

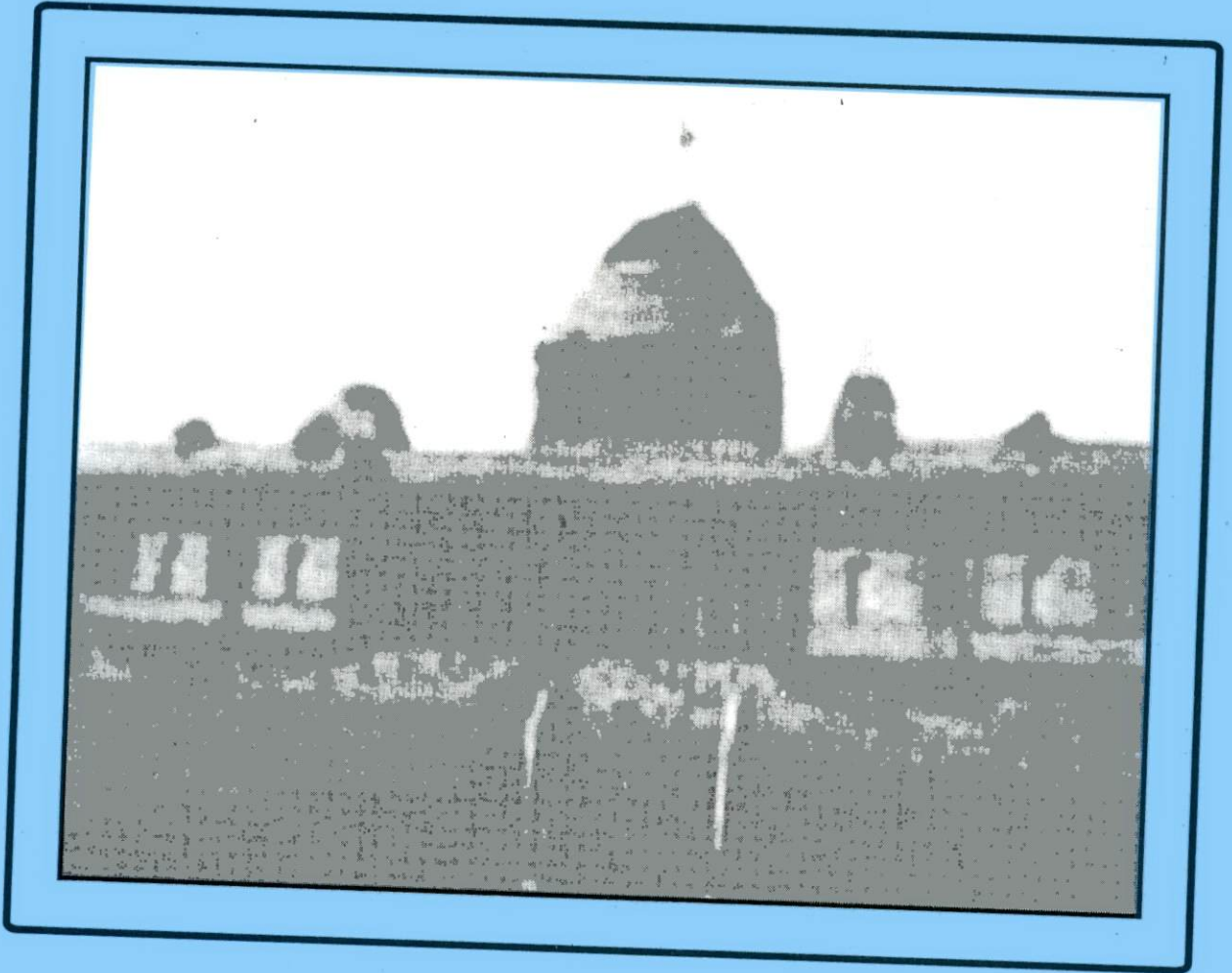
ಕರ್ನಾಟಕ ರಾಜ್ಯ ಮುಕ್ತ ವಿಶ್ವವಿದ್ಯಾನಿಲಯ
ಮಾನಸಗಂಗೋತ್ರಿ, ಮೈಸೂರು - ೫೭೦ ೦೦೬



KARNATAKA STATE OPEN UNIVERSITY
Manasagangothri, Mysore - 570 006

POLITICAL SCIENCE
MA [PREVIOUS]

787



Course - IV
Paper - Major issues in Indian Administration

Block - V

ಉನ್ನತ ಶಿಕ್ಷಣಕ್ಕಾಗಿ ಇರುವ ಅವಕಾಶಗಳನ್ನು ಹೆಚ್ಚಿಸುವುದಕ್ಕೆ ಮತ್ತು ಶಿಕ್ಷಣವನ್ನು ಪ್ರಜಾತಂತ್ರೀಕರಿಸುವುದಕ್ಕೆ ಮುಕ್ತ ವಿಶ್ವವಿದ್ಯಾನಿಲಯ ವ್ಯವಸ್ಥೆಯನ್ನು ಆರಂಭಿಸಲಾಗಿದೆ.

ರಾಷ್ಟ್ರೀಯ ಶಿಕ್ಷಣ ನೀತಿ 1986

The Open University system has been initiated in order to augment opportunities for higher education and as instrument of democratizing education.

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ಮುಕ್ತ ವಿಶ್ವವಿದ್ಯಾನಿಲಯವು ದೂರಶಿಕ್ಷಣ ಪದ್ಧತಿಯಲ್ಲಿ ಬಹುಮಾಧ್ಯಮಗಳನ್ನು ಉಪಯೋಗಿಸುತ್ತದೆ.ವಿದ್ಯಾಕಾಂಕ್ಷಿಗಳನ್ನು ಚ್ಚಾನ ಸಂಪಾದನೆಗಾಗಿ ಕಲಿಕಾ ಕೇಂದ್ರಕ್ಕೆ ಕೊಂಡೊಯ್ಯುವ ಬದಲು, ಚ್ಚಾನ ಸಂಪತ್ತನ್ನು ವಿದ್ಯೆ ಕಲಿಯುವವರ ಬಳಿ ಕೊಂಡೊಯ್ಯುವ ವಾಹಕವಾಗಿದೆ.

ಡಾ. ಕುಳಂದೈಸ್ವಾಮಿ

"The Open University system makes use of Multimedia in distance education system. it is vehicle which transports knowledge to the place of learners rather than transport to the place of learning.

Dr. Kulanandai Swamy

ವಿಶ್ವಮಾನವ ಸಂದೇಶ

ಪ್ರತಿಯೊಂದು ಮಗುವು ಹುಟ್ಟುತ್ತಲೇ - ವಿಶ್ವಮಾನವ. ಬೆಳೆಯುತ್ತಾ ನಾವು ಅದನ್ನು 'ಅಲ್ಪ ಮಾನವ'ನನ್ನಾಗಿ ಮಾಡುತ್ತೇವೆ. ಮತ್ತೆ ಅದನ್ನು 'ವಿಶ್ವಮಾನವ'ನನ್ನಾಗಿ ಮಾಡುವುದೇ ವಿದ್ಯೆಯ ಕರ್ತವ್ಯವಾಗಬೇಕು.

ಮನುಜ ಮತ, ವಿಶ್ವ ಪಥ, ಸರ್ವೋದಯ, ಸಮನ್ವಯ, ಪೂರ್ಣದೃಷ್ಟಿ ಈ ಪಂಚಮಂತ್ರ ಇನ್ನು ಮುಂದಿನ ದೃಷ್ಟಿಯಾಗಬೇಕಾಗಿದೆ. ಅಂದರೆ, ನಮಗೆ ಇನ್ನು ಬೇಕಾದುದು ಆ ಮತ ಈ ಮತ ಅಲ್ಲ; ಋನುಜ ಮತ. ಆ ಪಥ ಈ ಪಥ ಅಲ್ಲ; ವಿಶ್ವ ಪಥ. ಆ ಒಬ್ಬರ ಉದಯ ಮಾತ್ರವಲ್ಲ; ಸರ್ವರ ಸರ್ವಸ್ವರದ ಉದಯ. ಪರಸ್ಪರ ವಿಮುಖವಾಗಿ ಸಿಡಿದು ಹೋಗುವುದಲ್ಲ; ಸಮನ್ವಯಗೊಳ್ಳುವುದು. ಸಂಕುಚಿತ ಮತದ ಅಂತಿಕ ದೃಷ್ಟಿ ಅಲ್ಲ; ಭೌತಿಕ ಪಾರಮಾರ್ಥಿಕ ಎಂಬ ಭಿನ್ನದೃಷ್ಟಿ ಅಲ್ಲ; ಎಲ್ಲವನ್ನು ಭಗವದ್ ದೃಷ್ಟಿಯಿಂದ ಕಾಣುವ ಪೂರ್ಣದೃಷ್ಟಿ.

ಕುವೆಂಪು

Gospel of Universal Man

Every Child, at birth, is the universal man. But, as it grows, we turn it into "a petty man". It should be the function of education to turn it again into the enlightened "universal man".

The Religion of Humanity, the Universal Path, the Welfare of All, Reconciliation, the Integral Vision- these *five mantras* should become View of the Future. In other words, what we want henceforth is not this religion or that religion, but the Religion of Humanity ; not this path or that path, but the Universal Path ; not the well-being of this individual or that individual, but the Welfare of All ; not turning away and breaking off from one another, but reconciling and uniting in concord and harmony ; and, above all, not the partial view of a narrow creed, not the dual outlook of the material and the spiritual, but the Integral Vision of seeing all things with the eye of the Divine.

Kuvempu



**Karnataka State
Open University**

**Political Science
Course IV**

Block

5

Introduction

Unit 17

**Financial Administration-importance of Financial
Management**

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Unit 18

Budget as an instrument and as a tool of legislative control

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63 to 75

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Block - 5 Introduction

Block - 5 consists of 5 units from 17 to 22. Unit - 17 explains the Financial Administration-importance of Financial Management. Unit 18 explains the Budget as an instrument and as a tool of legislative control. Unit 19 explains the Budgetary Process. Unit 20 explains the Financial Committees of Parliament. Unit 21 explains the Accounts and Audit. Unit 22 explains the Performance Budgeting - A Case for Performance Budgeting in India.

Block V

Unit – 17 Financial Administration – Importance of Financial Management

Structure

- 17.0 Objectives
- 17.1 Introduction
- 17.2 Meaning and scope of Financial Administration
- 17.3 Importance of Financial Administration
- 17.4 Financial Administration in India.
- 17.5 Fiscal Management, meaning & Importance
- 17.6 Let us Sum up
- 17.7 Key words
- 17.8 Useful Books
- 17.9 Answer to Check your progress exercises

17.0 Objectives

This unit deals with the scope and importance of Financial administration as well as its management. A study of this unit will explain to us.

- Meaning of Financial Administration
- Scope of Financial Administration and Financial Management
- Analyse the Fiscal policy, Accountability and Management.

17.1 Introduction

Finance is the life blood of every organisation. Personnel and materials which are needed for the functioning of any office can be made available only if finance is provided. "NO FINANCE NO ADMINISTRATION". It is an old saying but the truth it contains is eternal – finance and Administration are so inter mixed that neither of the two can have utility without the other. The efficiency of operating and maintenance systems depends upon the effectiveness of the Financial system at its back, as every administrative act has a financial implication direct or indirect.

Financial administration as an important aspect of Public Administration is as ancient as the organized Government of a state. Ever since the origin of the state, treasury has always been one of the most important parts of the administration. Kautilya in his Arthasasthra observed, "All undertakings depend on Finance". Hence, the foremost attention shall be paid to the treasury. The practice continued to be present even today. In every parliament, a government is always preferred to as the treasury benches. The Finance minister and the Finance department always enjoy a pivotal place in the government and its administration.

A modern state is always conceptualised as a public welfare state. It can accomplish its objectives only with the help of finance and only through a well organized and efficient system of Financial Administration.

17.2 Meaning and Scope of Financial Administration

The term "Financial Administration" consists of two words; 'Finance and Administration', the former refers to monetary resources and the latter to organisation and management of collective human efforts in the pursuit of a conscious objective. Taken together, Financial administration means the set of activities which are related to making available money to the various branches of an office, or an organisation with a view to enable it to carry out its objectives. Like the blood in a human body that circulates through a network of arteries and veins and is controlled by the heart, there is a network of financial channels spreading through out the administrative machinery which is controlled by a central financial agency. Together, these constitute the financial system of the state. The way it is organized and operationalised is popularly known as Financial Administration. The financial system is a subsystem of the administrative system which is in itself and integral part of the political and socio-economic systems functioning within the national and international environments.

In simple words, we can define financial administration as the system of collectively preserving and distributing public money or public funds. L.D. White uses the term "fiscal management includes those operations designs to make funds available to officials and to ensure their lawful and efficient use".

Financial Administration – Scope

The following activities are covered in the scope of financial administration.

- a) The collection, preservation and distribution of public funds.
- b) The co-ordination of public revenue and expenditure.
- c) The management of credit operation on behalf of the state
- d) The general control of financial affairs of the government.
- e) Preparation of budget getting it passed by the legislature and regulating the expenditure and raising of revenue in accordance with the budgetary provision and passed by the legislature.

- f) Safe custody of the public funds and proper release of funds for meeting the liabilities of the government
- g) Maintenance of financial accounts and getting these duly audited by the competent authority.

For the performance of these fiscal functions a well-organized machinery is organized, managed and operationalised. There are five divisions of financial administration Machinery.

1. Without the approval of the legislature no funds can be raised and no expenditure can be made.
2. Finance department
3. Specialized financial experts officials and institutions.
4. Audit organisation
5. Committees of the legislature.

17.3 Importance of Financial Administration

Financial Administration can be legitimately described as the backbone of public administration. No administration least of all public administration can carry out its work without finance and an effective and efficient system of Financial administration. The developmental role of public administration in this era of welfarism has made financial administration a key area to work. The developmental functions of the state have increased are increasing and are destined to increase further and consequently, the importance of financial administration has increased and is still is increasing day by day.

In this era of technology and development, financial administration has gained greater significance for exploring ways and means to generate resources to meet the ever increasing demands of the public. For this purpose, resource mobilization and planned and controlled expenditure making have become highly important activities. Based on the Keynesian perspective, the state has assumed a more active and positive role of expanding national income and employment. The fiscal policy for the government has become a powerful instrument for influencing the socio economic life of the

people. In fact it has become an instrument of a modern government for making "popular sovereignty" a social reality because with the advent of Democracy, the concept of "parliamentary control over public purse" and "no taxation without representation have become a grudging concerns. These have in turn increased the importance of financial administration. The use of performance budgeting and other related budgetary innovatious represent the remarkable achievements of financial administration. From the early 1980's onwards, resource crunch has been posing a very serious problem before all contemporary government. Economic problems, issues and objectives have emerged as the top most realities of the present day life. This has enhanced the importance of economic factors of social life. The economic issues have come to dominate political issues. Financial administration as such has assumed a new and high importance. Hence, a study of financial administration and management which is a part of public administration has become very important.

17.4 Financial Administration in India

India is a democratic country and the supreme authority of controlling the financial administration rests with the people. However there are four agencies that control the financial administration in India. These agencies are

- a) the parliament
- b) the cabinet
- c) the finance ministry
- d) the auditor general

a) The parliament:

Though all the above four agencies control financial administration, but the parliament, being the representative of the people, is supreme and has the final authority over all financial matters. When the government wants to impose new taxes or increase or decrease the rate of existing taxes, incurs expenditure on any item

raises loan or repay them, the sanction of the parliament is necessary parliament has the authority to disapprove any item of expenditure or effect a cut in the amount to be spent.

b) The cabinet:

It is the cabinet or in other words the executive committee of the parliament, who is responsible for the execution of all the financial policies.

c) Finance ministry

It is the finance ministry that keeps a vigilant eye over the expenditure incurred by the various departments. It has to see that no department spends more money than sanctioned to it and every department spends the sanctioned amount in a manner approved by the parliament. It demands report of expenditure from various departments and warns them if there are any irregularities. However, the control of finance ministry much depends on the personality of the finance minister.

d) Auditor General

The main responsibility of the Auditor General is to examine the accounts of the government to see that money has been spent as approved by the parliament and there is no irregularity. He submits his audit report to the president who causes this report to be placed before the parliament. The Auditor general is in fact the watch dog of the parliament.

Check Your Progress - 1

Note: 1) Use the space given below for your answer.

2) Also check your answer with the clue given at the end of the Unit.

1) Discuss the meaning and scope of financial administration.

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2) Examine the importance of financial administration.

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17.5 Fiscal Management, Meaning & Importance

Financial management is an appendage of the finance function. Financial Management involves the application of general Management principles to a particular Financial operation. Financial management is that part of management which is concerned mainly with raising funds in the most economic and suitable manner, planning future operations and controlling current performances and future developments through financial accounting, cost accounting, budgeting, statistics and other means, financial, management implies

the designing and implementation of a certain plan. Plans aim at an effective utilization of funds. In the words of James Van Harn planning is an inextricable dimension of financial management. The term 'Financial Management' connotes that funds flow are directed according to some plan. Financial management connotes responsibility for obtaining and effectively utilizing funds necessary for the efficient operation of an administrative organisation.

According to L.D. White every administrative act has its financial implications, either creating a charge on the treasury or making a contribution to it. The management of finance is therefore "one of the first and inescapable responsibilities of administrators".

Financial Management consists of those operations the object of which is to make funds available for the governmental activities and ensure their lawful and efficient use. Financial management falls into five well-defined divisions namely,

1. Estimates of revenue and expenditure needed for the ensuing financial year, technically called "preparation of the Budget".
2. Securing legislative sanction for these estimates technically called "legislation of the Budget".
3. Execution of revenue and expenditure operation called the "execution of the Budget".
4. Treasury management, safe custody of the funds raised and due arrangement for the necessary payments to meet the liabilities.
5. Legislative accountability of these operations called the Audit.

Fiscal Management includes as its principle sub-divisions budget making followed by the formal act of appropriation, executive supervision of expenditure, control of the account and reporting system, treasury management and revenue collection and audit.

The process of Financial Management is a continuous chain of operations beginning from the preparation of estimates of revenue

and expenditure by each departmental unit, their review and scrutiny by the heads of the Department and then by the central agency – the ministry of finance, their legislation by the parliament, the collection, custody and disbursement of funds, their accounting, auditing and reporting. For all these operations, the organisational mechanism and procedure of financial management vary in the various countries.

17.6 Let us Sum up

To conclude, we can say that all societies have their financial system which are integral components of their respective public administration system. Financial Administration and Management has now started assuming a multifaced role in every modern society. Its primary objective has come to be maximisation of human welfare. Its scope has been expanding day by day and at present it encompasses many dynamic aspects such as financing, planning and budgeting resource mobilisation, investment and even dis-investment, public expenditure and financial control.

17.7 Key words

1. Fiscal - financial
2. Management - get the thing done by others
3. Treasury - place where the public money will be kept in safe custody.

17.8 Useful books

1. Public Financial Administration - S.L. Goel
2. Public Administration - Dr. Fadia & Dr. Fadia
3. Public Administration in India - G.S. Lall
4. Financial Administration - Dr. Thavaraj & Handa

17.9 Answer to Check your progress exercises

Check Your Progress - 1

See Section 17.2

See Section 17.3

NOTES

A series of horizontal dotted lines for writing notes, spanning the width of the page.

**Unit 18 Budget as an instrument and as a tool of
legislative control**

Structure

- 18.0 Objectives
- 18.1 Introduction
- 18.2 Budget – meaning
- 18.3 Sound principles of the Budget
- 18.4 Some Other Essential Elements of the Budget
- 18.5 Budget as an instrument and as a tool of
legislative control
- 18.6 Let us Sum up
- 18.7 Key words
- 18.8 Useful Books
- 18.9 Answer to check your progress exercise

18.0 Objectives

This Unit deals with the meaning of the Budget, its sound principles. It also deals with how the budget as a tool of legislative control. A study of this unit will explain to us.

- Budget - meaning
- Sound principles of the Budget
- Budget as an instrument of management and a tool of legislative control.

18.1 Introduction

Budget is an instrument of financial administration. Revenue and expenditure of the state have been adjusted and managed properly through this instrument of Budget. A successful fiscal management revolves around budgeting. Further a Budget is an instrument for scheduling and evaluating governmental activities in general and its social and economic policies in particular.

18.2 Budget-meaning

Budget is a term that has been derived from the French word 'bougettee' which means a sack or a pouch. Infact, it is used to be a leather bag in which the British Chancellor of Exchequer used to carry papers relating to the finances of the state which were to be placed before the parliament for approval. Gradually the term budget came to be termed as a set of papers which contained facts and figures regarding public income and expenditure. Budget refers to the process of collecting, classifying, analyzing and presenting these facts and figures. In addition, it contains an account of Governmental policies for the year to follow. In this way a budget can simply be defined as an annual financial statement of governmental income and expenditure.

A distinguished French authority on budgeting (Rene Stourn) says "a document containing a preliminary approved plan of public Revenue and expenditure".

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Taylor defines budget as a financial plan of the government for a definite period. The encyclopaedia of social sciences affirms, "the real significance of the Budget system lies in providing for an orderly administration of the financial affairs of the government".

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

According to Findlay's Shirras, "the entire condition of material finances as disclosed in the ministerial statement placed before the legislature and orderly administration of the financial affairs of the government".

According to Willoughby "The budget is something much more than a mere estimate of revenue and expenditure. It is or should be, a document through which the chief executive comes before the fund-raising and fund granting authority and make full report regarding the manner in which he or his subordinates have administered affairs during the last completed year in which he exhibits the present condition of the public treasury, and on the basis of such information, sets forth his programme of work for the year to come and the manner in which he proposes that such work should be financed".

According to our constitution "Budget means the annual financial statement containing an estimate of all anticipated revenue and expenditure of the government for the coming financial year". To conclude our discussion of the definition of the budget we may say that a budget is a statement of expected revenue and proposed expenditure of the authorities concerned.

18.3 Sound principles of the Budget

Budget today is one of the principle tools of financial management. It is not merely a statistical statement of the year income and expenditure and an estimate of the proposed revenue and expenditure for the next year, but a proposed work programme with estimates of the funds necessary to execute it. Budget to be effective

instrument of financial and work management, must conform to certain sound principles. They are the following.

a) Executive Programming

It is a programme of the chief executive. Hence budget formulation should be under the direct supervision of the executive. Budget and programming go hand in hand. Hence budget must be under the direct supervision of the executive.

b) Executive Responsibility

Appropriation is not a mandate to spend. It is the responsibility of the executive to see that the departmental programmes fulfil the intent of the legislature and due economy is observed in the execution of the programme.

c) 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.

d) Adequate tools

Budgetary responsibilities of the chief executive require him to be endowed with certain administrative tools. For instance he must have an adequately equipped budget office attached to him, and an authority to earmark monthly or quarterly allotment of appropriations.

e) Multiple Procedure

Though all governmental operations are reflected in the budget, the method of budgeting may vary according to the nature of operations. Thus the Budget of Quasi commercial activities may be different from that of purely administrative activities.

f) Executive Direction

Appropriation should be made for broadly defined, functions of the department, allowing, thereby, sufficient discretion to the executive to choose means of operation to realize the main purpose.

g) flexibility in timing

Budget should have provisions to accommodate necessary changes in the light of changing economic situation.

h) Two way Budget organisation

It is of paramount importance to remember that efficient budget depends upon the active co-operation of all departments and their subdivisions. "There must be in each agency a budget office with functions in that agency in the same way as the government-wise budget offices. The Budgeting and programming work of the agency must be inter-related under the direct responsibility of the head. The established budget officer assists his superior in administrative control of the subdivision of the particular agency, he also transmits the agency's views and proposals to the central budget bureau. Budgeting is not only a central function but a process that should permeate the entire administrative, Traffic between the central office and the agency office responsible for budgeting and programming should move on a two way rather than a one way street.

18.4 Some other essential elements of the Budget

1) *Estimate should be on cash basis*

The Principle of the cash basis of the Budget means that it should be prepared on the basis of actual receipts and expenditure expected during the year and not on the basis of receipts which are to be realized in some other years or the expenditure which is ordered in the year but is likely to be incurred in the next financial year.

2) *Balanced Budget*

The budget should be balanced, the estimated expenditure should not exceed the revenue or income. When the amounts of the expenditure and revenue in a Budget are equal or nearly so, it is called a balanced budget.

3) *Responsibility of the executive for the formulation of the Budget*

As the chief executive is responsible for running the administration he is in the best position to say what funds are required for it. It should therefore be the duty of the chief executive to formulate the budget.

4) Budget on the basis of gross and not in net

The fourth principle is that the budget should be gross and not net. This applies equally to accounting also. Gross budget means that all transactions both of receipts and expenditure should be fully shown and not merely the resultant of net position. Neglect of this rule results in the short circuiting of financial procedure.

5) Principle of close estimating

The estimate should be as exact as possible. There should be neither gross over estimating or gross under estimating. If there is over estimating of expenditure, unnecessarily heavy taxation may have to be imposed on the people to raise the amounts. If there is underestimating the whole budget may be thrown out of gear when it comes to execution.

6) Principles of annuality of the Budget

The principle of annuality means that the Budget should be prepared on annual basis. It means that the legislature should grant money to the executive for one year. One year is a reasonable period of time for which the legislature can afford to give financial authority to execute the financial programmes. But annuality of the Budget does not mean that there should no long term planning.

7) Principle of rule of lapse

The annuality principle of budgeting also implies that money left unspent during the year for which it was sanctioned must lapse to the public treasury and the government cannot spend it unless it is resanctioned in the next year budget.

8) Principle of unity of the Budget

Lastly, it is also an important principle of Budget making that the government should have a single budget incorporating all revenues as well as expenditures of the government. When there shall be one budget for all financial sanctions of the government, it will be very easy to know overall financial position of the government as a whole.

18.5 Budget as an instrument and as a tool of legislative control

The budget is the most important tool of legislative control over the public purse. Control over public purse enables the legislature & control the executive, and the history of this control may be broadly identified with the evolution of democracy itself. This control was originally restricted to the raising of revenues only, but in course of time, it spread out and included control over expenditure as well. Thus, legislative control signifies that no tax can be collected without its prior authorization and no expenditure incurred without its prior approval. Thus, as the guardian and custodian of National purse, the legislature not only grants money, but also exercises control over public expenditure. Its prior approval is necessary for the conduct of the two most important financial activities namely, revenue and expenditure. It has powers to review and discuss on the report of the Public Accounts Committee and to decide on taking suitable steps to set right the defects if any in the actual implementation of the Budget. This legislative control fanned itself out in the shape of some principles, which, between themselves, reflect parliamentary aspirations to keep the executive under control. Herald A. Smith explains these principles as follows

a) Publicity: The main stages of the Budget process which include executive recommendation, legislative consideration and action, and budget execution, should be made public.

b) Clarity: The budget should be understandable to every citizen. As was said by British writer in 1764, the Administration has condescended.. to explain the budget to the nearest capacity.

c) Comprehensiveness: The budget should contain expenditures and revenues on a gross basis, reflecting all governmental activities without exception, and should show the surplus available for debt retirement or the deficit to be met by revenue legislation or borrowing.

d) Budget Unity: All receipts should be recovered into one general

fund for financing all expenditures. This principle condemns earmarking of revenues for specific purposes of expenditure except in the cases of trust accounts, or in cases where a special and direct relationship exist between receipts and expenditures.

e) Detailed Specification: Receipts and appropriations should be expressed in detailed specification, transfer to items should be permitted only in exceptional cases.

f) Prior Authorization: The budget should be submitted, considered and acted upon in advance of the period during which the expenditures are to be, made it should include estimates for all foreseeable needs, thus reducing as far as possible requests for supplemental and deficiency appropriations. Budget execution should stay strictly within the legislative authorization and should be checked by an ending agency reporting to the legislature.

g) Periodicity: Appropriations should be authorised for a definite period of time. An appropriation not used at the end of the period should generally lapse or be reappropriated with the specific amount and purpose detailed.

h) Accuracy: Budget estimates should be as accurate as possible and there should be no 'padding' of expenditure estimates or providing for hidden reserves by underestimating revenues.

Check Your Progress - 1

Note: 1) Use the space given below for your answer.

2) Also check your answer with the clue given at the end of the Unit.

1) What is Budget? And examine the sound principles of Budget

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2) Define Budget as an instrument and as a tool of legislative control.

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18.4 Let us Sum up

Accountability has been and should continue to be the outstanding feature of the Budget; more particularly in a parliamentary democracy. One of the well established principles of a system of parliamentary democracy is that the legislature exercises a control over spending of public moneys and that no taxes or levies are imposed without its express sanction. A system of annual budget is designed to secure such a control of the legislature over the finances of the state. It follows that a budgetary system should be such as to ensure that the amounts voted by the legislature under various heads of expenditure are not exceeded and that they are not spent otherwise than according to the wishes of the legislature. The objective here is to ensure the financial and legal accountability of the executive government to the legislature and, with in the executive government to ensure similar accountabilities on the part of each subordinate authority to the one immediately above in the hierarchy of delegation.

18.5 Key words

- Sound principles - Important principles
- Budget - statement of income, expenditure & estimate

18.6 Some useful books

Public Financial Administration	- S.L. Goel
Public Administration-Principles & Practice	- A.R. Tyagi
Public Administration	- Dr.Fadia& Dr. Kuldeep Fadia
Financial Administration in India	- G.S. Lall

18.7 Answer to check your progress exercise

Check Your Progress - 1

See Section 18.2 and 18.3

See Section 18.3.1

Unit – 19 Budgetary Process

Structure

- 19.0 Objectives
- 19.1 Introduction
- 19.2 Preparation of the Budget
- 19.3 Legislation of the Budget – Enactment
- 19.4 Execution of the Budget
- 19.5 Let us Sum up
- 19.6 Key words
- 19.7 Some useful books
- 19.8 Answer to check your progress

19.0 Objectives

The budget is the master financial plan of the government. It brings together estimates of revenues and proposed expenditures implying the schedule of activities to be undertaken and the means of financing these activities. A reading of this unit will enable us to know.

- Preparation of the budget
- Approval of the budget by the legislature.
- Execution of the budget
- Control over the budget

19.1 Introduction

The Budget is the most important tool of legislative control over the public purse, control over public purse enables the legislature to control the executive and the history of this control may be broadly identified with the evolution of democracy itself. This control was originally restricted to the raising of revenues only but, in course of time, it spread out and included control over expenditures as well. Thus legislative control signifies that no tax can be collected without its prior authorization and no expenditure incurred without its prior approval.

19.2 Preparation of the Budget

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

In our country the financial year begins from 1st April, and the preparation of estimates starts in July or August of the preceding year. In the month of July or August the Finance Ministry / Department supplies 'skeleton forms' to the Administrative ministers and Heads of various departments for preparing estimates of their requirements of expenditure. The departments send the forms to the local officers, which prepare the estimates on that prescribed form. Each form

contains the following columns.

- a) Actuals of the previous year
- b) Sanctioned estimates for the current year.
- c) Revised estimates for the current year
- d) Budget estimates for the next year.

A column is also provided for an explanation for increased or decreased proposed in the estimates. The local officers send the estimates to the Heads of the department who consolidates them for the whole department after such revision' and review as he may consider necessary. Actually the estimates pass through the hands of Accountant General also who supplies the actual and some other information from his account book.

The estimates received from various department are finally scrutinized by the finance ministry after they have been verified by article 112, every year "the president shall cause to be laid before both houses of the parliament" the annual financial statement popularly known as budget. The person through whom the president acts in this respect is the finance minister who is the custodian of the nation's finances. After presenting the budget to the parliament the finance minister makes a budget speech. It contains information about the General economic conditions of the country. Till its presentation in the parliament, the secrecy should be maintained according to the convention. The budget will show the estimated receipts and expenditures for financial year. According to the custom, it is presented on the last day of February in order that parliament will have sufficient time to discuss the proposals in general and authorise appropriation before the beginning of new financial year on the first day of April. There will be no discussion on the budget on the day on which it is presented to parliament this is to give members, time to study the proposals before the discussion of the budget begins.

The general discussion of the annual financial statement begins a few days after its presentation. Two or three days are allotted for

it. It is confined to the General principles or the policy under laying the budget. No discussion of details or cut-motions are in order at this stage. The general discussion taken place in each of the house.

The expenditure embodied in the budget is divided into two separate parts, the Accountant general, after revision or modification of the estimates they are consolidated together into the budget of the government as a whole. No proposal for new or increased expenditure for any department has a chance of inclusion in the budget without the concurrence of the finance minister.

The reason for this tremendous power of the finance ministry are as follows. The finance ministry, itself is not a spending department and can act as a disinterested guardian of the tax payers interest.

b) 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 scrutiny of the estimates by the finance ministry is from the financial point of view of economy and availability of funds. It does not question the policy under laying the proposals of the Administrative ministers for which they themselves are responsible. After scrutiny the finance minister prepares his financial policy in consultation with the prime minister/chief minister. After it is approved by the cabinet it is ready for submission to parliament.

19.3 Enactment of the budget - legislation

It is the unquestioned right of the parliament under any responsible systems of government not only to ensure that public funds are raised only with its consent but also to exercise complete control over the way in which the nations revenue are spent by the government. Under the expenditure charged upon the "consolidated fund of India" which are nonvotable and the sum required to meet other expenditure from the "consolidated fund which are votable". Normally the finance ministry makes a general reply at the end of the discussion.

After the general discussion is over the house of people proceeds to the voting of demands i.e., to the expenditure part of the Budget. This power belongs to the House of people only. Powers of the Rajya sabha are quite restricted in financial matters. Voting of demands for grants is the exclusive privilege of the Lok Sabha. The total number of days allowed for the voting of demands is 26 days. Expenditure to the tune of hundreds of crores of rupees has to be voted within this short time. This of course, means that many of the demands are voted without any discussion at all. What happens is that in consultation with the leader of the House, the speaker fixes a time limit for particular demands or groups of demands and for the entire expenditure part of the Budget. As soon as the time limit for any demand is reached, it is immediately put to vote whether the discussion on it is complete or not. On the last day allotted for the voting of demands at 5 pm all the demands which remain outstanding are put to vote and disposed, whether they have been discussed or not. The cardinal rule governing the voting of supplies is that no demand for grant can be made except on the recommendations of the president. This means that the members of the House cannot make any addition to, or increase in any item of expenditure proposed in the budget which, technically speaking comes before the House on the president's recommendation. They can only reject or reduce the items of expenditure proposed or in other words the legislature has the power of reducing grants. Such a motion may be moved by a member for reduction of the votable expenditure of the demands for grants, submitted to the vote of the House. Such a motion is called a 'Cut Motion'. There are three kinds of cut motions. They are policy cut or policy cut motions. Economy cut or Economy cut motions and token cut or token cut motions. Any cut moved by a member must conform to either of these three types.

a) Disapproval of a policy cut

When the object of a cut motion is to disapprove of the policy underlying a demand, the demands sought to be reduced to a nominal Amount. This is known as disapproval of policy cut. Such a motion is "that the amount of the demand be reduce to rupee one. Such a cut motion, if carried by a majority of the House, amounts to vote of censure on the government. Any member giving a notice of such a cut motion is ordinarily required to indicate in a very precise terms the particulars of the policy which he propose to discuss. The discussion thereafter is confined to the specific point mentioned in the notice and it is open to member to advocate an alternative policy

b) The Economy Cut:

Whenever it is contended that economy is the expenditure proposed can be affected, the motion moved is known as the "economy cut". The economy cuts are directed, therefore, to reduce the demand by such amounts as the members want to effect economy. The amounts of reduction vary accordingly whenever as 'economy cut' is moved, the motion is that the amount of the demand be reduced by Rs...(a specified amount). The amount put up for reduction is either a lumpsum reduction in the demand or Omission or reduction of an item in the demand. The notice of such a cut motion is to indicate, in a brief and precise manner, the particular matter on which discussion is sought to be raised and the discussion is confined to the points as to how the economy can be effected.

c) Token Cut:

In order to ventilate a specific grievance within the sphere of responsibility of the government of India "a token cut" is moved by the members. By means of 'token cuts' the amount of the grant is sought to be reduced by a fix sum, generally Rs 100 to raise a discussion on some grievance. "token cuts' are moved in the manner. "That the demand under...be reduced by Rs 100". The object of a

token cut is to bring pointed attention to a specific grievance, which is required to be stated specifically so as to enable the government to answer. Discussion on such a cut motion is confined to the particular grievance specified in the motion.

Appropriation Bill

When the House of the people voted all the demands they together with the consolidated fund charges are incorporated into a Bill called the appropriation bill. It follows the same procedure in the House of People as any other financial bill except in this that no amendment to the grants as by the House previously or to the consolidated fund charges can be proposed in either House. After being passed by the House of People it is certified by the speaker as money bill and sent to the council of state. The council of state has no power to reject or amend it. It can only discuss it and make recommendation within 14 days to the House of people. As such, the Rajyasabha returns the bill within 14 days with due recommendations. The Loksabha may reject or accept these recommendations. It is then, sent to the president for his assent.

The Voting of taxes

All the taxes do not have to be authorised annually. Some of them are permanent and their rates can be varied from time to time by the executive departments under the provision of the law governing them. The rates of other taxes, however have to be annually fixed by the legislature eg., the income tax, customs tax etc. All the taxation proposals of the government for the ensuing financial year are embodied into a single bill known as the finance bill. The discussion on this bill is opened by a motion by the finance minister. On the basis of this motion a general discussion on the taxation policy takes place. Afterwards the bill is referred to a select committee of the Houses, which reports back the bill with criticism, comments and proposals. Further the bill is discussed in the Loksabha clause by

clause. Bill is then referred to the Rajyasabha. After the approval of both the Houses of the parliament the bill goes for the president for assent and after his assent it becomes the law. With the passage of the appropriation bill and the finance bill the enactment of the budget is complete.

Check Your Progress - 1

Note: 1) Use the space given below for your answer.

2) Also check your answer with the clue given at the end of the Unit.

1) Examine the various stages involved in the preparation of the budget?

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2. Discuss briefly the procedure of passing the budget

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3. Write a note on the execution of the Budget

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19.4 Execution of the Budget

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. It is an axiom of financial control that for every grant there must be an authority responsible for its administration and particularly to see that the amounts are spent on the subject as sanctioned, moneys are utilized in the most economical manner and the expenditure is kept within the funds allotted for the purpose.

An efficient execution of the Budget presupposes, therefore, strong central direction and control "If this is not done the budget will fail in a large measure to accomplish its purpose, which is to produce stability in government's finance by making both ends meet". In order to make the execution of the budget an ideal one, the system must aim at the following objectives.

- a) Preservation of the intent of the legislature
- b) Observance of financial limitations and
- c) The maintenance of flexibility

Execution of the budget involves a number of operations. They are.

- 1) Assessment & collection
- 2) Custody
- 3) Disbursement

1) Assessment & collection

Before the taxes are collected, they have to be assessed. Assessment means the act of determining as to how much is to be collected from different individuals or bodies in accordance with the authority given by the legislature. Collection is the act of actually collecting the amount as assessed. The distinction between assessment and collection is of great importance from the administrative point of view. Assessment requires a high sense of judgment and wide use of discretion. While collection needs a high degree of integrity and accuracy. Collection requires no discretion or judgment on the part of the collector of the taxes.

2) Custody of Funds.

After collection comes the question of safe custody of funds. The financial management in a country from the standpoint of custody of funds depends upon its history, its area and the banking facilities. With the growth of the Banking system, now in most countries the central Bank carries all the money transactions on behalf of the government as the Bank of England in London does. But in a country like India, where the banking facilities are not sufficient and on account of the vastness of its area, such a centralized system cannot work. The Reserve Bank of India and where there is no branch or agency of the Reserve Bank, the State Bank of India conducts the treasury business of the government of India. But since the branch of the state Bank do not yet exist at all the places. India has about 1200 sub-treasuries and District treasuries for conducting the treasury business of the government. Proper receipts are maintained when money is received or paid on behalf of the government. All this ensures the safe custody of public funds.

3) Disbursement of funds

Disbursement is the process of withdrawal of money from the treasury for payment of various liabilities. The legislature makes the

grants to the government as a whole and not to the spending departments individually. The finance ministry nominates the head of each administrative department as a controlling officer in respect of expenditure of his department. These officers in turn allocate grants to the disbursing officers working under them. The work of communicating grants to the controlling and disbursing officers is taken up immediately after the enactment of the Budget. Expenditure against appropriation is controlled by dividing grants into primary units of appropriation, for example, the pay of staff establishment etc. The basic unit of expenditure control is the subhead. The disbursing officer is allotted certain subheads of appropriations. He alone can withdraw money from the treasury. Therefore a great responsibility lies on him. He has to examine the claims from the point of view of the budget provision and administrative sanction and also see whether payment of the claim is just. He has to keep account of various transaction and make a report about them to the Head of the Department and to the Audit & account department. The officer in charge of the Treasury also must be equally vigilant while making the payments. He has to see whether the challan or cheque is signed by a competent authority or not and further he has to keep a record of all receipt and payments.

19.5 Let us sum up

Thus the budget preparation, legislation and execution is a well organized and complex exercise. It is a time bound exercise with however, a provision for overcoming the difficulties that can be posed by a delay in its passing. The budgetary process further reveals that in this sphere, the Loksabha enjoys a superior role and position to the Rajyasabha. In respect of financial legislation, it is the Loksabha which plays the pivotal role and the Rajyasabha acts only as a 'delaying chamber. However at a time when the party structure of the Loksabha and the Rajyasabha happen to be different i.e., when two different parties or groups have majority in different houses, the Rajyasabha can play an active role in this sphere also. It did so in

1977-79 and again is 1981-91

The making of the Budget by the government and getting it passed by the parliament is indeed a very complex and long exercise which compels the councils of Ministers to be extra alert and efficient in handling this exercise. The budget session of the parliament is usually the most taxing time for the government. Any slip, even and advertent one, can cause the fall of the government and give a big setback to the national economy.

19.6 Key words.

Prune	-	to reduce to cut off
Appropriation	-	allot the funds to different department

19.7 Some useful Books

Public financial Administration	-	S.C. Goel
Public Administration-Principles and Practice	-	A.R. Tyagi
Financial Administration in India	-	G.S. Lall

19.8 Answer to check your progress exercises

Check Your Progress - 1

See Section 19.2

See Section 19.3

See Section 19.4

Unit 20 Financial Committees of Parliament

Structure

- 20.0 Objectives
- 20.1 Introduction
- 20.2 Composition & Functions of Estimates committee
- 20.3 The Public Accounts Committee
- 20.4 Let us sum up
- 20.5 Key words
- 20.6 Some useful Books
- 20.7 Answer to Check Your progress exercise

20.0 Objectives

The Budget and all its activities should be properly controlled. The effective achievement of the objectives of the Budget would very much depend upon the way in which the provisions are made for Budgetary control. A study of this unit will explain to us.

- The Composition of the Committee
- The functions of the Committee
- Usefulness of the Committee

20.1 Introduction

In a democracy the legislature has the supreme authority with regard to the financial policy and hence determines the raising and spending of money. The Function of the legislature is not over with the voting of grants for public expenditure. It should also supervise expenditure in order to see that the appropriations are spent by the executive for purposes for which they have been granted and that extravagance and waste are avoided. To make parliamentary control over expenditure more comprehensive it is also necessary to subject the estimates presented to the legislature to a detailed examination in order to secure economies in administration and in the execution of plans and programmes. So some devices must be provided by which the legislature can exercise effective control over public finance. The parliament of India exercises control over public finance through three devices namely.

1. Parliamentary Committees (Financial)
2. Audit and Account
3. Comptroller and Auditor General.

The financial committees are said to play a very important role as the watchdogs of parliament. They are unique because whereas accountability of administration to parliament is not direct and is exercised through ministers, in the committees the civil servants come face to face with the committees. Thus the control exercised by these committees is continuous, through and direct, employing all

the means of scrutiny by way of issuance of questionnaires, calling of memoranda from representatives into rural informal discussions and oral evidence of non-officials and officials.

The three financial committees of parliament bring to light inefficiencies, waste and indiscretion in the implementation of policies and programmes approved by parliament. These are

1. The Estimates Committee
2. The public Accounts Committee

20.2 The Estimates Committee

a) Evolution

The Estimates Committee of Loksabha was first constituted in April 1950. Till then there was at the centre only a standing finance Committee composed of members of legislature with the finance minister as its chairman. It was not responsible to the House and it had very limited functions. It was a government committee. It was therefore, felt necessary to have a stronger committee in its place. The question of setting up of an estimates committee in India was first suggested as early as in 1937 by way of a question in the central Assembly, but it was negated by the government. After Independence the question of appointing an estimates committee was repeatedly raised. Following a memorandum by the secretary of the constituent assembly of India (legislative), which was strongly commended by the then speaker Sri. G..V. Mavalankar, Dr. John Mathai, the finance minister moved for the constitution of an estimate committee based on the practice in Force in the United Kingdom and the committee came into existence in April 1950.

b) Composition

The Estimates Committee consists of not more than 30 members who are elected by elected by Loksabha every year from amongst its members according to the principles of proportional representation by means of single transferable vote for a period of

one year. The rules prohibit ministers from being a members of the committee. Another important features of the estimates committee is that unlike the public accounts committee the members of the Rajyasabha are not associated with it on the ground that they have no right to interfere with or cut down any item of the Budget. Rule 258 provides that the chairman of the committee shall be appointed by the speaker from amongst the members of the committee. If the Deputy Speaker is a member of Committee, he shall be appointed automatically chairman of the committee.

c) Functions

The functions of the committee have been laid down in the rules of procedure and directions by the speaker issued from time to time. The rules here provide that the committee shall examine in general such of the estimates as may seem to it fit or as specifically referred to it by the House or the speaker. In general the functions of the committee are

- a) to report what economies improvements in organisation, efficiency or administrative reform, consistent with the policy underlying the estimates, may be affected.
- b) To suggest alternative policies in order to bring about efficiency and economy in administration
- c) To examine whether the money is well laid out within the limits of the policy implied in the estimates
- d) To suggest the form in which the estimates shall be presented to parliament.

d) Procedure

At the beginning of each financial year, the estimates committee makes a selection of subjects – concerning any part of the estimate of a ministry or ministers to be examined by them during the year under review. The ministry or ministries to be examined by them during the year under review. The ministry or ministries whose estimates

are proposed to be examined by the committee are asked in writing by the loksabha secretariat to furnish necessary material in support of the estimates for the information of the committee. As soon as the papers are received in the Loksabha secretariat they are circulated to the members of the committee. After going through these papers they may frame questions on which further information is required by them. The members of the committee pick up such items of estimates where they suspect or apprehend the cost is very high. The chairman of the committee selects items for the agenda. It is indeed his views on the functions and procedure of the estimates which govern mostly the activities of the committee. The Estimates committee normally works through a number of sub committees. The sub committees takes evidence and formulate their reports which are then considered by the whole committee. After the sub committees are formed they may proceed on tours and visit various places and centres. They make on the spot study of the various items. The draft of the subcommittees report is submitted to the chairman of the committee who may accept it or make such further changes in it as he might deem necessary. It is open to the committee to call the representatives of the ministry concerned at its convenience for examination. The committee may also invite suitable non-official witnesses. After the report is adopted in the committee a copy of it is sent to the ministry or department concerned for factual varification. Thus it may be seen that the draft report is finalized after varification by the ministry concerned. Then a copy of the final report is submitted to the speaker before presentation to the House. Once the report is presented to the House, it becomes a public document. Legally and constitutionally the reports of the estimates committee are not binding on the House or on the Government. But the convention has been established that the "recommendations of the committee are as good as obligatory upon the ministry or the government to adopt". There has been a convention in India that whatever might be the contents and differences among

the members, the report is that of the whole committee. Another feature of the report is that there is no record of votes in favour or against a decision in the committee. The committee does not work on party lines and therefore there is a spirit of compromise and give and take.

After the report has been presented to Lok Sabha, the ministry or Department concerned is to take action on the various recommendation contained there in. The Speaker has directed that the government shall as early as possible after the presentation of the report of the Estimates Committee, furnish the committee, in the first instance, with a statement showing action taken on the recommendations contained in the report. The speaker has been very strict in ensuring the implementation of the various recommendations of the Estimates committee.

Check Your Progress - 1

Note: 1) Use the space given below for your answer.

2) Also check your answer with the clue given at the end of the Unit.

1) Discuss the composition and functions of the estimates Committee

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2) Write a brief note on the public accounts committee of union Parliament of India

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20.3 Public Accounts Committee

The public accounts committee of the Indian parliament was set in 1952, though it had existed since 1921 as a body of the central legislative Assembly. Originally it consisted of 15 members drawn only from Loksabha, but in 1953 its membership was increased to 22. Article 151 of the constitution of India provides for the laying down of public Accounts and Audit reports before both Houses of the Parliament. As a result, both Houses are competent to appoint their own public Accounts Committees. However the Rajyasabha has a right to discuss the reports of the comptroller and Auditor General on the ground that, under the constitution the reports and accounts are to be laid before the legislature. The upper house also claims the right to scrutinize and discuss the accounts. To avoid duplication and waste of effort, only one public accounts committee has been formed, though the rules of the House of People have not been changed and this remain rather extra legal.

Members of the committee are elected annually on the basis proportional representation by a single transferable vote from among its members for a term of one year. The chairman of the committee is generally from the ruling party, though the opposition members have also been chairman on some occasions. Care is taken that every year

during election, some new members and some old members are elected to maintain continuity. Parliament secretariat is the secretariat of this committee as well. There is a separate public Accounts committee in all the states of the Indian union. To ensure objectivity and credibility, an opposition party member should be made the chairman of this committee. K.C. Wheare rightly states that, it is accepted that the chairman of the public accounts committee should be chosen from amongst the members of the opposition party on the committee.

Functions

The main function of the PAC is to examine the report of the comptroller and Auditor General of India, which is laid before the Loksabha through the president. The committee examines the audited accounts with the assistance of the CAG. It is also free to appoint sub-committees and study groups to examine the accounts of government departments and other organization.

Rule 308 of the House of the people mentions the following functions of committee. It shall be the duty of the committee on public accounts to satisfy itself.

- a) that the money shown in the accounts as having been disbursed were legally available for and applicable to the service or purpose to which they have been applied
- b) that the expenditure conforms to the authority which governs it
- c) that every re-appropriation has been made in accordance with the provisions made in this behalf under rules framed by competent authority.
- d) To examine the statement of accounts showing the income and expenditure of the state corporations, trading and manufacturing schemes and projects, together with the balance sheets and statements of profit and loss accounts which the president may have required to be prepared or are prepared under the provision of the statutory rules and the report of the comptroller and Auditor General there on

- e) To examine the statement of accounts showing the income and expenditure of autonomous and semi autonomous bodies the audit which may be conducted by the comptroller and Auditor General of India either under the directions of the president or under a statute of parliament.
- f) To consider the report of the comptroller and Auditor General in cases where the president may have required him to conduct an audit of any receipts, or to examine the accounts of stores & stocks.
- g) If any money has been spent on any services during a financial year in excess of the amount granted by the House for the purpose, the committee shall examine, with reference to the facts of each case, the circumstances leading to such an excess and make such recommendation as it may deem fit.

It is usual to refer this committee as the watchdog of parliament. No doubt, it examine the accounts and items of expenditure of various ministries. It may not be realized that even the most seasoned and stalwart bureaucrat comes before the committee with same trepidation and apprehension. Based on the reports, submitted periodically by this committee, many question are put in the parliament. Sometimes calling attention notices and adjournment motions are moved on account of observations and remarks of the report of the public accounts committee. The PAC's control over finances has the following features. The first type of control exercised by the PAC is expert control. Though the committees consists of laymen, the preliminary checking and examination of accounts are conducted by experts in government accounts. The CAG and his staff. second type is financial control, As an accounts committee, it examines accounts of the government and exercises control over finance by pointing out irregularities in expenditure, budgeting contracts and other matters connected with it. The third type of control is non-party control. Though the committee consists of

members elected on the party basis, the members of the committee have distinguished themselves by letting down their party considerations. when they work to enforce the decisions of the parliament is financial matters. The PAC functions under two broad limitations one that it is not concerned with the question of policy and two its findings are ex-post facto. In other words, the committee can point out irregularities only after they have taken place and the damage has been done.

Thus the general charges leveled against the committee is that its work is only post-mortem. It is true that committee makes post mortem examination of accounts, its enquiry is old by the time it looks at the problems arising out of the expenditures. But this type of control produces deterrent effect for the future. If the administration is aware that some day some parliamentary committee would sit in judgment on its activities, it shall be more meticulous than otherwise it would be. Again, the committee itself pursues its recommendations, visits the spots, censures the department at fault and tells in the face of the officials its reactions. Therefore, the probe of the PAC cannot be dismissed as useless.

Check Your Progress - 2

Note: 1) Use the space given below for your answer.

2) Also check your answer with the clue given at the end of the Unit.

1) In what ways does the Estimates Committee exercise control over public expenditure in India?

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2) Examine the functions of the Public Accounts Committee

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20.4 Let us Sum up

Some times the rule of the estimates committee and public accounts committee described as the twin sister in the sense that the works of these two committees are complimentary. While the estimate committee deals with the estimates of public expenditure, the public accounts committee examines mainly the accounts showing the appropriation of sum granted by the House for the expenditure of the government of the India in order to ascertain whether the money has been spent as authorised by parliament and for the purpose for which it was granted. In the case of public accounts committee, the comptroller and auditor generals' reports provide the starting points and he aids the members by supplying papers and furnishing informations. The absence of such an adviser makes the work of estimate committee difficult.

20.5 Key words

- Proportional representation - In proportion to the numbers of votes its candidate receive.
- Embezzlement - Cheating

20.6 Some useful Books

- Public Financial Administration - S.C. Goel
- Public Administration - Dr. Fadia & Fadia
- Financial Administration in India - G.S. Lall
- Financial Administration - Dr. Thavaraj & Handa

20.7 Answer to Check Your Progress Exercise

Check Your Progress - 1

See Section 20.2

See Section 20.3

Check Your Progress - 2

See Section 20.2 (d)

See Section 20.3

Unit 21 – Accounts and Audit

Structure

- 21.0 Objectives
- 21.1 Introduction
- 21.2 Meaning and types of Accounts
- 21.3 Meaning and types of Audit
- 21.4 Separation of Audit from Account
- 21.5 Comptroller and Auditor General
- 21.6 Let us Sum up
- 21.7 Key Words
- 21.8 Some Useful Books
- 21.9 Answers to check your progress exercises

21.0 Objectives

This unit deals with the meaning and types of Audit and Accounts. A study of this unit will explain to us.

- Meaning of Accounts and Audit
- Types of Accounts and Audit
- The distinction between the executive and quasi parliamentary function

21.1 Introduction

The Administrative Structure of a state is so vast and its operations so complex that it is impossible for an ordinary tax payer to know whether the money contributed by him for running the administration of the state is being properly used or not. This can be judged through the proper maintenance of accounts and audit.

21.2 Meaning and types of accounting

“Accounting has been defined as the art of recording, classifying and summerising transactions wholly or in part of a financial nature in terms of money, and interpreting the results there of” Accounting is the science of producing promptly and presenting clearly the facts relating to financial condition and operations that are required as a basis of Management. Accounting means maintaining a proper record of the finances of the organisation. So maintaining a proper record of the finances of the organisation. So maintenance of accounts is the function of the spending authorities or the executive. proper accounts also show the legal use of funds and on the basis of accounts report, the spending officers justify expenditure to the superiors. Through a proper system of Accounting wrongful use of funds can be prevented. Accounting has to ensure that funds have been legally used for the purpose for which the parliament sanctioned it. Accounts should furnish data regarding the financial operations and should also secure Fidelity on the part of spending authorities. The spending authorities should produce receipts or vouchers

concerning every paisa which they spend.

Accounting system performs two functions. It acts as an instrument to determine the fidelity of government employees who handle public funds. Secondly it furnishes information about financial position and operation which will help the executive in formulating administrative policies. There are four stages in the building up of accounts namely

- a) The initial entry is the treasury or the administrative office where the financial transaction originates.
- b) Classification of the transaction according to the heads of account to which it relates
- c) Monthly compilation of accounts by the Accounts officer
- d) Yearly compilation of accounts by the auditor general.

Types of Accounts

Several types have been used to maintain government Accounting. They are

- 1) Cash accounting
- 2) Accrual Accounting
- 3) Double Entry Book Keeping
- 4) Cost Account

1) Cash Accounting

It is that system of Accounting by which the right to a receipt, or the obligation to make a payment, is realized upon, or as the technical term goes, is liquidated. This system disregards all operations of the accrual type and seeks to record only those operations in which an actual transfer of cash has taken place. It gives us no information regarding the accrual of assets and liabilities but gives data regarding liquidation alone.

2) Accrual Accounting

It is that system of accounting by which the right to receipt or the obligation to make a payment is established. Under this system

appropriate entry is made in the accounts books of all actions having for their results an undertaking with the right to an asset or placing it under an obligation to pay.

3) Double entry book keeping

It is the system of accounting in which every item of expenditure is entered at two places. One entry remains with the operating service while another is sent to the accounts office. The advantage of this system is that every entry is controlled by a similar entry elsewhere and therefore, if an error is to be deliberately made, it will have to be made at two places which is a difficult task.

4) Cost Accounting

It is the determination of inclusive costs per unit. It may be applied in production eg., the unit cost of a commodity manufactured in government factory or even in service. This system is mostly made use of in the public works department because this department had a reputation for extravagance in most countries.

The main forms of government accounts are

- 1) Control Accounts
- 2) Proprietary Accounts
- 3) Supplementary detailed Accounts.

1) Control Accounts

These accounts have for their main purpose the ensuring of fidelity on the part of officers having the duties of collection, custody and disbursement and ensuring of rigid adherence to all directions and limitation to levy and collect income and make expenditure

2) Proprietary Accounts

While control accounts is maintained mainly from the point of convenience of internal administration. Proprietary accounts are kept to serve the purpose of external interested parties such as legislature and the General public.

3) Supplementary detailed Accounts

This implies a detailed account of assets and liabilities of the

government received from different view points. Such accounts may be maintained and published after one or two years for the information of the general public.

Check Your Progress - 1

Note: 1) Use the space given below for your answer.

2) Also check your answer with the clue given at the end of the Unit.

1) Discuss the importance of Accounting in Financial Administration.

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2) Write a note on the types of Accounting.

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21.3 Meaning and types of Audit

Audit is the development of the 19th – nineteenth century and is inevitably an indispensable part of the parliamentary control of public finance. An “Audit is an examination and verification of the accounts after transactions are completed in order to discover and

report to the legislative body any unauthorized, illegal or irregular expenditures any financial practices that are unsound, and whether the Administration has faithfully discharged its responsibility. The role of Audit has undoubtedly, attained a crucial importance in the machinery of financial administration of modern parliamentary democracies. It is only through the institution of independent audit that parliamentary control over public expenditure can become really effective in order to ensure that the funds voted by the legislature are utilized by the Executive government only for approved purposes and with due regard to considerations of economy and efficiency.

Audit like the Judiciary executive and the legislature is one of the important ingredients of Democracy. Its primary purpose is to ensure that process of expending governmental funds all canons of financial propriety have been observed, that the rules and regulations which govern expenditures are adhered to that the expenditure has been incurred by the authority which is empowered to incur it, and that it has been appropriated by the parliament. Audit supplies an essential link between the executive and the parliament and is helpful in interpreting the action in so far as they have a financial bearing, of the former on the latter.

The purpose of Audit is to offer Financial criticism and its value lies in the report it submits, pointing out the impropriety or irregularity of certain transactions so that appropriate action could be taken to rectify them. Audit is the systematic examination of the books and records of a business or other organisation in order to ascertain or verify and to report upon the facts regarding its financial operation and the results thereof.

There are two types of Audit-pre-Audit and Post Audit.

Generally pre-Audit is conducted within the executive branch. Logically it is a correct procedure. If external Auditors who are responsible to the legislature perform pre auditing work. They will be boss over the executive authority. Therefore pre-auditing shall be

done by internal Auditors. However pre-audit is not very common in modern administrative system.

Post audit takes place after money has been actually spent. An auditing system is a means of enforcing accountability and is a part of external control over Administration. Who should direct the post audit system is the question. He who knows the intent of the appropriation act shall have the directing authority. Legislatures are naturally very much concerned with auditing. They want funds expended in accordance with the provisions of the appropriation act. They also want to be sure that efficient use was made of the funds. Since post audit is a check on administration, it should be performed by persons outside the administrative department. The Auditors are responsible to the legislature and report their findings of accounting errors and malpractices directly to it.

Auditing is an examination of accounts books and other documents at the close of the fiscal year. Today it has become a continuous operation. The main objectives of an auditing system are

- 1) See that the funds have been used for the purposes and in accordance with the provision of the appropriation act.
- 2) Check the accuracy of accounts and inventories to ensure against embezzlement or loss of funds and
- 3) Report the errors or mal-practices, if any to the proper agency. Besides it has to ensure legality and correctness of administrative control, avoid deficits, supervise the current expenditures and see that all fiscal programmes are in conformity with the current master plan of the Government.

21.4 Separation of Audit from Accounts

A notable and unique feature of government accounts in India is the combination of the compilation of accounts and audit responsibilities in the office of CAGI in respect of not only the union government but also the state governments. The special feature of the Indian system owes its origin to past tradition of a highly

centralized form of government under British rule. At present there are only two major organisations, the defence and railways in respect of which the CAGI has no responsibilities in the maintenance and compilation of Accounts. This arrangement was unequivocally criticized by successive commissions set up to investigate Indian Administration. The Muddiman Committee (1924) the Simon Commission 1929 recommended the separation of accounts from Audit as a necessary financial reform. Even the public accounts committee in their third report of December 20, 1952, stated. "The function of payment of monies and maintenance of initial accounts is that of the executive authorities and it is well known and universally accepted that the agency which has to Audit, payments should be separate from and independent of the agency which has to make disbursement, as a combination of these functions is likely to facilitate frauds and embezzlements and prevent their coming to light. This places the C & AG in a most embarrassing and anomalous position. It is fundamentally wrong in principle, therefore, to make the Indian Audit Department responsible for making payments".

The usual grounds on which the transfer of Accounts from CAGI is supported may be summarised below.

- 1) Accounting is an executive function and should be entrusted to the executive head of the Department. Auditing is a Quasi parliamentary function. The combination of the two is inappropriate.
- 2) Accounting responsibilities should be made the charge of the departments in the interest of sound Financial Administration under the prevailing set up, the spending departments, being divested of accounting responsibilities, are not in a position to know when they are going to exceed the appropriations passed by parliament. They do not have actual figures of expenditure.
- 3) Audit will be more efficient if it is relieved of the accounting responsibilities. It will then be able to devote itself to more

important enquiries and investigations.

- 4) The practice of other modern governments too, lends support to the proposal of bifurcating accounting and audit responsibilities in India. Their combination looks incongruous at its best. At worst, it places the Auditor General in an embarrassing position in as much as he is required to audit the accounts compiled by himself.
- 5) The present arrangements may facilitates frauds and embezzlements, and prevent their coming to notice. This is because the same office authorises a payment as well as finally admits the charge in audit.
- 6) The separation would facilitate close budgeting and more effective preparation of revised estimates. The pay and accounts officers having each to deal with only one department will acquire a close understanding of the needs and difficulties of these departments. This understanding would help them prepare their budget and revised estimates more effectively.
- 7) The departmentalization of Accounts is now being introduced on a different consideration – the desirability of securing administrative competence and completeness. In commercial concerns the chief executive is fully responsible for its efficient and economical administration, and is, therefore, in overall control of its technical, financial and accounting components. In government on the other hand, authority is diffused and financial control and accounting responsibilities vested in organisations outside the Administrative departments. The malaise of India's administration has been this divorce of authority from responsibility. Thus, the transfer of accounting responsibilities to departments will ensure a logical pattern of administration.

As against these advantages claimed in favour of separation, the following points were advanced in favour of continuance of the

current practice.

Case against separation

1. Even in department of defence and Railways, where the accounting responsibilities have been entrusted to departments, there is no positive indication of either a spurt in efficiency or effective budgetary control.
2. The existing arrangements ensure an economical use of manpower and pave way for specialization and resultant increased efficiency. In the country's administration one already discerns a decline in competence. The Separation would lead to a dilution in competence.
3. Separation would inevitably involve extra costs as two sets of persons would be employed. One for accounts and another for audit. This problem is to be viewed in the context of India's general paucity of financial resources.
4. The compilation of Accounts in Auditors general's Office can be speeded up, as the figures of programme expenditure can be ready for use within a few weeks of the date of payment.
5. the accounting staff, after separation, will come under the general control of respective department of the state governments. In this position they may be less free to criticize the executive and check extravagance than the present accountant general's staff. Which is independent of the departments and is under the comptroller and Auditor General.
6. The present system has been working well. There appears, therefore to be no need to change the system on supposed theoretical excellence of the separated system.
7. Even separation of Audit from accounts is no guarantee of keeping appropriations within the sanctioned limits. Even in Britain where the separated system has been in operation for a long time, cases of excess of expenditure over income do occur.

At any rate, such excesses are not too numerous in India, warranting thereby a change in the present system.

8. Under the existing system, discrepancies may be easily detected in view of the maintenance of accounts both by the accountant general and the Head of the Department.
9. Even under the present system, the Accountant Genarals staff is able to give adequate help and assistance in the preparation of Budget and revised estimates.
10. Under the scheme of separation the payments are to be centralized under the pay and accounts officer. In a vast country like India where inadequate banking facilities exist. The centralization of payments would cause difficulties and hardships.

Check Your Progress - 2

Note: 1) Use the space given below for your answer.

2) Also check your answer with the clue given at the end of the Unit.

1) Write a comprehensive note on Audit in India

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2) Discuss the issue of separation of Audit and Accounts in India.

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3) Examine the Powers and functions of comptroller and Auditor General of India.

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21.5 The comptroller and Auditor General of India.

Financial control of the administration is the bulwork of parliamentary Democracy and for exercising financial control an independent audit agency is an essential pre-requisite. "The office of the comptroller and Auditor General of India is a constitutional device to ensure parliamentary accountability, Federal supervision and expert administrative control over expenditure in the financial administration". For this the constitution of India provides for a comptroller and Auditor General of India being appointed by the president.

The comptroller and Auditor General of India is the head of the Indian Audit and Accounts department of India. This office came

into being in 1919, when the first Auditor General was appointed by the Secretary of state under the Montague Chelmsford reforms act. The Auditor General in India was then made responsible to the secretary of state and held office during his Majesty's pleasure. He was thus made independent of the government of India whose accounts he had to Audit. The Government of India Act of 1935 gave him a constitutional recognition. Our new constitution also under article 141, makes provision for such officer re-designated as the comptroller and auditor general of India. He is thus an officer having a constitutional sanction.

The comptroller and auditor general is the guardian of public finance and he is to see that not even a paisa of it is spent without the authority of the parliament. In order that he may perform his function properly. It is necessary that he should be independent of the executive. The constitution of India ensures the C & AG's independence through the following provisions.

- 1) The C & AG is to be appointed by the president by warrant under his hand and seal just as a judge of the supreme court is appointed.
- 2) To ensure the independence of this office from the executive government of the day, it has been provided that the C & AG shall not be removed from his office except on grounds of proved misbehavior or incapacity on an address passed by each of the two house of parliament by two-third majority of these present and voting and a majority of the total membership of each house being presented to the president in the same manner as applicable to the judges of the supreme court under article 124 (4)
- 3) His salary and other conditions of service may be determined by parliament. But once appointed, neither his salary nor his rights in respect of leave of absence, revision or age of retirement can be varied to his disadvantage.

- 4) The administrative expenses of the office of the comptroller and auditor general including the salaries etc., of the office staff are charged upon the consolidated fund of India.
- 5) After retirement or resignation from office, he is not eligible for any office of profit under the government of India or any state government.

Duties and Powers of the Comptroller and Auditor General

Article 149 and 150 of the constitution deals with powers and duties of the comptroller and Auditor general of India. According to Article 149, the parliament is empowered to prescribe the power and duties of the comptroller and Auditor General in relation to the accounts of the union and states. Accordingly the parliament passed an Act in 1972 dealing with these matters. It upholds the independence of the C & AG and enables him to work effectively and efficiently. According to Article 150, the C & AG has the power to prescribe the form and manner in which the accounts of the union and states shall be kept, subject to the approval of the president.

His functions (Accounts)

1. The comptroller and Auditor General has a headquarter organisation in Delhi and there are officials of Accountant General in each state. There are also specialised organisations under him like the office of the Accountant General, post and telegraph.
2. He is also empowered to prescribe the form in which the accounts of the union and of the states are to be kept, which also includes the power to give any directions with regard to methods and principles in accordance with which any accounts are to be maintained.
3. He has also the duty of preparing each year's accounts showing the annual receipts and disbursements for the federation and states and to submit the same to the respective governments.

His duty also extends to prepare and to submit to the president a general financial statement relating to the accounts of each year showing balances and outstanding liabilities and such other informations as may be required by the president.

His Audit functions

1. In his capacity of Auditor General, he is responsible for auditing the accounts of government of India and those of the states. He is to ascertain whether money as shown in the Accounts as having been disbursed was legally available for and applicable to the purpose to which it had been applied.
2. It is also his duty to audit all transactions of the federation and of the states relating to debts, deposits, remittances etc all trading, manufacturing and profit and loss accounts etc., maintained by any department of the federation or of the states.
3. He is also to give such information and assistance to the federal government or the governments of states as may be required for the preparation of annual financial statements.
4. Lastly he has to prepare an annual report for each of the governments whose accounts are audited. The audit report contains the comments of the Audit authority on the correctness or otherwise of the expenditure and other financial transactions. The report particularly points out the more important financial irregularities like cases of budgetary grants being exceeded, failure to obtain the necessary sanction for expenditure, non compliance with rules and regulations, cases of improper and wasteful expenditure and of misappropriation and embezzlement. He, then, submits the report in the case of the centre to the president and in the name of states to the Governor who are required by the constitution to cause them to be laid before their respective legislatures. The legislature refer the report to their public accounts committee for examination and report.

21.6 Let us Sum up

Audit is a systematic examination of accounting records undertaken with a view to establishing whether they correctly and completely reflect the transactions to which they purport to relate. Its purpose is to see that the expenditure has been incurred with the sanction of the competent authority and for the purpose for which it was sanctioned. Audit is one of the four pillars of Democracy. It is a vital instrument for ensuring effective financial supremacy of the parliament over the executive. It is also a valuable ally of the administration. The audit report is the final destination of Audit. Audit is not an inquisition and its mission is not fault finding. Its purpose is to bring to the notice of the administration lacunae in rules and regulations, irregularities and lapses and to suggest wherever possible, ways and means for the execution of plans and projects with greater efficiency and economy. Audit as such is a watch dog of the Administration. Secondly the constitution of India provides for the office of the comptroller and Auditor General and vests in him the responsibility to act as the watch-dog of the parliament in matters of exercising supervision over the expenditure made by the government. He is the supreme-Auditor of Indias finances. Several scholars describe him as one of the four pillars of our constitution. The other three being the legislature, the executive and the Judiciary.

21.7 Key words

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| Fidelity | - | Accuracy |
| Proprietary Account | - | Account which serve the purpose of external interested parties such as legislation and the General Public. |
| Misappropriation | - | Misuse of public funds. |

21.8 Some useful Books

- Financial Administration - Dr. Thavaraj & Handa
Public Financial Administration - S.C. Goel
Financial Administration in India - G.S. Lall

21.9 Answer to Check Your Progress Exercise.

Check Your Progress - 1

See section 21.2 for Q-1

See section 21.2 2nd para for Q-2

Check Your Progress - 2

See section 21.3 for Q-1

See section 21.4 for Q-2

See section 21.5 for Q-3

Unit 22 Performance Budgeting

A Case for Performance Budgeting in India

Structure

- 22.0 Objectives
- 22.1 Introduction
- 22.2 Meaning & Features of Performance Budgeting
- 22.3 Distinction between traditional Budget and performance Budget
- 22.4 Introduction of Performance Budget and its main features in India.
- 22.5 Prerequisites for the success of the system
- 22.6 Process of Performance Budget
 - 22.6.1 Merits
 - 22.6.2 Defects
- 22.7 Let us Sum Up
- 22.8 Key words
- 22.9 Some Useful Books
- 22.10 Answer to Check your Progress Exercise

22.0 Objectives

This unit deals with nature, meaning advantages and disadvantages of the performance Budget in India. A study of this unit will explain to us.

- To co-ordinate the physical and financial aspect of every programme
- To improve Budget formulation, review and decision making at all levels of management in the government machinery
- To facilitate better appreciation and review by the legislature.
- To make possible more effective performance Audit.
- To measure progress towards long term objectives as envisaged in a development plan.
- To integrate the annual budgets and development plans

22.1 Introduction

The thriving significance of budget reforms has been a hallmark of many newly independent developing countries since the early 1950. Most of the state were in search of budget mechanisms that could respond to their changing political and economic conditions.

Consequently, budget reforms shifted their emphasis from control and accountability to performance measurement, a key deficiency manifested by the traditional budgeting. As Donald Axelrod explains “without performance measurement, it is impossible to determine the cost, efficiency and effectiveness of programmes and projects and agency compliance with legislative appropriations. A performance budget, in essence is a budget system which epitomizes the purpose and objectives for which funds are requested, the costs of the programmes proposed for achieving these objectives and quantitative data measuring the accomplishments and work performed under each programme. For developing countries, the measurement of performance was viewed as a key factor in determination of effectiveness and efficiency of programmes”.

22.2 Meaning and Features of Performance Budget

Performance Budgeting is a process that seeks the implementation and control of programmes through Budget allocation. This is done by presenting government operation in terms of functions, programmes activities and projects. Through such a functional classification of government transactions, governmental activities are sought to be identified in the annual budget in financial and physical terms so that a direct relationship between inputs and outputs could be established and performance assessed in relation to costs. In performance Budgeting on the other hand, emphasis shifts from the means of accomplishment to the accomplishment themselves, for it is primarily concerned with the ends to be served by the government rather than on the money spent on several aspects. The most important part of this technique is to precisely define the work to be performed and a correct estimate of what that work will cost.

Need for performance Budgeting & its Nature

The system of conventional Budgeting, which is in vogue in the majority of the countries, conceives an emphasis on financial aspects of the governmental operations. The financial accountability to the legislature is usually the overriding consideration and this permeates the entire budgetary process. Emphasis is placed mainly on the observation of appropriation limits. Moreover the object cum organisational classification of expenditures in the budget does not enable identification of programmes or project and, further more, is not related to the cost of major input or work performed. In other words, the system of budgeting does not provide information on what a government is actually doing and what it gets for the money spent. Of course, it may be possible to compile such information from departmental reports or other supplementary documents but in many cases this information cannot be linked directly with financial data as they appear in the Budget or in the accounts because it does not constitute a basis for budget management.

The absence of pertinent information of this type reduces the usefulness of this budgetary approach even for purposes of legislative review and appropriation. The sanctions resulting from this process then tended to be accorded to policy objectives that are not explicit in the budget. The need, development adoption and use of performance budgeting have developed, therefore essentially in the context of affecting corrections in this situation. The primary consideration was to highlight management aspects in the budgetary framework and in so doing to bring out the most significant economic, financial and physical aspects of the budgetary activity.

22.3 Distinction between traditional Budget and performance Budget

Government Budget serves a number of objectives. Some of these are fiscal and financial, some are economic while some others are managerial and developmental. However, the traditional pattern of government budgeting serves only one purpose and that is, fiscal accountability. In its existing form, it is merely a document for parliamentary control. The entire expenditure is presented through a series of Demands for grants. Every ministry presents one demand for its own requirements and separate demand for each of its subordinate organization. The Demands for grants thus, follow the organizational pattern and details in each of these demands are on the basis of object wise classification. The traditional pattern is effective from the point of view of accountability of funds, being mainly conceived in financial terms. Performance budgeting as is generally understood is essentially a technique of presenting government operations in terms of functions, programmes, activities and projects. Through such a meaningful classification of transactions, government activities are sought to be identified in the budget in financial and physical terms so that a proper relationship between inputs and outputs could be established and performance assessed in relation to cost. The focus in a performance Budget is basically different from

that is the conventional Budget. The two approaches differ in their scope and context.

- 1) Firstly under the performance Budgeting, emphasis is shifted from the Budget as a means of accomplishment to the accomplishments themselves. It concerns itself primarily with the objectives aimed at by the government rather than on the outlays incurred on several projects. An important aspect of the technique of performance budgeting is the precise detailment of the job to be performed or services to be rendered and a realistic estimate of what the job to be performed or services to be rendered and a realistic estimate of what that job or service will cost.
- 2) Secondly a performance budget is prepared in terms of functional categories and their subdivision into programmes, activities and projects rather than being prepared in terms of organizational units and the objects of expenditure. The object classification shows what government purchases but not why, accordingly, it does not show the nature of governmental programmes or accomplishments under these programmes.
- 3) Thirdly, a performance budget prepared in terms of costs and result facilitate management control by bringing out the programmes and accomplishments in financial and physical terms closely interwoven into one comprehensive document.

Check Your Progress - 1

Note: 1) Use the space given below for your answer.

2) Also check your answer with the clue given at the end of the Unit.

1) Distinguish between the traditional Budget and Performance Budget.

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2) Examine the process or performance Budgeting.

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22.4 Introduction of Performance Budget and its main features in India

Performance Budget is nothing but presenting the governmental operation in terms of functions, programmes, activities and projects. The need for modernizing the budgetary system was keenly felt in India when the country launched planned economic development under successive five year plans. The traditional Budget formats and

process were considered as unsuitable for a proper implementation of governmental programmes. The first study regarding the relevance of performance Budgeting to our Institutional set up and need was made by Paul H. Appley in 1953. The estimates committee raised the issue in their 73rd report in 1960 and suggested that the recommendation regarding performance budgeting again became a focus of attention when the planning commission held that "the stage has reached when appropriated methods of performance Budgeting should be evolved, so that these become an integral part of the machinery for planning and supervision over plan fulfillment". In the meanwhile, the ministry of Finance invited Frank. W. Krause of the United States, Bureau of Budget to examine the question of performance Budgeting in India. On the basis of a reconnaissance conducted by him in April 1964 he made a case study of three departments namely Central Board of Revenue, Central Public works department and National small Industries Corporation. On the basis of which he recommended the adoption of a comprehensive and clearly phased plan of action to introduce performance budgeting in all Central ministries and related enterprises. The ARC in its report "Finance, Accounts & Audit" suggested that performance Budget should be prepared in the following manner. A programme of activity classification should be made for each department or organisation selected for the purpose of performance Budgeting.

The Government of India since 1968 has been introducing performance Budgeting and most of its Departments are covered under this scheme including all its development department. Many state governments have adopted this principle of performance Budgeting in some selecte Departments.

Check Your Progress - 2

Note: 1) Use the space given below for your answer.

2) Also check your answer with the clue given at the end of the Unit.

1) Write a note on the performance Budget in India.

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2) State the merits and demerits of the performance Budget.

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22.5 Pre-requisites for the success of the system

The important pre-requisite for the introduction and operation of performance Budgeting are that, as a first step, it is desirable to emphasis the programme formulation aspect and to establish a clearly defined and meaningful pattern of organisational responsibilities. In doing so, the Budget classification could be closely related to projects included in a development plan.

The next step would be to bring the system of accounting and financial management into line with budget classification. "In the early stages, emphasis could be placed on planning and on providing

prompt financial and related information for use in performance reporting so as to enable a comparison of actual results with original plans. As progress is made towards these objectives, the introduction of accrual accounting and the solution of more complicated. Accounting problems might be considered. Accrual or Cost Accounting could be applied either to all types of programmes or to such operations on commercial or industrial activities.

The third step consists of the introduction of a system of measuring physical progress and performance. This would depend largely on the availability of relevant statistical data. Each programme would present its own problems in terms of determining proper units of measure and meaningful indicators of performance.

Fourthly the system of performance budgeting, because of its significant role in the management of governmental operations, demands specially qualified personnel for its successful operation. The most important consequences of performance budgeting is that it increases the responsibility and accountability of management. The performance budget enhances the role of management. This should lead to an improvement in the quality and quantity of budgeting at the level of operation. "In its ultimate application, this approach involves a sound budgetary operation, financial, discipline, skilled and responsible man power both for budget formulation and execution, a frequent and efficient system of recording and reporting financial and physical data, and close co-ordination between various governmental agencies and the central budget agency".

22.6 Process of performance Budgeting

The process of performance Budgeting includes the following.

- a) Establishment of goals, objectives and targets
- b) Formulation of function, programmes and activities of a given function.
- c) Setting up of norms and standards.
- d) Designing of control and evaluation system.

e) Delegation of financial powers.

a) Establishments of goals, objectives and targets

The formulation of goals, objectives and targets are policy decisions to ensure socio-economic development. This requires a lot of data to ensure the availability of inputs. At this stage, the top-management must answer these questions. What is to be achieved? Why is to be achieved? When it is to be achieved?

b) Formulation of functions, Programmes and Activities.

After stating the objectives and goals we must divide the work of the government into functions, programmes and activities.

c) Setting up of norms and standards

The third step towards performance budgeting is to determine performance standards. It may be clearly understood that there is no single yard stick for determining performance standards. The fixation of standards should be tentative and flexible. It should be based on a thorough understanding of the nature of the work allowing for deviation with in tolerable limits. These must be refined and made exact and scientific on the basis of experience and research.

d) Designing of control and Evaluation system

An adequate system for performance reporting is necessary adjunct to performance budgeting, which requires periodic assessment of physical and financial progress of governmental activities to ensure timely implementation of programmes.

e) Delegation of more financial powers to lower levels.

A necessary adjunct to performance Budget is the delegation of adequate financial powers, commensurate with the function and duties, entrusted to various levels of operating officials. This is necessary for the accomplishment of targets at various operational levels of performance. The delegation of powers to the operating

officials should be the maximum possible and not the minimum necessary in order to enable them to fulfil their assignment without frequent reference to the higher authorities.

22.6.1 Merits of performance Budget

1. In the first place, through this process it would be possible to correlate the physical and financial aspects of every programme and activity.
2. This process would improve the procedure of Budget formulation and the review of the actual progress of programmes at all level of government.
3. Even for the legislature it would facilitate better appreciation and review of the objectives of the government, the direction of outlays and the results that are likely to accrue from the outlays.
4. It would also help the administrative authorities to improve decision-making and management of programmes and projects.
5. Lastly performance budgeting paves the way for overall efficient financial management in government. It would, particularly, eliminate the callous waste of money that occurs during the closing months of the financial year with a view to avoid lapse of the Budget grants.

22.6.2 Disadvantage of performance Budgeting

1. Performance Budgeting enables only a quantitative and financial evaluation of programmes and activities. This limitation is not however peculiar to this technique, since no budgetary technique can make qualitative evaluation possible. This is to be achieved through other appropriate devices.
2. Its usefulness is somewhat limited in respect of activities that are not measurable in any precise manner. It is true that

performance budgeting may not be an effective in non-measurable fields such as research, police, law and order etc., as in development or construction areas where units of measurement are available. Nevertheless, even in such non-measurable areas, suitable bases can be developed to explain performance in meaningful manner so that effectiveness of money spent may be known, through no value judgment is possible. At any rate, as a technique of presentation, it has its own advantage over the present system.

3. The success of performance budgeting depends upon well-organized department and agencies identifiable with specific programme and activities. However in practice, precise categories of functions and programmes corresponding to organisational units are rather difficult to achieve. A synchronization of function and programmes with organisations through desirable in the long run is neither a pre-condition nor an essential ingredient of a performance budget system.
4. Performance budgeting provides no remedy for the administrative deficiencies in the budget process. It is no panacea for the administrative and organisational shortcomings.

22.7 Let us Sum up

In India the introduction of performance budgeting was viewed as an important step in overcoming some of the weaknesses in the Indian financial system and the technique of budgeting. Due to some of the problems encountered in traditional budgeting, optimists or promoters of performance budgeting argued that "it could help programme managers to prepare their budgets on the basis of what they expect to accomplish, to develop suitable norms of work, review progress and generate managerial action to control performance to develop feedback systems for evaluating on going programmes, to

make control and legislative control meaningful, and to make budget more informative and understandable to the taxpayers”.

22.8 Key words

Performance	-	execution of work
Correlation	-	reciprocal relation

22.9 Some Useful Books

Performance Budgeting	-	A. Premchand
Financial Administration	-	Dr. Thavaraj & Handa
Public Financial Administration	-	S.C. Goel
Public Administration	-	A.R. Tyagi.

22.10 Answer to check your progress exercise.

Check Your Progress - 1

See section 21.3 for Q-1

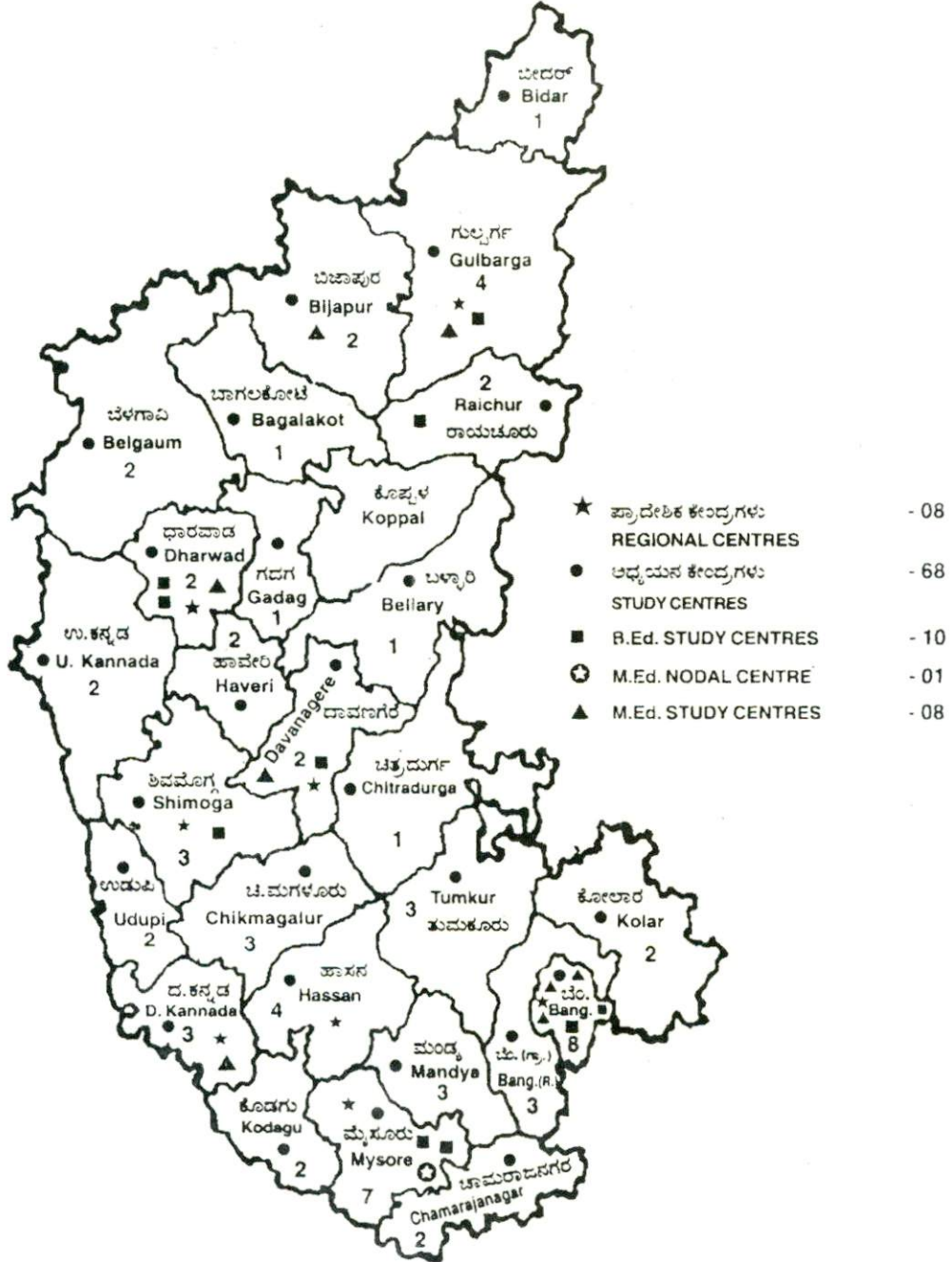
See section 21.6 for Q-2

Check Your Progress - 2

See section 21.4 for Q-1

See section 21.6.,1 & 22.6.2 for Q.2

ಕರ್ನಾಟಕ ರಾಜ್ಯ ಮುಕ್ತ ವಿಶ್ವವಿದ್ಯಾನಿಲಯದ ಪ್ರಾದೇಶಿಕ ಹಾಗೂ ಅಧ್ಯಯನ ಕೇಂದ್ರಗಳು
Regional and Study Centres of Karnataka State Open University



(ಸಮೂಹಿಸಿರುವ ಅಂಕಿ - ಜಿಲ್ಲೆಯಲ್ಲಿರುವ ಒಟ್ಟು ಅಧ್ಯಯನ ಕೇಂದ್ರಗಳ ಸಂಖ್ಯೆಯನ್ನು ಸೂಚಿಸುತ್ತದೆ.)
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