and schemes approved by the parliament. As we have mentioned earlier, execution of the budget is the task of the executive branch, because parliament grants funds to the government as a whole, technically to the President, and not to the individual departments. The Finance Ministry carries on the work of Financial Administration.

The process of execution of the budget involves several operations : (1) Proper collection of revenues, (2) Proper custody of the collected funds, (3) Proper disbursement of funds, (4) Accounting and (5) Auditing.

Collection of funds is the task of the revenue departments. At the Centre, the Departments of Income Tax, Customs and Central Excise are in charge of collection of revenues. The Department of Revenue and Insurance in the Ministry of Finance exercises control and supervision over the work of the above-mentioned agencies through the Central Board of Direct Taxes and the Central Board of Indirect Taxes.

The Reserve Bank of India, the State Bank of India and its branches, the Nationalised Commercial Banks and the network of Treasuries are engaged in the transactions relating to the receipt, custody and disbursement of funds.

The Ministry of Finance is the most important agency responsible for controlling the expenditure made by the spending departments. However, under the new system of Integrated Financial Administration, most of its responsibility devolves on the spending authorities. Under the new scheme, the Secretary to the Department/Ministry acts as the controlling officer and the Chief Accounting Authority also. In discharging his responsibilities, the Secretary is assisted by the Integrated Financial Adviser attached to his department/ministry. In each ministry, there is also a controller of accounts who is responsible for the accounting functions of the ministry at the headquarters of the ministry. There are also Pay and Accounts Officers in various departments to make payments and compile accounts. Thus, under the new scheme, departmentalised system of payments and accounts has been introduced. The Finance Ministry compiles the monthly reports received from the various spending departments to assess the ways and means position. It also reviews periodically the progress of expenditure.

Compilation of accounts relating to receipts and disbursement of funds is not enough. It is necessary that an independent agency should examine those accounts and report to the parliament whether the funds have been spent for the purposes for which they have been voted. In India, this function of auditing government accounts is performed by an independent constitutional authority known as Comptroller and Auditor General of India. Thus, audit is the last stage in the execution of the budget.

6. FINANCIAL OR FISCAL YEAR IN INDIA

The period for which the budget has been authorised by the parliament is known as the financial year. The financial year varies from country to country. In some countries like France, Austria, Belgium and Poland it starts from 1st January and ends on 31st December. In countries such as Australia, Hungary, Italy and Sweden it covers the period from 1st July to 30th June. In the U.S.A., the fiscal year runs from October 1 to September 30. In Great Britain and India, the fiscal year commences on 1st April and ends on 31st March.

The only reason for the present practice of fiscal year in India is the force of habit. Except this there is no convincing rationale behind its continuance. Prof. M. J. K. Thavaraj says, "Its continuance even after independence is largely due to force of habit than due to any cogent reasoning".

The rationale behind the commencement of the financial year in India on 1st of April has been questioned time and again ever since its introduction in 1866. Many commissions and committees have recommended the change of fiscal year in India. In Pre-independent India, the Welby Commission (1894-98) and the Chamberlin Commission (1914) argued for a change of the financial year. In independent India, the Estimates Committee of the Second Lok Sabha, in its 20th Report (1957-58), pointed out the defects of the present system of fiscal year in India. Recently, the Economic Administration Reforms Commission under the Chairmanship of L. K. Jha has also mooted the question of changing the financial year. We shall now proceed to summarise the various arguments advanced by these commissions in favour of changing the fiscal year in India.

First, Indian economy is still predominantly agricultural and is dependent on the behaviour of the South-West Monsoon which spreads over India in the months of June to October. The success or failure of the agricultural operations depends upon this principal monsoon. Under the present system of fiscal year, the departments are required to prepare their budget estimates before the end of October. This means they have to begin their work of estimating revenues at least a month earlier with a very vague knowledge of the revenues from agricultural produce and the agro-based industries.

Second, under the present system, it is said that by the time information about budget allocations and availability of funds is sent to the various executing departments, the monsoon sets in and comes in the way of execution of works. Until October work cannot be done rapidly. Then the execution of the various programmes has to be rushed through. Thus the present practice of the fiscal year not only causes delay in commencing public works but also results in a rush of expenditure toward the close of the financial year.

The arguments given above clearly point out the unsuitability of the present practice of fiscal year running from April 1, to the following March 31. Hence, the need for changing the present system of Indian fiscal year. If the present practice is unsuitable, then the question is which is the most suitable period for Indian condiment. Then the Finance Minister makes his budget speech after which the budget is presented to the Rajya Sabha. The budget is not discussed on the day on which it is presented.

Finance Minister's Budget Speech. The budget speech of the Finance Minister is an important one for various reasons. When he makes his speech, the visitor's galleries in the Lok Sabha are packed by capacity. The Finance Minister's speech contains : (i) a survey of the general economic conditions in the country, (ii) explanations and details of the policies of the government for the coming year, (iii) proposals for **fresh taxation** or relief from it and (iv) an explanatory Memorandum for the benefit of Members of Parliament. Both the **business community and the common people** pay much attention to the budget speech as it discloses policies affecting the entire population.

2. General Discussion

A few days after the presentation of the budget, a general debate on it takes place. In this debate a large number of Members of the House participate. This debate encompasses both the votable and non-votable items. During the course of this general discussion a general appraisal of the government's financial policy is made. At the end of the debate the Finance Minister gives a reply. The general debate **lasts usually for 4 days.**

3. The Voting of Demands

After the general discussion, the House takes up the voting of demands for grants, i.e., voting of the expenditure part of the budget. The estimates of expenditure for the various departments are presented to the Lok Sabha in the form of demands for grants. The demand for grant is made by each Ministry in three parts. The first contains a statement of the total estimated expenditure to be voted by the House. The second gives the sub-heads and the third provides the details of the sub-heads. Each demand is made by introducing a motion. Each demand is voted at the end of the discussion. When a demand is duly voted, it becomes a grant. The time allotted for discussing the demands of all the Ministries is usually not sufficient. Therefore, on the last date allotted for the voting of demands all the remaining undiscussed demands are put together and voted upon without any discussion. This is called guillotine. It may be noted here that parliament has the power to reject or reduce a demand for grant. But it cannot increase a demand nor can it include a new tax proposal. During the course of the discussion of Demands for grants the working and policies of each Ministry/Department are subjected to the criticism by the members of the House. The Rajya Sabha does not vote on Demands for grants.

Cut Motions : At the time of debating on the Demands for grants the Members can move various types of cut motions. A **cut motion** is a device which Members can employ to draw attention to specific grievances or criticise particular policies of the

government. First, it may be a 'policy cut' to indicate the disapproval of the policy underlying a Demand. In such a case cut motion is to reduce the amount of the Demand to Re. 1. Secondly, it may be the 'Economy Cut' which says that the Demand be reduced by a specified amount representing the economy that can be effected. A third type is known as the "Token cut" which says that the demand be reduced by Rs. 100/-. It is to ventilate a specific grievance.

Vote on Account : The process of Voting of Demands continues for a long time and the Appropriation Act may not be passed before 31st March. If the Appropriation Act is not passed before 31st March, the government departments cannot incur expenditure from the beginning of the fiscal year. But the day to day expenditure of the government departments cannot wait till the budget is finally passed. To meet this difficulty, a new device known as Vote on Account was introduced in 1950. The passing of the '**Vote on Account**' authorizes the government to draw money and incur expenditure till the Appropriation Act is passed. It also enables the House to consider and discuss the budget at leisure.

4. Appropriation Bill

The Voting of grants is followed by the introduction of the Appropriation Bill. Mere voting of demands for grants does not authorize the government to draw money and incur expenditure. For this purpose parliament has to pass the Appropriation Bill which contains all the voted demands for grants. The Bill becomes an Act when it is voted. Even at this stage, by convention, the Members are permitted to discuss "really new points, which require elucidation or consideration". The Appropriation Act authorizes the government to draw money from the Consolidated Fund with respect to the voted demands and 'charged' items of expenditure and spend it.

5. The Finance Bill

The passing of the Appropriation Bill means that parliament has authorized all expenditure. Approval of the government's proposals for raising revenue to meet the expenditure has yet to be given. It is the finance bill which contains proposals for taxation. This Bill is introduced in the Lok Sabha after the Finance Minister's budget speech. The Finance Bill is taken up for consideration by the House, after the Appropriation Bill has been passed. During the debate on the Finance Bill, the Members can express their grievances **and criticise the government's financial policy.** When the Bill is voted, it becomes Finance Act. It gives legal effect to the taxation proposals of the government and authorizes the executive to collect revenues. Passing of the Finance Bill is the final step in the approval of the budget by the parliament.

(C) Execution of the Budget

Execution of the budget means (a) collection of revenue as authorized in the Finance Act and (b) spending money on projects a whole new way of considering fiscal responsibility in of the cost-effectiveness of public expenditure.

5. BUDGETARY PROCESS IN INDIA

In this section we shall study the budgetary process in India. The budgetary process consists of the following stages : (1) Preparation and submission of the budget, (2) Enactment of the budget, (3) Execution of the budget and (4) Parliamentary control. The executive is responsible for the first and third stages of the budgetary process, while the second and fourth are the responsibilities of the legislature. We shall now consider each of these stages one by one.

(a) Preparation of the Budget

Formulation of the budget is the first step in the annual budgetary cycle. The authority to formulate the budget rests with the executives, because the executive knows the requirements of the various departments. The major actors involved in the preparation of the budget in India are the Finance Ministry, the administrative departments and their subordinate offices, Planning Commission and the Comptroller and Auditor General of India. The budget covers the fiscal or financial year which begins on 1st April and ends on the following 31st March. In the Indian Constitution the term budget is referred to as the "annual financial statement".

The formal preparation of the national budget begins around September-October, about five to six months before the commencement of the financial year. Before October the Finance Ministry sends a circular to the various administrative Ministries/Departments requesting them to prepare their estimates for the ensuing fiscal year. The Accountant General of India sends printed forms to the Ministries/Departments to get information from them about their requirements. Each form contains (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, and (e) actuals of the current year available and actuals for the corresponding period of the previous year. The information required of the previous year is expected to serve as the basis for future action. Such information gives good opportunity for comparison.

Preparation of the budget consists of the following steps :

1. Preparation of Estimates by the Disbursing Officers

It may be noted here that the estimating process starts near the bottom of the hierarchy. The printed forms received by the Heads of the Departments are transmitted to the local disbursing officers. The local disbursing officers prepare the preliminary estimates and send them back to their respective heads of the departments/administrative Ministries.

various departments it has the right to reject or reduce the grants asked by the departments. Through the agency of audit parliament can review whether the funds voted have been spent for the purpose for which they were given. In a word, without parliament's authorization, the executive departments cannot spend any amount and even the authorized funds must be spent only for the purposes for which they are authorized. Thus budget is a tool of parliament's financial control.

3. **Budget—Its Economic and Social Implications**. A modern budget has many social and economic implications. It reflects the nature of social and economic policies of the government. It indicates the taxation proposal and the expenditure policy of the government. The budget proposals involve government's major decisions. Such decisions show who pays and how much and who gets what and how much. It is only through the instrument of budget the objective of social, economic and political justice can be established in society. By imposing heavy taxation on articles of consumption, it can encourage savings and investment and thus promote the economic growth of the country. By taxing the rich it can reduce economic inequality. Thus the taxation policy of the government in the budget may lead to narrowing down of the inequalities and class distinctions. The production policy of the government in the budget may be aimed at removing poverty, unemployment and maldistribution of wealth. In the budgetary process the instruments of taxation and expenditure are used to influence the course of the nation's economy. In the modern budgets one can see the signs of the welfare state. Thus, budget is an instrument for promoting economic stability and implementing programmes of economic and social development.

3. PRINCIPLES OF BUDGETING

As we have already seen, the budget is an important document. Therefore, in the preparation of a budget certain principles are observed. Usually, the following are regarded as important principles of sound budgeting.

1. The Budget Should be a Balanced One

A good budget should be a balanced one. It means that the estimated expenditure should not exceed the revenue anticipated for the financial year. **If the expenditure is more than the revenue**, it is known as deficit budget. An unlimited pursuit of deficit financing may sooner or later lead to inflation and disturb the stability of the national economy. However, an occasional deficit budget is not bad. This principle of a balanced budget is held no more valid in the case of developing nations which are practising deficit financing.

2. The Estimates Should be on a Cash Basis

It means that the budget estimates of revenue and expenditure should be prepared on the basis of actual cash receipts and cash payments expected during the coming financial year. The observance of this principle makes the budget easily understandable. If budget is prepared on a cash basis, calculations become easy.

3. One Budget for all Financial Transactions

There should be only one budget for all financial transactions. Extraordinary budgets for special purposes and separate budgets for administrative departments should not be allowed. A common budget for all the departments put together provides the true picture of the financial position and an overall picture of the whole activity of the government. However, the Railways in India are allowed to have a separate budget. This is an exception to the rule of single budget.

4. Budgeting Should be Gross and not Net

This principle means that estimates of gross expenditure and gross revenues should be shown separately. Butget should not be prepared for net expenditure after deducting the receipts from charges. Preparation of budgets on the basis of net estimates will make parliament's control over governmental expenditure meaningless.

5. Estimating Should be Close

It means that the amount of the provision should be restricted to the amount required for actual expenditure. If the estimates are accurate, more than what is absolutely necessary for public services will not be taken from the taxpayer. Further, no department would get more funds than what is required to carry on its activities.

6. Budget Should be on Annual Basis

The rule of annuality is an important principle of budgeting. Usually, in most of the countries budgets are prepared on an annual basis. A year is the optimum period for which a legislature should give financial sanction to the executive. A year also is a reasonable period of time needed by the executive to execute effectively the budget.

7. The Rule of Lapse

The rule of lapse is observed in the preparation of the budget everywhere. It means that all appropriations expire at the close of the financial year. No portion of voted amount unspent during the year should be reserved. Such unspent amounts would lapse. It enables to make up and balance accounts for each year. But, this rule results in a heavy rush of expenditure towards the close of the financial year.

8. The Form of Estimates Should Correspond to the Form of Account

The form of estimates should correspond to that of accounts, since estimates are but anticipated accounts. The observance of this

2. Scrutiny and Review of Estimates by Departmental Controlling Officers

The heads of departments or controlling officers scrutinise the estimates sent by the local officers. They revise them where necessary giving reasons for such revision. The heads of the departments then consolidate the estimates and send them to the Finance Ministry by December. One copy of the estimates of each department is also sent to the Accountant General. He scrutinises them and submits his comments and information relating to them to the Finance Ministry.

The budget estimates prepared by the administrative ministries are broadly divided into three parts—(1) **Standing Charges** like the pay of officers, contingent expenditure, etc. (2) **Continuing schemes** or fluctuating charges (e.g. purchase of raw material) which may change from year to year and (3) **New schemes.**

Since the establishment of the Planning Commission, the departments also show planned and non-planned expenditure. All plan schemes require the approval of the Planning Commission.

3. Scrutiny by the Finance Ministry

As stated earlier the estimates prepared by the administrative departments are transmitted to the Finance Ministry about December. The Finance Ministry examines and checks the estimates. The scrutiny applied by it is purely from the view point of economy and availability of funds. Since public funds are always scarce, the excessive demands of the administrative departments are pruned and cut down by the Finance Ministry. Its scrutiny is least in respect of items charged on the Consolidated Fund of India and nominal with regard to standing charges. But, it applies a more detailed and thorough scrutiny in respect of new schemes. The Prime Minister or the Cabinet will take up questions of unresolved differences between the Finance Ministry and the Administrative Ministries. Usualy the Finance Ministry has the ultimate say in regard to all estimates. After completing its scrutiny and making necessary adjustments in the proposals of the administrative ministries, the Finance Ministry gives its concurrence and consolidates them by the middle of February.

4. Estimates of Revenue

Estimating the revenues is also an important aspect of the budgetary process. This job is done by the Ministry of Finance in consultation with the Central Board of Direct Taxes and the Central Board of Indirect Taxes. In preparing the estimates of revenue, the Finance Ministry is assisted by the Income Tax and Central Excise and Customs Departments. Estimates of revenues are first made on the basis of the existing rates of taxation. Then, in order to cover the revenue gap, proposals relating to increase in the existing rates of taxes and imposition of any new taxes are made.

Thus the process of budget formulation is an elaborate one.

The budget prepared by the Ministry of Finance finally consists of the income side and the expenditure side

Approval by the Cabinet

The budget consolidated by the Finance Ministry is finally placed before the Cabinet for its approval. The Cabinet discusses the various aspects of the budget and takes policy decisions concerning finance, expenditure and revenue. Here, it must be made very clear that the cabinet is the final authority in taking policy decisions in all financial matters. When the budget receives the approval of the Cabinet, it is ready for being presented to the parliament.

From the foregoing discussion it is clear that in the preparation of the budget the estimating process starts near the bottom of the hierarchy and moves upward. As it moves upward, each higher level reviews and revises to keep each aggregated total close to an anticipated or prescribed ceiling. Its upward movement also reflects the different sense of priorities that the higher level may have. Budget is a closely guarded secret and it shall not be divulged to anybody before it is presented to parliament.

(B) Enactment of the Budget

The second phase in the budget cycle is the enactment of the budget by the parliament. In India the power to authorise the raising and spending of money rests with the Lok Sabha, the lower House of the Parliament. But, the initiative for taxation and expenditure must come from the Executive in the form of the budget. According to our constitution, in respect of every financial year, the President shall lay the budget before both the Houses of Parliament. The Speaker of the Lok Sabha decides which one is a money bill and which is not, is case of controversy. It needs no explanation that budget is a 'Money Bill'.

The 'budget' includes two types of expenditure, namely, votable expenditure and expenditure charged on the Consolidated Fund of India. While the former is voted upon, the latter is not subject to voting.

One more point may be noted here. The budget is presented in two parts—the General Budget and the Railway Budget—the procedure for both being the same. Usually, the Railway budget is presented separately by the Railway Minister to the Parliament well before the General Budget. We shall now proceed to describe the procedure for the sanction of General Budget.

The various stages by which the budget is approved by the Parliament is as follows :

1. Presentation of the Budget

The budget is formally presented by the Finance Minister in the Lok Sabha, usually at 5 P.M. on the last working day of February. Copies of the budget are given to the members of Parlia-nation's finances have been utilized and makes suggestions to prevent financial irregularities, if there are any.

Thus, all the agencies mentioned above are concerned with proper management of public finances.

2. BUDGET—MEANING AND IMPORTANCE

Meaning and Definition of Budget

The term 'budget' is derived from the French word 'budgette' which means a leather bag. In England, there was a practice according to which the Chancellor of the Exchequer used to take out his papers from a leather bag in presenting to parliament the government's financial programme for the ensuing fiscal year. This practice has finally given birth to the term 'budget'. Now the term budget refers not to the leather bag but to the financial papers relating the estimates of revenue and expenditure.

The term budget has been defined variously by various writers. According to some writers, budget is essentially a statement of estimates of revenue and expenditure for a specific period of time. This usage of the budget is quite evident in the following definition given by Paul Leroy Beaulieu. He defines budget as a statement forecasting revenues and expenditures during a certain determined period of time. It is also an authorisation of an order by competent authorities to make the expenditures and collect the revenues".

According to some others, the budget is more than a mere statement of estimated revenues and expenditures for a specific period of time. Prof. Willoughby, for example, says that budget "is, or should be, at once a report, an estimate and a proposal". According to him, the budget is a report on the manner in which the affairs of government were administered during the last completed year and on the present condition of the public treasury. On the basis of such information, according to him, the budget sets forth government's programme of work for the coming year, with proposals as to the financing of such work.

Still some others view the budget as an instrument of control as well as a plan of action. The usage of the term is exemplified by the following definition of budget by Eric Kohler. He defines budget as :

"1. A financial plan serving as a pattern for and a control over future operations;

2. hence, any estimate of future costs;

3. a systematic plan for the utilization of manpower, material or other resources".

The various definitions given above clearly point out that a budget is : (1) a statement of expected revenue and proposed expenditure for a definite period; (2) a report of the past and present fiscal year and a proposal of the future work programme, and (3) an instrument of control as well as a plan of action.

Qualities of a Good Budget

A good budget has a number of major qualities which may be briefly stated as follows :

1. **Responsibility** : One person or one agency should be responsible for the budget.

2. **Comprehensiveness** : It means that the budget should include the complete financial plans and programmes of the government for a specified period of time.

3. **Flexibility** : It means that budget should include a reasonable degree of policy choice in its formulation and execution.

4. **Reliability** : It means that the information relating to the estimates of revenues and expenditure given in the budget must be sufficiently accurate.

5. **Integrity** : It means that the fiscal programme included in the budget and enacted by the legislature must be carried out as intended by the legislature.

Budget—Its Purposes and Importance

Budget is an important document that serves a number of purposes. By analysing the varied purposes served by the budget, we can understand its significance and role in financial administration.

1. **Budget—A Tool of Administrative Management.** Budget is at the core of administrative management. It is an important tool in the hands of the chief executive to achieve economy and efficiency in the administration. It controls expenditures made by the operating departments to prevent overspending, waste and misuse of the taxpayers' money. It serves as a powerful tool of coordination. All the activities of the various government departments are unified into a single plan and coordinated through the budget. It serves as a means of control exercised by the chief executive over the departments. He exercises this control through his power of allocating funds among the departments. It shows the patterns of taxation and expenditures. It also shows which activities are given priority over which others. It is a scheme of what amount shall be spent on what matters. It is a programme according to which the activities of the government are carried on. It is thus a plan converted into money availabilities.

2. **Budget—A Tool of Legislative Control.** Budget is "the medium through which parliament exercises control and ensures financial accountability of the executive". In a democratic government, parliament as people's representative institution has the ultimate word in financial matters. It is the fund raising and fund granting authority. It authorizes expenditure by voting grants to the various executive departments. At the time of granting funds to the

...e facilitates understanding and easy accounting. It also allows easy comparison and study.

9. Estimates should be made on a Departmental Basis

The estimates should be made on a departmental basis. The observance of this principle enables us to have a clear idea of the programme of each of the departments. It also guarantees the financial solvency of the departments. It also gives us a clear picture of the individual departmental activities.

10. The last principle is that **Revenue and Capital Parts of the budget should be shown separately** in the budget. This principle enables to ascertain the overall surplus or deficit for each year.

4. SOME CONCEPTS OF BUDGETING

Here we shall consider some important concepts of budgeting and the various refinements that have gone into budget-making in countreis like the U.S. and India. Our discussion here deals with a brief explanation of (1) Line-Item Budget, (2) Revenue Budget, (3) Capital Budget, (4) Performance Budgeting, (5) Planning-Programming-Budgeting (PPB) and (6) Zero-based budgeting (ZBB).

Line-Item Budget

The conventional budget is also known as the line item budget. In the words of Nigro and Nigro, "In its most rigid form, line item budgeting means listing every single position and piece of equipment on a separate line in the expenditure estimates". In the line item budget, the money voted by the legislature on a particular item (say, buying a type writer) must be spent for that item only and not for any other purpose (say, buying an adding machine). Further, the appropriated funds may not be transferred from one category of expenditure to another, such as the salary to the equipment account. The objects of line item budget are to prevent overspending, wastage and misuse of the tax-payers' money. Thus, the line item budget provides maximum control of expenditure. In the U.S. this negative approach to budgeting has been replaced by a positive one. Now, the budgets in the U.S. lay emphasis on achieving concrete work results under strong executive leadership. This "management approach" to budgeting has come to be known as the "management approach" to budgeting.

Revenue Budget

Usually the budget presented to the parliament consists of two parts : (i) The revenue receipts and expenditure and (ii) Capital receipts and expenditure. Often, these two parts are considered as two separate budgets, namely, revenue budget and capital budget.

...budget includes revenues received by government

from such sources as tax revenues and the expenditure incurred from such revenues. The revenue expenditure is a recurring one, made for running the government administration. Such expenditure does not result in the creation of permanent assets. Thus, the revenue budget relates to the current financial transactions of the government.

Capital Budget

Capital budget consists of capital receipts and capital expenditure. The capital receipts include such items as loans raised by government from the public, government borrowings from the Reserve Bank of India, loans received from foreign companies, etc. Capital expenditure is made on projects which entail huge expenditure and confer benefits for extended periods of time. Since the future generations benefit from such capital expenditure, it is but equitable that they should also bear part of the burden. A capital budget permits the government to spread the cost of such projects over many years. Capital expenditure enables the government to acquire permanent assets like land, machinery, etc.

The absence of capital budgeting is not at all desirable. As Dr. M. P. Sharma points out, "The consequence of not keeping the recurring and capital items separate would confuse the financial picture".

Performance Budget

The concept of performance budgeting is of U.S. Origin. The failure of traditional line item budget to show what the money is being used for in terms of programmes is largely responsible for the birth of performance budgeting in the U.S. After World War II, the first Hoover Commission's Report recommended in 1949 the adoption of the 'performance budget' to make effective the management approach to budgeting. The U.S. government accepted the commission's recommendation. President Truman presented his first "performance budget" to the Congress in 1950.

In the words of the Hoover Commission, the **performance** budget is a budget "based upon functions, activities and projects". Performance budgeting is regarded as an improvement over the traditional line-item budget. It includes not only the itemised objects of expenditure but also some additional information as to what all this expenditure is to provide in the way of public services. It shows the work or service to be accomplished as well as the cost of such work or service. Thus it has shifted the emphasis from the means of accomplishment to the accomplishment itself.

The adoption of the performance budgeting concept has many **advantages.** First, performance budget makes clear the purposes and objectives of an agency for which funds are sought. Second, it shows clearly who is responsible for what work or activity. Third, it makes the review of the budget by the legislature easier.

troduced a fresh Bill called the "Lokpal Bill" in the Lok Sabha. When the Bill was under the consideration of the Lok Sabha, the Lok Sabha was dissolved. Consequently that Bill also lapsed. Thus, all the three attempts in the past to set up a statutory machinery to deal with corruption in high political places and citizens' grievances aborted. The present Rajiv Gandhi Government has taken up the issue of setting up the office of Lok Pal and introduced a Bill on the subject in the Lok Sabha on August, 26, 1985. We shall now turn our attention to the main provisions of the Bill.

Important Provisions of the "Lok Pal Bill, 1985"

A Bill called the "Lok Pal Bill, 1985" was introduced in the Lok Sabha by the Law Minister, Mr. Asoke Sen on August 26, 1985. The Bill seeks to set up the office of Lok Pal as a high office with a fixed tenure. Under the provisions of the Bill the Lok Pal may be defined as an authority to inquire into allegations of corruption against Union Ministers.

According to the Bill, the Lok Pal will be appointed by the President in consultation with the Chief Justice of India. He enjoys a fixed tenure of five years. A person who is, has been or qualified to be a judge of the Supreme Court will be eligible to be appointed as the Lok Pal. The Bill provides that he shall not be removed from his office except by an order of the President on the ground of proved misbehaviour or incapacity after an enquiry made by the Chief Justice of India. This provision is intended to ensure that the Lok Pal is able to act independently and discharge his functions without fear or favour.

Under the provisions of the Bill, the main duty of the Lok Pal will be to inquire into complaints against the conduct of a "public functionary". As defined in the Bill, the term "public functionary" covers "a person who holds and has held office of Minister, Minister of State, Deputy Minister or Parliamentary Secretary of the Union".

Under one of the provisions of the Bill the Lok Pal may inquire into any act or conduct of any person other than a "public functionary" if this is considered by him necessary for the purpose of his inquiry into the main allegation.

Under the scheme of the Bill, complaints can be made in respect of offences under Chapter IX of the I.P.C. or under the Prevention of Corruption Act 1947. The Lok Pal will not take up any complaints made after five years of the alleged offence.

The present Bill excludes from the purview of the Lok Pal the Prime Minister, Chief Ministers of States, the President, the Vice-President, Lok Sabha Speaker, and Members of Parliament. Constitutional functionaries like the Chief Justice and other Judges of the Supreme Court, Comptroller and Auditor General of India, Chief Election Commissioner and the Chairman and members of the U.P.S.C. are also not to be covered by the jurisdiction of the Lok Pal.

Because of these exclusions, Lok Pal's competence under the proposed legislation is very much restricted. At the stage of the introduction of the Bill veteran Janata Leader Prof. Madhu Dandavate regretted that the scope of the Bill was very much diluted. He also said that it was only an "eye-wash and white-wash".

The Bill contains special provisions for discouraging frivolous, vexatious and false complaints. It seeks to confer powers on the Lok Pal to try summarily and punish persons making false complaints or giving false evidence in any proceedings before him. Such persons may be sentenced to imprisonment, ranging from one to three years and fine upto Rs. 50,000.

The present Bill, it was claimed, seeks to carry out the recommendations of the A.R.C. for enabling the citizen to have recourse to a "convenient and effective forum for determination of complaints and thereby save him from pursuing his remedy through the process of courts, which may prove expensive or dilatory and may not facilitate speedy determination".

Lokayuktas in the States

Various States in India have, however, set up the Ombudsman-Type Lokayuktas to check corruption and redress citizens' grievances against maladministration. Orissa was the first state to enact Lokayukta legislation in 1970. It was followed by Maharashtra in 1971. Rajasthan, Bihar and Madhya Pradesh set up Lokayukta institutions in 1974. Uttar Pradesh adopted the office of Lokayukta in 1975. Andhra Pradesh and Karnataka enacted the Lokayukta Acts in 1983 and 1984 respectively. All these State Ombudsman plans are based on the proposals of the A.R.C. All these legislations dealing with the institution of the Lokayuktas exhibit minor changes to suit the local needs.

It may be noted that the competence of the Lokayuktas in these states varies from state to state. Thus, in Rajasthan and Gujarat the job of Lokayuktas is confined to investigate allegations and not grievances. On the other hand, the Lokayuktas in other states could enquire into allegations as well as grievances. In India maladministration and corruption go hand in hand. Hence Lokayuktas are looked upon more as officers to check corruption. Prof. Mohit Bhattacharya comments saying that the records of these Lokayuktas do not inspire confidence in the institutions.

The Lokayukta of Andhra Pradesh

The Government of Andhra Pradesh enacted a law in 1983 creating the institutions of Lok Ayukta and Upa Lok Ayukta. The main purpose of these statutory agencies is to enquire into public complaints against corruption or injustice arising out of Maladministration. The Lok Ayukta Act came into force on November 1, 1983.

Appointment, Tenure, Removal, Etc.

According to the Lok Ayukta Act, the Governor appoints the man is quite useful to serve admirably the needs of "Ordinary humble citizen" who lacks the financial means to pursue costly and dilatory judicial remedies.

3. The Ombudsman grants relief to individuals on many grounds on which the courts cannot.

4. The Ombudsman acts as the eyes and ears of the legislature in overseeing the administration.

5. The Ombudsman also performs an important service for administrative officials by reducing their workload of complaint handling and by verifying cases of unfounded criticisms. He is also useful to the public in the sense that he explains to the people the reasons for official action or inaction.

The various benefits mentioned above have largely contributed to the world wide acceptance and popularity of the institution of the Ombudsman as an agency to redress citizens' grievances against maladministration. By now, the Ombudsman plan has been adopted in a large number of democratic countries, both developed and developing.

LOKPAL AND LOKAYUKTAS IN INDIA

Lokpal at the Centre : Brief History

In India there has been a lot of public outcry against maladministration, corruption, nepotism, delays, discourtesies, inefficiency and unresponsiveness of the administration to popular needs. As a result of this public outcry against the various defects of our administration, the need for an Ombudsman type institution to deal with corruption and injustice arising out of maladministration has been keenly felt. The Administrative Reforms Commission, set up by the Government of India in 1966, took up on priority basis the matter of redressal of citizens' grievances against maladministration. In its interim report on the "problem of redress of citizens' grievances", submitted in 1966, the A.R.C. recommended inter alia the setting up of institutions of Lokpal and Lokayukta for redressal of citizens' grievances. Lokpal would deal with complaints against ministers and secretaries to government in the Central as well as State Governments. The Lokayukta, one at the Centre and one in each state, would attend to complaints against the rest of the bureaucracy.

To give effect to this recommendation of the A.R.C., for the first time, the "Lokpal and the Lokayuktas Bill" was introduced in the Fourth Lok Sabha in 1968. The Bill was passed by the Lok Sabha in 1969. While the Bill was pending in the Rajya Sabha, the Fourth Lok Sabha was dissolved and consequently, the Bill lapsed. Again, the Bill as passed by the previous Lok Sabha was re-introduced in the Lok Sabha in 1971. But this Bill also lapsed on the dissolution of the Fifth Lok Sabha. In 1977, the Janata Government ingether all the receipts and all the expenditure under the various major heads.

5. Since 1976, consequent to the departmentalization of accounts, compilation of accounts has become the responsibility of the administrative departments.

B. Audit : Meaning of Audit

'Auditing is an analysis of proposed or past expenditures with respect not only to their legality but also to their desirability'. It determines whether the financial transactions are in accordance with the legislative mandate given to the administrator by the particular statute. For the purpose, auditors examine expenditure vouchers and other documents showing proposed or past financial transactions. Usually, audit of the governmental financial transactions is conducted on behalf of the legislature by an agency, independent of the executive.

If the audit takes place prior to incurring expenditure, it is known as a **pre-audit**. Usually, pre-audit is conducted within the executive branch. This is so because the purpose of Pre-audit is to exercise control over the use of funds by subordinate officials. It is thus mainly an internal check.

In contrast, if the audit takes place after payment or incurring expenditure, it is known as **post-audit.** Sometimes post-audit comes many months after the expenditure is made. Its main purpose is to check upon the judgement made by the responsible officials in the executive branch. It verifies whether the funds are spent by the executive as they are intended to be spent by the legislature. Post-audit should always be conducted by an agency outside the executive branch. This is logical because its purpose is to act as a check on the executive branch. The auditors concerned with post-audit are responsible to the legislature and report their findings directly to it.

The **duties** of an auditor may be briefly stated as follows: They are (i) to examine past transactions in order to determine their honesty and legality and (ii) to report the results of scrutiny to the legislature.

Importance of Audit

Efficiency and effective administration depends upon a good audit system. It ensures honest, legal and economical use of public funds by preventing their misuse. It secures the highest standards of financial integrity in administration. Thus, audit safeguards the financial interests of the tax-payers. It brings all matters of extravagance and losses of public money to the notice of the legislature. This will help legislature in exercising financial control over the executive. In a word, audit is an important instrument of parliamentary control over public funds and public administration.

Differences and Relation Between Accounting and Audit

Accounting differs from auditing in certain respects:

1. Accounting is essentially a constructive operation, while auditing is an analytical operation.
2. Accounting is an essential tool of executive departments and should be under the control of management. In contrast, auditing is an outside check on executive, and therefore auditing should not be combined with accounting. This difference mainly accounts for the separation of the accounting and auditing functions.
3. Accounting is the responsibility of the spending departments. On the other hand, auditing is a legislative function in the sense that it is performed by an independent agency on behalf of the legislature.

Despite these differences, the accounting and auditing functions are complementary to each other in promoting sound financial administration. Accounting data provide much of the information upon which audits are made. It is not enough if accounts are well kept. There should be an audit of such accounts to know that all is well with the accounts maintained by the executive. Thus, there is a close relationship between accounting and auditing.

C. Comptroller and Auditor-General of India

The Comptroller and Auditor General of India (C & A.G.) is one of the most important functionaries set up by the Indian Constitution. He is the administrative head of the Indian Audit and Accounts Department. His duties and functions have been defined in the Comptroller and Auditor General (Duties, Powers and Conditions of Service) Act 1971. Later in 1976, the Comptroller and Auditor General Act 1976 separated audit from accounting. Since then the C & A.G. has been relieved of the responsibility for compiling of accounts. He is now concerned with the audit of accounts only.

Appointment and Service Conditions

The Comptroller and Auditor General of India is appointed by the President under his hand and seal. His term of office is 6 years. His status is that of the Judge of the Supreme Court. He gets the same salary as the judge of the Supreme Court. He retires at the age of 65 years. Although the C & A.G. is appointed by the President, he cannot be removed by the President. He can be removed by a vote of parliament in the manner prescribed by the constitution, i.e., only on an address by both the Houses of parliament on grounds of proved misbehaviour or incapacity.

Independence of C. & A.G.

The most important duty of the C. & A.G. is to uphold the constitution and the laws in the field of financial administration. His oath of office requires him to discharge his duties without fear or favour. Since he is required to audit the expenditure incurred by the executive, he should be made independent of the executive branch.

4. to suggest the form in which the estimates shall be presented to parliament.

Working of the Committee

Usually, every year the Estimates Committee selects a few subjects for examination which affect the common man and are of a topical importance. After selecting the subjects to be examined, it proceeds to collecting the necessary material for an adequate examination of the estimates of expenditure. It can appoint one or more sub-committees to make a detailed study of some subjects under its examination. It has the authority to send for persons, papers and records required in connection with its work. It issues questionnaires to the Ministries or Departments concerned. It interviews officials and examines witnesses. On the basis of the information collected, discussions and the evidence given by the witnesses, the committee finally prepares the report which contains its observations and recommendations.

Role of the Estimates Committee

As a finance committee, the Estimates Committee is concerned with all matters in which finances are involved. Its main function is to ensure economy and efficiency in administration. It does not lay down any policy. But it examines the policies laid down by the government to see whether such policies could be carried out with efficiency and economy. If a particular policy, in its opinion, leads to wastage, the committee can suggest alternative policies. By virtue of this power, the committee can make recommendations with respect to organizational aspects of any Ministry or Department.

Some criticisms are levelled against the working of the committee. It is criticised for its tendency to become a fault-finding rather than a fact-finding body. It is also said that it is paying more attention to reorganization of administrative machinery than to scrutiny of estimates. Thus, it is deviating from the original purpose for which it was set up.

Despite these criticisms, the committee's work is very useful in making parliament's control of public expenditure complete. It has also contributed to increasing efficiency of administration. Some of its most important recommendations include functional and economic classification of budget, introduction of performance budgeting and so on.

10. ACCOUNTING AND AUDITING : COMPTROLLER AND AUDITOR GENERAL OF INDIA

Accounting and Auditing are two important aspects of fiscal management. It is possible to safeguard the use of public funds honestly and economically through proper accounting and auditing systems. In this section we shall give a brief account of the meaning and significance of accounting and auditing and the relationship that exists between them.

Accounting : Meaning of Accounting

According to Nigro, "Accounting is the art of recording and summarizing the activities of an organization in terms of money and of interpreting the results thereof". Thus, accounting deals with recording, classifying and summarising the financial transactions of an organization. It also reveals the results of such transactions. Accounting is an essential tool of management. Usually, account keeping is the responsibility of the spending agencies.

Importance of Accounting

A good system of accounts serves many useful purposes in financial adminitsration. Sound accounting system is highly essential for the effective functioning of any agency—public or private. It enables the spending authorities to keep the expenditures within the approved budget estimates. Thus it acts as a check on overspending or extravagance. The accounting reports show what has been paid out. It also depicts the general financial position of an organization. A bad system of accounts results in wastage, corruption and inefficient execution of programmes. Lastly, the data provided by accounts are essential for framing a sound budget.

Salient Features of Accounting System in India

The main features of the Accounting system in India may be noted as under :

1. The form in which the accounts of the Union and of the States are kept is prescribed by the Comptroller and Auditor General of India with the approval of the President.

2. Government accounts are maintained on a cash basis. They record the actual cash receipts and payments during a financial year.

3. The government accounts are kept in three parts—Part-I, Consolidated Fund dealing with the proceeds of taxation and other revenue receipts and the expenditure met therefrom; this part also records separately capital expenditure incurred out of borrowed funds. Part-II records transactions concerned with the Contingency Fund. Part-III deals with transactions relating to deposits, advances, remittances, etc.

4. The treasuries prepare the initial accounts of government; they maintain separate accounts for the Union and State Governments. Then the treasuries submit these accounts along with vouchers to the Accountants General concerned. The Accountants General compile and consolidate the accounts into monthly and annual accounts. Finally, the Comptroller and Auditor General prepares two accounts— Appropriation Accounts and Finance Accounts. The Appropriation Accounts show the actual expenditure incurred against the grants voted by the legislature. The Finance Accounts bring to-

The Constitution has taken the following measures to secure the independence of the executive in performing his duties : (1) As we have seen already the C. & A.G. has been assured security of tenure. (2) His salary and conditions of service cannot be varied to his disadvantage during the term of his office. (3) His emoluments and the administrative expenses of his office are charged upon the Consolidated Fund of India and thus are not subject to vote of parliament. (4) He is disqualified to hold further government office under the Centre or the states after retirement. These provisions in the Constitution are intended to safeguard the independence of the C. & A.G. in carrying on his duties.

Powers and Duties of the C. & A.G.

The powers and duties of the Comptroller and Auditor General of India are, as mentioned already, defined by the parliamentary enactment of 1971. In 1976 another Act of parliament relieved him of his responsibilities for compiling of accounts of both the central and state governments. At present his duties in relation to audit may be briefly stated as under : The C. & A.G. Audits :

1. all expenditure from the consolidated fund of India and of each state and ascertains whether the moneys shown in the accounts as having been disbursed were legally available for the purpose to which they have been applied and whether the expenditure conforms to the authority which governs it ;
2. all transactions of the central and state governments relating to Contingency Fund and Public Accounts (e.g., relating to debt, deposits, advances, remittance business, etc.) ;
3. all trading, manufacturing, profit and loss accounts and balance sheets kept by an order of the President and in each case reports on the expenditure, transactions or accounts audited by him ;
4. the receipts and expenditure of bodies and authorities substantially financed from central or state revenues ; and
5. accounts of stores and stock.

Other Duties of C. & A.G.

The C. & A.G., as stated earlier, prescribes the form in which the accounts of the Union and of the States are to be kept. This function is essential in maintaining clean accounts. He submits his report of audit relating to the accounts of the Union to the President who causes it to lay before parliament. He prepares a combined Finance and Revenue Accounts of the central and state governments for each financial year.

Role of C. & A.G.

The C. & A.G. is an important officer of the parliament to ensure its control over public expenditure. He acts as the watchdog of public purse. He brings to the notice of the parliament lapses in public

expenditure through his audit reports. He can disallow any expenditure which in his view contravenes the constitution and the laws. His audit report forms the basis of the deliberations of the Public Accounts Committee. While examining the accounts, he can go deep into matters of motive and question the 'wisdom, faithfulness and economy of expenditure'. He can undertake discretionary and extraordinary audits of any department. He can even question the propriety of the exercise of discretion. In the words of Asok Chanda, one time C. & A.G., the role of C. & A.G. is "to maintain the dignity, independence, detachment of outlook and fearlessness necessary for a fair, impartial and dispassionate assessment of the actions of the executive in the financial field".

QUESTIONS

A. *Essay and Short Essay Questions :*

1. Write an essay on importance and agencies of Financial Administration.
2. What is budget ? What are the Principles of Sound Budgeting ?
3. Explain the social and economic implications of the budget.
4. Explain the significance of budget as a major tool of management.
5. Write an essay on performance budget and Zero-based budgeting.
6. Describe the budgetary process in India.
7. Explain the stages in the preparation of the budget in India.
8. Explain how the budget is enacted or passed by the Parliament in India.
9. Describe how the budget is executed ? What is the role of the Finance Ministry in the budget execution ?
10. Explain the role of Finance Ministry in controlling public finances.
11. Describe the Post-budgetary control of the Ministry of Finance.
12. How does Parliament exercise control over budget ?

    Or

    Discuss the different methods of Parliamentary Control over budget.

    Or

    What are the different forms of Parliamentary Control over Financial Administration ?
13. Critically examine the role of Financial Committees of Parliament in India.
14. Write an essay on the composition and functions of the Public Accounts Committee of the Parliament.
15. Give an account of the role of the Estimates Committee of the Parliament.
16. Write an essay on "Accounting and Auditing" as tools of control of administration.
17. Explain the terms "Accounting" and "Auditing" and bring out the differences between them.
18. What is Audit ? Explain its role in Financial Administration.
19. Explain the powers and functions of the Comptroller and Auditor-General of India.

2. Parliamentary Financial Committee. It should be noted here that parliament's authority to grant funds to the executive for expenditure is not enough to have full control over public expenditure. In order to have complete control over expenditure, it must have some other means at the disposal to see (i) that minimum expenditure is proposed for the purposes in view and (ii) that the moneys granted are spent for the purposes approved by parliament and in the way specified. In order to discharge these duties on behalf of parliament, it constitutes its financial committees which are three in number. These are : (1) the Estimates Committee, (2) Public Accounts Committee and (3) Committee on Public Undertakings. The Estimates Committee examines estimates of the various Ministries, Departments and projetcs of the Government of India in order to suggest economies in public expenditure. The Public Accounts Committee scrutinises the Appropriation Accounts of the Government of India and the Audit Report thereon in order to ascertain whether the money granted by parliament has been spent by government "within the scope of the demand". The committee on public undertakings keeps vigilance on the working of the public enterprises by examining their reports and accounts.

3. Audit Department. The audit department headed by the Comptroller and Auditor General of India is another important agency of parliamentary financial control. The C & AG is an independent officer of the constitution and acts as a watchdog of parliament in the field of financial administration. His main duty is to audit the accounts of government departments and of other public bodies in order to verify whether the expenditure incurred by government is duly sanctioned and within the budgetary grant. The audit report submitted by him forms the basis of the examination undertaken by PAC. Any cases of financial irregularities, misappropriation of funds are brought out in his audit report which the President causes to be laid before parliament. Thus he acts as the custodian of public purse and ensures parliamentary control over public expenditure by checking extravagance and waste.

Effectiveness of Parliamentary Financial Control

Parliament's control over public expenditure is often criticised as partial and incomplete. Parliament being an unwieldy body cannot examine all the details of expenditure presented to its scrutiny. Its members have neither the time nor the expert knowledge to do such job. Many demands for grants presented by the administrative ministries are often passed without any discussion on them. At best, the budget debates and discussions in the Parliament provide sufficient opportunity for discussing policy of government as a whole and of each Ministry in particular. Taking into account limitations as limited time for discussion, partisan attitude of members and the technical nature of the demands for grants, parliament confines itself to the policy underlying the budget estimates. However, its control of finances exercised through its committees like Public Accounts Committee and Estimates Committee and C

and AG is more meaningful and effective than its control at the time of voting of grants.

(B) The Role of Parliamentary Financial Committees

We shall now proceed to examine in some detail the role of parliamentary financial committees in exercising control over public expenditure. In the preceding paragraphs of this section we have already discussed the need for the existence of such committees. As we have given elsewhere in this book a detailed account of the Committee on Public Undertakings, here we shall confine ourselves to the discussion of the other two Financial Committees, namely, Public Accounts Committee and the Estimates Committee.

Public Accounts Committee

Effective parliamentary control over public expenditure requires that the parliament must satisfy itself that appropriations have been utilized for the approved purposes within the framework of the grant. This function is performed by Parliament's Public Accounts Committee. This committee was first set up in the year 1921 as a result of the Montagu-Chelmsford Reforms. Under the new Constitution of India, it became a Parliamentary Committee.

Composition of the P.A.C.

The Public Accounts Committee consists of 22 members—15 members elected by the Lok Sabha and 7 members elected by the Rajya Sabha are associated with it. The election of the members is in accordance with the system of proportional representation by means of single transferable vote. As a result, almost every party/group in the House secures representation on the Committee. A Minister is not eligible for election as a member of the Committee. The Chairman of the Committee is appointed by the Speaker from amongst the members of the Committee. Till 1967-68 the Chairman belonged to the ruling party. However, in that year, the Speaker appointed a member of the opposition as the Chairman of the Committee. Since then, this practice has been followed. The life of the Committee is one year.

Aims of the P.A.C.

The aims of the Public Accounts Committee are : (i) to ensure that money is spent as parliament intends; (ii) to ensure economies; and (iii) to maintain a high standard of public morality in all financial matters

Functions of the P.A.C.

The main function of the Public Accounts Committee is to examine the Appropriation Accounts and the annual financial accounts of the Government of India. The committee also examines such other accounts laid before the House as it may think fit. The Audit Report relating to those accounts presented by the Comptroller and Auditor General of India forms the basis for examination by the P.A.C.

1. In examining the Appropriation Account and the Audit Report thereon the main duty of the P.A.C. is to ascertain whether the money granted by parliament has been spent by government "within the scope of the demand".

2. It is also the duty of the P.A.C. to see that the expenditure conforms to the authority which governs it.

3. Another duty of the committee is to examine that every reappropriation has been made in accordance with the provisions made in this behalf under rules framed by competent authority.

4. The committee also examines the accounts of income and expenditure of such state corporations, trading and manufacturing schemes, concerns and projects, together with the balance sheets and statements of profit and loss accounts as the President may have required to be prepared and the C and AG's report thereon.

5. Lastly, the committee examines the accounts of the autonomous and semi-autonomous bodies, the audit of which is conducted by the C & AG and any audit report of the C & AG of any receipts or accounts of stores and stocks.

Working of the P.A.C.

Every year the P.A.C. selects the Appropriation Accounts of a few Ministries for examination. Its deliberations and examination of the accounts are based upon the documents prepared by the C & AG. It can organise itself into sub-committees and working groups. For the purpose of discharging its duties the P.A.C. can send for persons, papers, and records. It can call for witnesses to tender evidence before it. Usually, the Heads of the Departments appear before the committee to answer any objections raised by it.

In its work the P.A.C. is assisted by the C & AG. He is the acting-hand, the guide, philosopher and friend of the committee. He provides the expertise and furnishes the P.A.C. with a key statement relating to various appropriation accounts and audit reports.

At the end of its work the P.A.C. formulates its recommendations in the form of its reports which are submitted to parliament. The copies of its reports are also sent to the Ministries concerned. Its recommendations are not mandatory. The Ministries may accept them or give reasons for not accepting them.

Role of the P.A.C. in Financial Control

The P.A.C. has an important role to play in financial control.

Its work in practice, extends beyond the formality of the scrutiny of public expenditure "to its wisdom, faithfulness and economy". As mentioned already, its recommendations are not mandatory. But, such recommendations carry great weight with the departments.

The P.A.C. is not concerned with questions of policy. It is concerned only with the execution of the policy laid down by parliament and its results. It is however, within the competence of the P.A.C. to inquire if there is any wastage or extravagance in the execution of the policy.

Very often, the work of the P.A.C. is criticised as that of the nature of a **post mortem,** because it investigates after the expenditure has been incurred. But the Post-mortem work has its own utility. The very fact of consciousness that there is somebody who will scrutinize the work done is a great check on any negligence. Thus its control acts as a deterrent.

The P.A.C. has developed into a powerful force in the control of public expenditure. It is an all party committee. In its various reports the P.A.C. has brought to the notice of the parliament cases involving losses, nugatory expenditure and financial irregularities. Thus, it has helped the parliament in supervising public expenditure.

The Estimates Committee

Parliament's control over public expenditure will not be complete unless it undertakes an examination of the budget estimates with a view to suggesting economies in the implementation of plans and programmes embodied therein. To perform this function the Estimates Committee of the Lok Sabha was first constituted in 1950.

Composition of the Estimates Committee

The Estimates Committee consists of thirty members who are elected every year by the Lok Sabha from among its members. They are elected on the basis of proportional representation by single transferable vote system. A Minister is not eligible for election to this committee. The life of the committee is one year. The Chairman of the Committee is appointed by the Speaker. The chairman is invariably a member of the ruling party.

Functions

The functions of the Estimates Committee are :

1. to report what economies, improvements in organization, efficiency and administrative reform consistent with the policy underlying the estimates may be effected.

2. to suggest alternative policies in order to bring about efficiency and economy in administration.

3. to examine whether the money is well laid out within the limits of the policy implied in the estimates; and

and schemes approved by the parliament. As we have mentioned earlier, execution of the budget is the task of the executive branch, because parliament grants funds to the government as a whole, technically to the President, and not to the individual departments. The Finance Ministry carries on the work of Financial Administration.

The process of execution of the budget involves several operations: (1) Proper collection of revenues, (2) Proper custody of the collected funds, (3) Proper disbursement of funds, (4) Accounting and (5) Auditing.

Collection of funds is the task of the revenue departments. At the Centre, the Departments of Income Tax, Customs and Central Excise are in charge of collection of revenues. The Department of Revenue and Insurance in the Ministry of Finance exercises control and supervision over the work of the above-mentioned agencies through the Central Board of Direct Taxes and the Central Board of Indirect Taxes.

The Reserve Bank of India, the State Bank of India and its branches, the Nationalised Commercial Banks and the network of Treasuries are engaged in the transactions relating to the receipt, custody and disbursement of funds.

The Ministry of Finance is the most important agency responsible for controlling the expenditure made by the spending departments. However, under the new system of Integrated Financial Administion, most of its responsibility devolves on the spending authorities. Under the new scheme, the Secretary to the Department/Ministry acts as the controlling officer and the Chief Accounting Authority also. In discharging his responsibilities, the Secretary is assisted by the Integrated Financial Adviser attached to his department/ministry. In each ministry, there is also a controller of accounts who is responsible for the accounting functions of the ministry at the headquarters of the ministry. There are also Pay and Accounts Officers in various departments to make payments and compile accounts. Thus, under the new scheme, departmentalised system of payments and accounts has been introduced. The Finance Ministry compiles the monthly reports received from the various spending departments to assess the ways and means position. It also reviews periodically the progress of expenditure.

Compilation of accounts relating to receipts and disbursement of funds is not enough. It is necessary that an independent agency should examine those accounts and report to the parliament whether the funds have been spent for the purposes for which they have been voted. In India, this function of auditing government accounts is performed by an independent constitutional authority known as Comptroller and Auditor General of India. Thus, audit is the last stage in the execution of the budget.

6. FINANCIAL OR FISCAL YEAR IN INDIA

The period for which the budget has been authorised by the parliament is known as the financial year. The financial year varies

from country to country. In some countries like France, Austria, Belgium and Poland it starts from 1st January and ends on 31st December. In countries such as Australia, Hungary, Italy and Sweden it covers the period from 1st July to 30th June. In the U.S.A. the fiscal year runs from October 1 to September 30. In Great Britain and India, the fiscal year commences on 1st April and ends on 31st March.

The only reason for the present practice of fiscal year in India is the force of habit. Except this there is no convincing rationale behind its continuance. Prof. M. J. K. Thavaraj says, "its continuance even after independence is largely due to force of habit than due to any cogent reasoning".

The rationale behind the commencement of the financial year in India on 1st of April has been questioned time and again ever since its introduction in 1866. Many commissions and committees have recommended the change of fiscal year in India. In Pre-independent India, the Welby Commission (1894-98) and the Chamberlin Commission (1914) argued for a change of the financial year. In independent India, in its 20th Report (1957-58), the Estimates Committee of the Second Lok Sabha pointed out the defects of the present system of fiscal year in India. Recently, the Economic Administration Reforms Commission under the Chairmanship of L. K. Jha has also mooted the question of changing the financial year. We shall new proceed to summarise the various arguments advanced by these commissions in favour of changing the fiscal year in India.

First, Indian economy is still predominantly agricultural and is dependent on the behaviour of the South-West Monsoon which spreads over India in the months of June to October. The success or failure of the agricultural operations depends upon this principal monsoon. Under the present system of fiscal year, the departments are required to prepare their budget estimates before the end of October. This means they have to begin their work of estimating revenues at least a month earlier with a very vague knowledge of the revenues from agricultural produce and the agro-based industries.

Second, under the present system, it is said that by the time information about budget allocations and availability of funds is sent to the various executing departments, the monsoon sets in and comes in the way of execution of works. Until October work cannot be done rapidly. Then the execution of the various programmes has to be rushed through. Thus the present practice of the fiscal year not only causes delay in commencing public works but also results in a rush of expenditure toward the close of the financial year.

The arguments given above clearly point out the unsuitability of the present practice of fiscal year running from April 1, to the following March 31. Hence, the need for changing the present system of Indian fiscal year. If the present practice is unsuitable, then the question is which is the most suitable period for Indian condi-

...Finance Ministry have been delegated to the spending autho-
...the administrative ministries.

...ENTARY CONTROL OVER FINANCES : ROLE OF THE PARLIAMENTARY FINANCIAL COMMITTEES

Parliamentary Control Over Finances or Public Expenditure

...democracy the control of finances is the exclusive right of legislature. It is the fund-raising and fund-granting authority. ...ment in a parliamentary democracy can impose taxes or ...m or spend money without the consent of parliament. ...parliament's approval is essential for any financial mea... effective. Parliament controls government's policies and through its control over finances. All this discussion clear... that parliament's financial control is basic to administra... accountability.

Parliament exercises four types of control over finance and expenditure. These include (i) Control over taxes and other ...ue receipts; (ii) Control over public expenditure; (iii) Con... over borrowings; and (iv) Control over accounts. Thus, parlia...'s control over national finances is supreme.

...niques of Parliamentary Control Over Finances

Parliament exercises control over finances through the follow... agencies and methods :

Control Over Appropriations Through Budget Consideration : ...dget is one of the most important devices through which par...ment exercises its control over revenue receipts and expenditure. ...get contains government's proposals relating to estimates of re...es and expenditure. The executive government can collect and ...d money only under the authority of an Act of Parliament. ...liament authorises government's expenditure proposals and tax ...sures by passing the Appropriation Act and Finance Act res...tively. It may be noted here that parliament can cut down any ...imate in the budget but it has no power to increase any. Fur...r, the funds voted by parliament must be spent for the speci... purposes for which they have been authorised by parliament. ...the time of voting Demands for grants, the members of par...ment can exercise control by moving various kinds of Cut Mo...s. The debates following the introduction of cut motions pro...t an opportunity for reviewing the work of the Ministry con...rned and for criticising particular policies of the government. In ...nutshell, the budget estimates and the proposals to raise loans ...all be placed on the table of the House and become operative ...ly after they are passed by the parliament. Parliament also ex...cises financial control through other techniques such as control ...er supplementary grants, over reappropriations and over token ...ants.

2. Scrutiny and Review of Estimates by Departmental Controlling Officers

The heads of departments or controlling officers scrutinise the estimates sent by the local officers. They revise them where necessary giving reasons for such revision. The heads of the departments then consolidate the estimates and send them to the Finance Ministry by December. One copy of the estimates of each department is also sent to the Accountant General. He scrutinises them and submits his comments and information relating to them to the Finance Ministry.

The budget estimates prepared by the administrative ministries are broadly divided into three parts—(1) **Standing Charges** like the pay of officers, contingent expenditure, etc. (2) **Continuing schemes** or fluctuating charges (e.g. purchase of raw material) which may change from year to year and (3) **New schemes.**

Since the establishment of the Planning Commission, the departments also show planned and non-planned expenditure. All plan schemes require the approval of the Planning Commission.

3. Scrutiny by the Finance Ministry

As stated earlier the estimates prepared by the administrative departments are transmitted to the Finance Ministry about December. The Finance Ministry examines and checks the estimates. The scrutiny applied by it is purely from the view point of economy and availability of funds. Since public funds are always scarce, the excessive demands of the administrative departments are pruned and cut down by the Finance Ministry. Its scrutiny is least in respect of items charged on the Consolidated Fund of India and nominal with regard to standing charges. But, it applies a more detailed and thorough scrutiny in respect of new schemes. The Prime Minister or the Cabinet will take up questions of unresolved differences between the Finance Ministry and the Administrative Ministries. Usualy the Finance Ministry has the ultimate say in regard to all estimates. After completing its scrutiny and making necessary adjustments in the proposals of the administrative ministries, the Finance Ministry gives its concurrence and consolidates them by the middle of February.

4. Estimates of Revenue

Estimating the revenues is also an important aspect of the budgetary process. This job is done by the Ministry of Finance in consultation with the Central Board of Direct Taxes and the Central Board of Indirect Taxes. In preparing the estimates of revenue, the Finance Ministry is assisted by the Income Tax and Central Excise and Customs Departments. Estimates of revenues are first made on the basis of the existing rates of taxation. Then, in order to cover the revenue gap, proposals relating to increase in the existing rates of taxes and imposition of any new taxes are made.

Thus the process of budget formulation is an elaborate one.

The budget prepared by the Ministry of Finance finally consists of the income side and the expenditure side

5. Approval by the Cabinet

The budget consolidated by the Finance Ministry is finally placed before the Cabinet for its approval. The Cabinet discusses the various aspects of the budget and takes policy decisions concerning finance, expenditure and revenue. Here, it must be made very clear that the cabinet is the final authority in taking policy decisions in all financial matters. When the budget receives the approval of the Cabinet, it is ready for being presented to the parliament.

From the foregoing discussion it is clear that in the preparation of the budget the estimating process starts near the bottom of the hierarchy and moves upward. As it moves upward, each higher level reviews and revises to keep each aggregated total close to an anticipated or prescribed ceiling. Its upward movement also reflects the different sense of priorities that the higher level may have. Budget is a closely guarded secret and it shall not be divulged to anybody before it is presented to parliament.

(3) Enactment of the Budget

The second phase in the budget cycle is the enactment of the budget by the parliament. In India the power to authorise the raising and spending of money rests with the Lok Sabha, the lower House of the Parliament. But, the initiative for taxation and expenditure must come from the Executive in the form of the budget. According to our constitution, in respect of every financial year, the President shall lay the budget before both the Houses of Parliament. The Speaker of the Lok Sabha decides which one is a money bill and which is not, is case of controversy. It needs no explanation that budget is a 'Money Bill'.

The 'budget' includes two types of expenditure, namely, votable expenditure and expenditure charged on the Consolidated Fund of India. While the former is voted upon, the latter is not subject to voting.

One more point may be noted here. The budget is presented in two parts—the General Budget and the Railway Budget—the Procedure for both being the same. Usually, the Railway budget is presented separately by the Railway Minister to the Parliament well before the General Budget. We shall now proceed to describe the procedure for the sanction of General Budget.

The various stages by which the budget is approved by the parliament is as follows :

1. Presentation of the Budget

The budget is formally presented by the Finance Minister in the Lok Sabha, usually at 5 P.M. on the last working day of February. Copies of the budget are given to the members of Parliament. Then the Finance Minister makes his budget speech after which the budget is presented to the Rajya Sabha. The budget is not discussed on the day on which it is presented.

Finance Minister's Budget Speech. The budget speech of the Finance Minister is an important one for various reasons. When he makes his speech, the visitor's galleries in the Lok Sabha are packed by capacity. The Finance Minister's speech contains : (i) a survey of the general economic conditions in the country, (ii) explanations and details of the policies of the government for the coming year, (iii) proposals for fresh taxation or relief from it and (iv) an explanatory Memorandum for the benefit of Members of Parliament. Both the business community and the common people pay much attention to the budget speech as it discloses policies affecting the entire population.

2. General Discussion

A few days after the presentation of the budget, a general debate on it takes place. In this debate a large number of Members of the House participate. This debate encompasses both the votable and non-votable items. During the course of this general discussion a general appraisal of the government's financial policy is made. At the end of the debate the Finance Minister gives a reply. The general debate lasts usually for 4 days.

3. The Voting of Demands

After the general discussion, the House takes up the voting of demands for grants, i.e., voting of the expenditure part of the budget. The estimates of expenditure for the various departments are presented to the Lok Sabha in the form of demands for grants. The demand for grant is made by each Ministry in three parts. The first contains a statement of the total estimated expenditure to be voted by the House. The second gives the sub-heads and the third provides the details of the sub-heads. Each demand is made by introducing a motion. Each demand is voted at the end of the discussion. When a demand is duly voted, it becomes a grant. The time allotted for discussing the demands of all the Ministries is usually not sufficient. Therefore, on the last date allotted for the voting of demands all the remaining undiscussed demands are put together and voted upon without any discussion. This is called guillotine. It may be noted here that parliament has the power to reject or reduce a demand for grant. But it cannot increase a demand nor can it include a new tax proposal. During the course of the discussion of Demands for grants the working and policies of each Ministry/Department are subjected to the criticism by the members of the House. The Rajya Sabha does not vote on Demands for grants.

Cut Motions : At the time of debating on the Demands for grants the Members can move various types of cut motions. A **cut motion** is a device which Members can employ to draw attention to specific grievances or criticise particular policies of the

government. First, it may be a 'policy cut' to indicate the disapproval of the policy underlying a Demand. In such a case cut motion is to reduce the amount of the Demand to Re. 1. Second, it may be the 'Economy Cut' which says that the Demand be reduced by a specified amount representing the economy that can be effected. A third type is known as the "Token cut" which says that the demand be reduced by Rs. 100/-. It is to ventilate a specific grievance.

Vote on Account : The process of Voting of Demands continues for a long time and the Appropriation Act may not be passed before 31st March. If the Appropriation Act is not passed before 31st March, the government departments cannot incur expenditure from the beginning of the fiscal year. But the day to day expenditure of the government departments cannot wait till the budget is finally passed. To meet this difficulty, a new device known as Vote on Account was introduced in 1950. The passing of the '**Vote on Account**' authorizes the government to draw money and incur expenditure till the Appropriation Act is passed. It also enables the House to consider and discuss the budget at leisure.

4. Appropriation Bill

The Voting of grants is followed by the introduction of the Appropriation Bill. Mere voting of demands for grants does not authorize the government to draw money and incur expenditure. For this purpose parliament has to pass the Appropriation Bill which contains all the voted demands for grants. The Bill becomes an Act when it is voted. Even at this stage, by convention, the Members are permitted to discuss "really new points, which require elucidation or consideration". The Appropriation Act authorizes the government to draw money from the Consolidated Fund with respect to the voted demands and 'charged' items of expenditure and spend it.

5. The Finance Bill

The passing of the Appropriation Bill means that parliament has authorized all expenditure. Approval of the government's proposals for raising revenue to meet the expenditure has yet to be given. It is the finance bill which contains proposals for taxation. This Bill is introduced in the Lok Sabha after the Finance Minister's budget speech. The Finance Bill is taken up for consideration by the House, after the Appropriation Bill has been passed. During the debate on the Finance Bill, the Members can express their grievances **and criticise the government's financial policy**. When the Bill is voted, it becomes Finance Act. It gives legal effect to the taxation proposals of the government and authorizes the executive to collect revenues. Passing of the Finance Bill is the final step in the approval of the budget by the parliament.

(C) Execution of the Budget

Execution of the budget means (a) collection of revenue as authorized in the Finance Act and (b) spending money on projects

...ates understanding and easy accounting. It also allows easy comparison and study.

9. Estimates should be made on a Departmental Basis

The estimates should be made on a departmental basis. The observance of this principle enables us to have a clear idea of the programme of each of the departments. It also guarantees the financial solvency of the departments. It also gives us a clear picture of the individual departmental activities.

10. The last principle is that **Revenue and Capital Parts of the budget should be shown separately** in the budget. This principle enables to ascertain the overall surplus or deficit for each year.

4. SOME CONCEPTS OF BUDGETING

Here we shall consider some important concepts of budgeting and the various refinements that have gone into budget-making in countreis like the U.S. and India. Our discussion here deals with a brief explanation of (1) Line-Item Budget, (2) Revenue Budget, (3) Capital Budget, (4) Performance Budgeting, (5) Planning-Programming-Budgeting (PPB) and (6) Zero-based budgeting (ZBB).

Line-Item Budget

The conventional budget is also known as the line item budget. In the words of Nigro and Nigro, "In its most rigid form, line item budgeting means listing every single position and piece of equipment on a separate line in the expenditure estimates". In the line item budget, the money voted by the legislature on a particular item (say, buying a type writer) must be spent for that item only and not for any other purpose (say, buying an adding machine). Further, the appropriated funds may not be transferred from one category of expenditure to another, such as the salary to the equipment account. The objects of line item budget are to prevent over-spending, wastage and misuse of the tax-payers' money. Thus, the line item budget provides maximum control of expenditure. In the U.S. this negative approach to budgeting has been replaced by a positive one. Now, the budgets in the U.S. lay emphasis on achieving concrete work results under strong executive leadership. This has come to be known as the "management approach" to budgeting.

Revenue Budget

Usually the budget presented to the parliament consists of two parts : (i) The revenue receipts and expenditure and (ii) Capital receipts and expenditure. Often, these two parts are considered as two separate budgets, namely, revenue budget and capital budget.

...budget includes revenues received by government

from such **sources as tax revenues** and the expenditure incurred from such revenues. The revenue expenditure is a recurring one, made for running the government administration. Such expenditure does not result in the creation of permanent assets. Thus, the revenue budget relates to the current financial transactions of the government.

Capital Budget

Capital budget consists of capital receipts and capital expenditure. The capital receipts include such items as loans raised by government from the public, government borrowings from the Reserve Bank of India, loans received from foreign companies, etc. Capital expenditure is made on projects which entail huge expenditure and confer benefits for extended periods of time. Since the future generations benefit from such capital expenditure, it is but equitable that they should also bear part of the burden. A capital budget permits the government to spread the cost of such projects over many years. Capital expenditure enables the government to acquire permanent assets like land, machinery, etc.

The absence of capital budgeting is not at all desirable. As Dr. M. P. Sharma points out, "The consequence of not keeping the recurring and capital items separate would confuse the financial picture".

Performance Budget

The concept of performance budgeting is of U.S. Origin. The failure of traditional line item budget to show what the money is being used for in terms of programmes is largely responsible for the birth of performance budgeting in the U.S. After World War II, the first Hoover Commission's Report recommended in 1949 the adoption of the 'performance budget' to make effective the management approach to **budgeting**. The U.S. government accepted the commission's recommendation. President Truman presented his first "performance budget" to the Congress in 1950.

In the words of the Hoover Commission, the **performance** budget is a budget "based upon functions, activities and projects". Performance budgeting is regarded as an improvement over the traditional line-item budget. It includes not only the itemised objects of expenditure but also some additional information as to what all this expenditure is to provide in the way of public services. It shows the work or service to be accomplished as well as the cost of such work or service. Thus it has shifted the emphasis from the means of accomplishment to the accomplishment itself.

The adoption of the performance budgeting concept has many **advantages**. First, performance budget makes clear the purposes and objectives of an agency for which funds are sought. Second, it shows clearly who is responsible for what work or activity. Third, it makes the review of the budget by the legislature easier.

a whole new way of considering fiscal responsibility in of the cost-effectiveness of public expenditure.

5. BUDGETARY PROCESS IN INDIA

In this section we shall study the budgetary process in India. The budgetary process consists of the following stages : (1) Preparation and submission of the budget, (2) Enactment of the budget, (3) Execution of the budget and (4) Parliamentary control. The executive is responsible for the first and third stages of the budgetary process, while the second and fourth are the responsibilities of the legislature. We shall now consider each of these stages one by one.

(a) Preparation of the Budget

Formulation of the budget is the first step in the annual budgetary cycle. The authority to formulate the budget rests with the executive, because the executive knows the requirements of the various departments. The major actors involved in the preparation of the budget in India are the Finance Ministry, the administrative departments and their subordinate offices, Planning Commission and the Comptroller and Auditor General of India. The budget covers the fiscal or financial year which begins on 1st April and ends on the following 31st March. In the Indian Constitution the budget is referred to as the "annual financial statement".

The formal preparation of the national budget begins around September-October, about five to six months before the commencement of the financial year. Before October the Finance Ministry sends a circular to the various administrative Ministries/Departments requesting them to prepare their estimates for the ensuing fiscal year. The Accountant General of India sends printed forms to the Ministries/Departments to get information from them about their requirements. Each form contains (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, and (e) actuals of the current year available and actuals for the corresponding period of the previous year. The information required of the previous year is expected to serve as the basis for future action. Such information gives good opportunity for comparison.

Preparation of the budget consists of the following steps :

1. Preparation of Estimates by the Disbursing Officers

It may be noted here that the estimating process starts near the bottom of the hierarchy. The printed forms received by the Heads of the Departments are transmitted to the local disbursing officers. The local disbursing officers prepare the preliminary estimates and send them back to their respective heads of the departments/administrative Ministries.