture and particularly the use of atomic energy the necessity of capital and consequently of borrowing by modern States has increased.

ACCOUNTING

Accounting means keeping a systematic record of financial transactions whether of a public authority or private concern or individual. According to L.D. White, "The primary functions of system of accounts are to make a financial record, to protect those handling funds, to improve the financial condition of the organisation in all its branches or purposes at any time, to facilitate necessary adjustment in rate of expenditure, to give information to those in responsible positions on the basis of which plans for future financial and operating programmes can rest, and to aid in the making of an audit."

Accounting is an indispensable means of exercising financial control. It is only through systematic accounts supported by vouchers and receipts that the legality and honesty of the transactions can be determined. Accounts are important by way of record of what was received and paid. Such record is essential to prevent the neglect of demands of dues and double payments, through forgetfulness. Accounts furnish valuable data for the formulation of financial as well as general policy and programmes.

Through accounts the authorities can know whether a particular activity or programme of the Government is self-supporting or involves a burden on the public exchequer, and if the latter, whether it should be continued or expanded or not. Scientific budget preparation would be impossible without the help of accounts.

The Form of Governmental Accounts

The form of Governmental accounts differs from the business and commercial accounts, because the objects of the two are different. Business and Commercial accounts are so kept as to facilitate the preparation of the balance sheet showing profit or loss, and assets and liabilities. Government are not for profit but for service to the people. So the object of Government accounting is to furnish data to show whether the provisions of the budget as voted by the legislature have been observed or not. The Government accounts, therefore, follow the budgetary form. In India, the form of the accounts of the Union as well as of the States is prescribed by the Comptroller and Auditor-General of India, with the approval of the President. In practice, the budget form corresponds to the form of accounts as prescribed by the Comptroller and Auditor-General.

The main forms of Government accounts are as follows :

(i) Control Accounts : The main objective is to ensure fidelity on the part of officers having the duties of collection, custody, disbursement and the ensuring of rigid adherence to all directions and limitations to levy and collect income and make expenditure. With this end in view, every Government maintains its Revenue Accounts (accounts for each head of income), Appropriation Accounts (accounts for each major and minor head of expenditure), and Fund Accounts (accounts of different funds which Government maintains).

(ii) Proprietary Accounts : The proprietary accounts are kept mainly from the point of view of the convenience of internal administration. They do not serve the purpose of the interested external parties, namely the legislature and the public. For this, supplementary accounts are maintained. These accounts are called 'Proprietary Accounts'.

(iii) Supplementary Detailed Accounts : Detailed accounts, regarding the assets and liabilities1, receipts and expenditure of the Government received from different view points may be maintained and published after one or two years for the information of the public.

The Account-Keeping Agency in India

According to the theory of financial administration,keeping of the accounts should be a function of the executive authorities. But in India, the duty of keeping the accounts of the Union (except the Railway and the Defence Accounts) as well as the State devolves upon the Comptroller and Auditor-General of India and his staff. Under the Comptroller and Auditor-General there is in each state an Accountant-General in whose office the accounts of the transactions taking place within the territorial limits of that state are kept. Railway accounts are kept by the Financial Commissioner for Railways, and Defence accounts, by the Finance Ministry through the Financial Adviser (Defence) and the Military Accountant-General.

Types of Accounting Systems

(a) Double-entry Book Keeping : Under this system every item of expenditure is entered at two places. One entry remains with the operating service while another is sent to the accounts office, if there is a separate department of the Government or to the controlling officer of the same service. The merit of this system is that if an error is to be deliberately made, it will have to be made at two places, which is a difficult task.

(b) Cost Accounting : It is the detarmination of inclusive costs per unit. It may be applied in production, unit cost of a commodity manufactured in a Government, or even in service. This system is mostly made use in the Public Works Department. The utility of this system is that the costs may be compared in a single institution or single operation over successive periods of time and the comparative costs of similar operations in different agencies or in different jurisdictions may be determined.

(c) Accrual Accounting System : It is that system of accounting by which the right to a receipt, or the obligation to make a payment, is established or as is technically called, accrues. Under this system, appropriate entry is made in the account books of all actions having for their result an undertaking with the right to an asset or placing it under an obligation to pay. This system is followed in France. The main advantage of this system is that it gives detailed information regarding every transaction of the Government.

(d) Cash Accounting System : Under this system, the right to a receipt, or the obligation to make a payment, is realised upon, or as the technical term goes, is liquidated. It seeks to record only those operations in which an actual transfer of cash has taken place. Most Governments use the cash accounting system because of its simplicity.

Accounting System in India

There are four stages in the building up of accounts.

These are as follows :

(i) Initial Entry : In each district, there is a Government treasury under the charge of a Treasury Officer. The treasury is maintained at the cost of the State Governments. Every financial transaction is separately recorded in the treasure. On the 11^{th} and 1^{st} of each month, the Treasury Officer sends a list of payments made during these intervals, supported by vouchers, to the Accountant-General. In case of the Railways, Post and Telegraph, Public Works Department and Forest Department, receipts are paid in the treasury in lump, while detailed accounts are kept by the departmental officers.

(ii) Classification of Accounts by the Accountant-General ; All accounts of the previous month reach the office of the Accountant-General by the 1^{st} of next month. The accounts are classified in order to secure uniformity in accounting and also in order to help in the preparation of budget forecasts. There are four different types of accounts in India: They are :

(1) Revenue Accounts : These deal with all proceeds of taxation and other payments classed as 'revenue' and all expenditure therefrom.

(2) Capital Accounts : These deal with expenditure met from borrowed funds and accumulated cash balances.

(3) Debt Accounts : These deal with the receipts and payments in which Government either becomes liable to repay the moneys received or becomes entitled to claim to recover the amount paid.

(4) Remittance Accounts : Relate to all such transactions as are not covered by the previous . categories.

Each one of these accounts is divided into major heads. Parliament makes money grants on 'major heads' which are further divided into 'minor heads' which are sub-divided into 'subheads' which, in turn, are further divied into 'detailed heads'. Revenue heads are numbered in the Roman figures, (I, II, III, IV, etc.) and expenditure heads are numbered in the Arabic figures, (1, 2, 3, 4, etc.).

(iii) Monthly compilation : Before compilation, accounts are audited by the Auditor. Then they go to the accounts officers who compile them every month and submit them to the Government by the end of the following month.

(iv) Annual compilation : This is done by the Comptroller and Auditor-General of India. The Comptroller and Auditor-General's department prepares the final accounts of the Union and

State Governments in two forms — The Appropriation Accounts and the Finance Accounts. The Appropriation Account is an account comparing the total grants, original and supplementary, made by Parliament for particular purposes for a financial year with the actual expenditure incurred for these purposes during the year. The Public Accounts Committee examines this account. Subsidiary accounts such as the profit and loss accounts and balance sheet of the commercial undertakings of the Government, stores accounts, works accounts, etc., are appended to the Appropriation Account to give details of expenditure concerning these.

The Finance Account is a comprehensive account of the receipts and expenditure of the Government (Union or State) classified under the various heads and sub-heads of the budget.

Besides these, the Audit and Accounts department also prepares a General Financial Statement called the 'Combined Finance and Revenue Accounts of the Central and State Governments', giving a summary of the accounts of the Union and of all the State Governments for the preceeding financial year and showing their balances and outstanding liabilities. They are submitted to the President or the Governor, as the case may be, sometimes in January or February, of the following year and are then laid before the Parliament or the State Legislature, as the case may be, at the Budget Session.

AUDIT

Audit is the development of the 19th century and is inevitably an indispensable part of the parliamentary control of public finance. Audit means an examination of accounts with a view to determine the correctness of these accounts and of the transactions they embody.

According to James C. Charlesworth, "Audit means the process of ascertaining whether the administration has spent or is spending its funds in accordance with the terms of the legislative instrument which appropriated the money."
A thorough-going audit should be an audit

(a) against laws, rules and regulations
(b) against appropriations as voted in the budget
(c) against sanctions, and
(d) against canons of financial propriety.

Of these criteria (a) to (c) seek to judge the legality, while canons of financial propriety are intended to check improper and wasteful expenditure.

The Audit Organisation in India

The audit and accounting functions in India are combined in the hands of one organisation, the Indian Audit Department, headed by the Comptroller and Auditor-General of India.

Though the Indian Audit and Accounts Department was created as early as 1753. Independent audit emerged in 1919 with the inauguration of the Montague-Chelmsford Reforms. The Government of India Act, 1935 further improved its status by giving it constitutional recognition and by requiring its appointment to be made by His Majesty. The Department was given the same status as of judges of the Federal Court. With the enactment of Constitution in 1950, the Auditor-General of India was re-designated as the Comptroller and Auditor-General of India (Art. 141).

Historically speaking, the creation of such an office was the product of Gladstone's ingenious mind, when he was Chancellor of the Exchequer in the British Cabinet. He got the Exchequer and Audit Act passed through the British Parliament in 1866, which led to the establishment of the office of the Comptroller and Auditor-General. In the U.S.A., the office of the Comptroller and Auditor-General in its present form came into existence when the Budget and Accounting Act of 1921 was passed.

Audit in India

Audit of Government accounts (including the accounts of the States) in India is a Union subject and is entrusted to the Comptroller and Auditor-General of India.

Indian audit is governed not by law, but by an executive order — the Government of Indian Audit and Accounts Order 1936 as adopted under the Indian (Provisional Constitution) Order of 1947.

Audit in India is primarily concerned with expenditure. Its concern with receipts is limited to those items only which it may be required by the executive to undertake, or may undertake with its approval. At present the receipts of Railways, Posts and Telegraph and Customs are subject to audit while other receipts including those from Income-tax are not.

Audit should really be an arm of the legislature to assist it in seeing that its wishes and decisions as expressed in the budget are respected. The Constitution requires that the report of the Comptroller and Auditor-General relating to accounts shall be laid before each House of Parliament but technically, the audit is conducted on behalf of the Executive and its reports are submitted to the Executive (the President in case of the Union, and the Governor in case of States) which causes them to be laid before the Legislature.

Finally, Indian audit is primarily a legality audit. The Government of Indian Audit and Accounts Order under which it is conducted, requires the Comptroller and Auditor-General to ascertain whether moneys shown in the accounts as having been disbursed were legally available for and applicable to the purpose to which ■they had been applied and whether the expenditure conforms to the authority which governs it.

The Audit Report

Audit results in the certification of the accounts by the Comptroller and Auditor-General as correct subject to such comments and remarks as he may choose to make, and in the preparation of an audit report for each of the Governments whose accounts are audited. This report is presented, in case of the Centre, to the President, and in case of the States, to the Governors. These heads are required, by the Constitution, to cause these reports to be laid before their several Legislatures. The Legislatures refer the reports to their Public Accounts Committees of which there is one at the Centre as well as one in each of the states, for examination of the report.

The audit reports contain the comments of the audit authorities on the correctness or otherwise of the expenditure and other financial transactions. Particularly they point out the more important financial ir-regularities, the cases of budgetary grants being exceeded, failure to obtain the necessary sanction for expenditure, non-compliance with rules and regulations, cases of improper or wasteful expenditure, and of misappropriation and embezzlement. The audit reports are examined by the Public Accounts Committee and the committee reports upon it.

Performance Audit

Performance audit means an appraisal of accomplishment. In India, it is called efficiency-cum-performance audit. Broadly, the purpose of such audit would be to ascertain whether :
(a) such undertakings are being run efficiently and their operations conducted economically.
(b) they are producing the results expected of them.

Separation of Accounts from Audit

In India, the twin functions of maintenance of accounts and their audit had remained combined in the same hands until 1976. The Comptroller and Auditor-General was entrusted with both sets of functions. In Britain, on the other hand, there is separation of accounts from audit, the former function is performed by the Heads of Departments in the capacity of Accounting Officers.

The audit department has no concern with the compilation of accounts which, of course, is re-scrutinised by it on behalf of Parliament to which the report of its examination is submitted. Excepting the Departments of Defence and Railways where accounts were compiled by the departments themselves, these functions have been combined in India.

This arrangement was unequivocally criticised by successive commissions. The Muddiman Committee (1924), the Inchcape Committee on Retrenchment (1923) as well as the Simon Commission (1929) recommended the separation of accounts from audit as a necessary financial reform. P.K. Wattal has emphasised the desirability of separating these two functions by remarking, "Accounting is essentially an executive function and must be under the control of the executive head of the department. Auditing is a quasi-parliamentary function, which involves a checking of the works done by the executive authorities for report to the Parliament. A combination of these two essentially distinct functions in a parliamentary officer is good neither for the executive ad-ministration nor for the Parliament. It is almost as bad as combination of executive and judicial functions. In every modern administration, accounting and auditing functions should be kept distinct and separate from each other. It is only then that the auditor's certification regarding the correctness of the accounts has any meaning. Where there is a combination of functions, there is necessarily a contradiction in as much as the officer compiling the account is also the officer who certifies its correctness."

In 1976, the Central Government separated accounting from the audit, and since that year the Comptroller and Auditor-General of India has been relieved of the responsibility for compiling of the accounts of the Central Government and is concerned with the audit of accounts only.

Consequent upon the separation of accounts from the audit, a Controller-General has been appointed in the Central Government to be the technical authority heading the new accounting set-up. He is in charge of the final compilation of accounts.