

Paper III Semester- IV

Indian Administration

Module-3 Financial Administration and Accountability

3.1 Budgetary Process

3.2 Parliamentary Committees: Public Accounts Committee, Estimates Committee, Committee on Public Undertakings

3.3 Comptroller and Auditor General

Module-3 Financial Administration and Accountability

Question Bank

1. Give definition of 'Budget' and state its significance.
2. Discuss the enactment of Union Budget in the Parliament. Or
3. How is the Union Budget enacted in the Parliament?
4. Explain the composition and functions of the Public Accounts Committee.
5. Explain the composition and functions of the Estimates Committee .
6. Discuss the composition and functions of the Committee on Public Undertakings.
7. Examine the powers, functions and role of the Comptroller and Auditor General of India.

Definition and Significance of Budget

Definition

Kautilya has rightly said, “All undertakings depend upon finance. Hence, foremost attention shall be paid to the treasury.”

Financial administration involving the machinery and method by which funds required for the public services are raised, spent and accounted for, is at the core of modern government.

The budget is one of the principal tools of the financial administration.

The word budget is derived from the old word ‘bougette’ meaning a leather bag or wallet from which in England the Chancellor of Exchequer used to take his paper of financial plans of government. Since then (18th Century) the term has been used for a financial statement of annual income and expenditure of the government.

According to Taylor, “Budget is a financial plan of government for a definite period.”

Definition and Significance of Budget

Definition contd...

The Indian Constitution defines Budget as, “the annual statement containing an estimate of all anticipated revenue and expenditure of the government for the coming financial year.”

- ☐ The Budget is a statement of expected revenue and proposed expenditure.
- ☐ It requires some definite authority to approve it.
- ☐ It is for a fixed period of time i.e. for a year.
- ☐ It sets forth the procedure and manner in which the revenue is to be collected and the expenditure is to be carried out.

Definition and Significance of Budget

Significance/Importance of Budget

1. **Budget- The Heart of Management-** It is the basis of efficient fiscal management. According to Willoughby , “the real significance of the budget system lies in providing for the orderly administration of the financial administration of the government.” It is much more than a mere statement of the revenue and expenditure of the government. It has three functions- control, management and planning. It serves as a powerful tool of coordination and an effective method of eliminating wastage and duplication.
1. **Budget- A Tool of Legislative Control over the Public Purse –** Control over the public money enables the legislature (Parliament) to control the executive and the history of this control may be identified with the evolution of democracy itself. The legislative control means that no tax can be collected without its prior authorisation and no expenditure can be made without its prior approval.

Definition and Significance of Budget

Significance/Importance of Budget

3. Budget – Its economic and Social Implication- It has become an instrument of economic and social policies of government which has wide implication in the national economy. It affects development and production, size and distribution of income, availability of manpower and materials. The taxation policy of the government in the budget may lead to the narrowing down of income inequalities.

A budget is above all a political document which provides the glimpse of the entire philosophy of the government.

Budgetary Phases

1. **Budget Formulation** – the preparation of estimates of expenditure and receipts for the ensuing financial year
2. **Budget Enactment** – discussion and approval of the proposed Budget by the legislature
3. **Budget Execution** – enforcement of the provisions of the Finance Act and Appropriation Act by the government – collection of receipts and making disbursement for various services as approved by the Legislature
4. **Audit** – audit of government's financial transactions by Comptroller General of India

Enactment of the Budget

Constitutional Provisions

The powers of the parliament in respect to the enactment of Budget are mentioned in articles 112-117 of the Constitution :

- ☐ No taxation can be levied and no expenditure incurred without the prior approval of the Parliament
- ☐ No demand for a grant shall be made except on the recommendations of the President
- ☐ No proposal relating to expenditure can be brought without recommendations of the President
- ☐ Parliament cannot increase a tax though it can reduce or abolish it.
- ☐ 'Charged ' expenditure upon the Consolidated Fund of India can be discussed but not submitted for voting
- ☐ Powers of the Rajya Sabha (Council of States) are limited in the financial matters.

Enactment of the Budget

Consolidated Fund

Contingency Fund

Public Account Funds

Enactment of the Budget

The Annual Financial Statement is the estimated receipts and expenditure of the Government of India in a financial year, which begins on 1st April and ends on 31 st March of the following year.

The Budget has the following elements included-

- ☐ Estimates of Revenue and Capital receipts
- ☐ ways and Means to raise revenue.
- ☐ Details of Estimates of expenditure.
- ☐ Details of the actual receipts and expenditure of the closing financial year and the reason for any deficit or surplus in that year, and
- ☐ Economic and Financial policy of the coming year, that is taxation proposals, prospects of revenue, spending program and introduction of new schemes/ Projects.

Enactment of the Budget

Separation of Railways Budget:

The central Government of India maintains the Railway Budget and the General Budget separately. The Railway Budget consists of estimates of receipts and expenditure of Ministry of Railway only. But the Union budget consists of the estimates of receipts and expenditure of all the Ministries of the Government of India.

Enactment of the Budget

Stages Of Enactment:

1. Presentation Of Budget:

The Annual Financial Statement is presented on the last working day of February. The finance Minister presents the General Budget with a speech known as the " Budget Speech". At the end of the speech in Lok Sabha, the budget is laid before the Rajya sabha.

After the presentation in the parliament the Lok Sabha passes
Vote on Account (two or months of the financial year)

Enactment of the Budget

Stages Of Enactment:

2. General Discussion:

The general discussion on Budget begins a few days after its presentation. It takes place in both the houses of Parliament and lasts for three to four days. In this stage, the Lok Sabha can discuss the budget as a whole or on any question of principle involved therein but no cut motion can be moved nor can the budget be submitted to the vote of the House. The finance minister has the general right of reply at the end of the discussion.

Enactment of the Budget

3. Scrutiny by the Departmental Standing Committees:

After the general discussion on the annual financial statement is over, the House are adjourned for about three to four weeks. During this period of time, 17 standing committees of Parliament thoroughly examines and discuss in detail about the demands for grants of the related Ministries. Then it prepares reports on them. These reports are submitted to both the houses of Parliament for consideration. It is a inbound financial control over the administration in the country.

Enactment of the Budget

4. Voting on Demands for Grants:

After the report is submitted by the Standing Committees, the Lok Sabha takes up the voting process of demands for grants. The demands are presented ministry wise . The demands become a grant after it has been duly voted. The sole power to vote on grants are vested in the hands of Lok sabha only.

Enactment of the Budget

5. Passing Of Appropriate Bill:

As per the Constitution of India, No Money can be withdrawn from the Consolidated fund of India except under "Appropriation Made By Law". In order to appropriate the fund from the Consolidated Fund of India, the Appropriation Bill is introduced in the session to meet the required money of 1) Grants voted by Lok Sabha and 2) Expenditure charged on the consolidated fund of India.

Enactment of the Budget

6. Passing Of Finance Bill:

The finance bill is a finance proposal (taxes to be imposed) of the Government of India for the following year, it is subjected to all the conditions of a money bill(Art-110). Unlike in Appropriation Bill, the amendments that seeks to reject or reduce a tax) can be moved in the case of finance bill. It legalizes the income side of the budget and complete the process of enacting the Budget.

Parliamentary Committees

The financial committees of Parliament are vested with responsibilities of scrutiny of public expenditure, economy in public spending and controlling the irregularities and waste in the management of public enterprises. In India, there are three financial committees of Parliament:

- ☐ Public Accounts Committee
- ☐ The Estimates Committee
- ☐ Committee of Public Undertakings

Public Accounts Committee

The Public Accounts Committee (PAC) is the oldest financial committee which was set up in 1923 during British rule.

The Public Accounts Committee in India ensures Parliamentary control over government expenditure.

Composition:

PAC is formed every year with a strength of not more than 22 members of which 15 are from Lok Sabha, the lower house, of the Parliament, and 7 from Rajya Sabha, the upper house of the Parliament. The term of office of the members is one year.

Ministers are not eligible for election. By convention, a member of the opposition is named chairman of this committee by the Speaker of the Lok Sabha.

Public Accounts Committee

Functions:

1. It examine the report of Accounts of the union government submitted by the Auditor and Comptroller General of India, to the President. Article 151 of the Indian constitution require the President to lay this report before each House of the Parliament.
2. In examining the report of the Auditor and Comptroller General, the committee has to satisfy itself that (a) the expenditures made by the government, were authorized by the Parliament, and (b) that the expenditures under any head has not crossed the limits of parliamentary authorization. Thus the committee brings to the notice of the Parliament instances of unauthorized expenditures or expenditures beyond sanctioned limits.

Public Accounts Committee

3. It also brings to the notice of the Parliament instances of extravagance, loss, in fructuous expenditure and lack of financial integrity in public services. The committee cannot question policies of the government. It only concerns itself with the execution of policy on its financial aspects.
4. It is entrusted with scrutinizing the Audit report of public corporations.
5. In examining the audits and accounts of the ministries and public corporations, the P.A.C. gets the opportunity to scrutinize the process of their working. It points out the weakness and shortcomings of the administration of ministries and public corporations

Public Accounts Committee

The Committee is criticised on the following grounds:

Firstly, the Committee brings out the irregularities in the public expenditure but there are no mechanisms to enforce the corrective measures.

Secondly, the Committee examines the expenditure which has already been done by the Government. Thirdly, its recommendations are only advisory in nature and are not binding on the ministry of the day.

Lastly, PAC has got no mandate to examine the policy in broader sense.

Public Accounts Committee

Conclusion

However, Criticisms of the P.A.C. draw national attention. This keeps the ministries and public corporations sensitive to the criticisms of the P.A.C.

Thus it is wrong to suppose that the P.A.C. is only an instrument of financial control, it is as well an instrument of administrative control. Because of its overwhelming importance both the government and the opposition try to gain control over the P.A.C.

In 2011, it probed the 2G spectrum scam which brought the committee to public attention. The PAC asked Congress members to apologise to Comptroller and Auditor General of India for making allegations against it

Estimates Committee

Composition

The Estimates Committee, constituted for the first time in 1950, is a Parliamentary Committee consisting of 30 Members, elected every year by the Lok Sabha from amongst its Members. The Chairman of the Committee is appointed by the Speaker from amongst its members. A Minister cannot be elected as a member of the Committee and if a member after his election to the Committee, is appointed a Minister, he ceases to be a member of the Committee from the date of such appointment.

The term of office of the Committee is one year.

Estimates Committee

Functions

The most important function of the committee is to suggest economies in expenditure. The Committee is strictly not concerned with the policy of the government. The functions of the Estimates Committee are:

- (a) to report what economies, improvements in organisation, efficiency or administrative reform, consistent with the policy underlying the estimates may be effected;
- (b) to suggest alternative policies in order to bring about efficiency and economy in administration;
- (c) to examine whether the money is well laid out within the limits of the policy implied in the estimates; and
- (d) to suggest the form in which the estimates shall be presented to Parliament.
- (e) If the committee finds that a particular policy laid down by parliament is not leading to the expected or desired results or is leading to waste, it has a duty to bring it to the notice of the Lok Sabha that a change in policy is called for.

Estimates Committee

Working of the Committee

The Committee is constituted in June and the work starts from July. It selects such of the estimates pertaining to a Ministry/Department of the Central Government or such of the statutory and other bodies of the Central Government as may seem fit to the Committee. The Committee, from time to time, appoints one or more Sub-Committees/Study Groups for carrying out detailed examination of various subjects.

The observations/recommendations of the Committee are embodied in its Reports which are presented to Lok Sabha.

After a Report has been presented to the House the Ministry or Department concerned is required to take action on the recommendations and conclusions contained in the Report within a period of six months.

The replies of the Government are examined by the Committee and an Action Taken Report is presented to the House. The replies to the recommendations contained in the Action Taken Reports are laid on the Table of Lok Sabha in the form of Statements.

Estimates Committee

Conclusion

The performance of the Estimates Committee is to the satisfaction of Lok Sabha. It is performing useful work in spotlighting the various acts of omission and commission of the government. In its various reports submitted from time to time, the committee suggested various reforms in financial as well as administrative systems.

COMMITTEE ON PUBLIC UNDERTAKINGS

The Committee on Public Undertakings is a Parliamentary Committee consisting of 22 Members—fifteen elected by the Lok Sabha and seven by the Rajya Sabha, from amongst their Members, according to the principle of proportional representation by means of a single transferable vote.

The Chairman is appointed by the Speaker from amongst the Members of the Committee.

Minister not to be Member of the Committee

A Minister is not eligible to be elected as a member of the Committee and if a member, after his election to the Committee, is appointed a Minister, he ceases to be a member of the Committee from the date of such appointment.

Term of Office

The term of office of the members of the Committee does not exceed one year.

COMMITTEE ON PUBLIC UNDERTAKINGS

The functions of the Committee on Public Undertakings are:—

- (a) to examine the reports and accounts of Public Undertakings specified in the Fourth Schedule to the Rules of Procedure and Conduct of Business in Lok Sabha ;
- (b) to examine the reports, if any, of the Comptroller and Auditor General of India on the Public Undertakings ;
- (c) to examine, in the context of the autonomy and efficiency of the Public Undertakings whether the affairs of the Public Undertakings are being managed in accordance with sound business principles and prudent commercial practices
- (d) to exercise such other functions vested in the Public Accounts Committee and the Estimates Committee in relation to the Public Undertakings as are not covered by clauses (a), (b) and (c) above and as may be allotted to the Committee by the Speaker from time to time

COMMITTEE ON PUBLIC UNDERTAKINGS

The Committee are, however, barred from examining and investigating matters of major Government policy as distinct from business or commercial functions of public undertakings, matters of day-to-day administration or matters for the consideration of which machinery is established by any special statute under which a particular undertaking is established.

The conclusions of the Committee on a subject are contained in its report, which, after its adoption by the Committee, is presented in the Lok Sabha .

Action Taken on Reports

After presentation to the Lok Sabha the report is forwarded to the Ministry or the Department concerned which is required to take action on the recommendations and conclusions contained in the report and furnish action taken replies thereon within six months.

Comptroller and Auditor General of India

The **Comptroller and Auditor General (CAG) of India** is an authority, established by the Constitution of India under Chapter V who audits all receipts and expenditure of the Government of India and the state governments including those of bodies and authorities substantially financed by the government. The CAG is also the external auditor of government-owned companies. The reports of the CAG are taken into consideration by the Public Accounts Committees which are special committees in the Parliament of India and the state legislatures. The CAG is also the head of the Indian Audit and Accounts Service, which has over 58,000 employees across the country.

The CAG is mentioned in the Constitution of India under Article 148 – 151.

The Comptroller and Auditor-General of India is appointed by the President of India following a recommendation by the Prime Minister. The CAG is ranked 9th and enjoys the same status as a judge of Supreme Court of India in Indian order of precedence. The current CAG of India is Shashi Kant Sharma who was appointed on 23 May 2013. He is the 12th CAG of India.

Comptroller and Auditor General of India



Comptroller and Auditor General of India

- Audit is an important tool of ensuring the financial accountability of the government. It is an indispensable part of the parliamentary control over public finance.
- Audit is defined as “an examination and verification of the accounts after the financial transactions are completed, in order to discover and report to the legislative body any unauthorised, illegal, or irregular expenditure, any financial practices that are unsound, and to find out whether the administration has faithfully discharged its responsibility.”
- The audit is an aspect of external control over administration and seeks to enforce the accountability of administration.

Comptroller and Auditor General of India

- Under the Constitution of India the Comptroller and Auditor General of India is the apex authority responsible for external and internal audits of the expenses of the National and State Governments.
- It is popularly known as the CAG of India. **On 7th August 2020, Girish Chandra Murmu has been appointed as the new Comptroller and Auditor General of India.**

Comptroller and Auditor General of India

- Reference in ancient and medieval history
- Modern methods of audit and accounting came first to India when the Office of the Accountant General was established in 1858 (the year the British Crown took over administrative control of India from the East India Company).
- Sir Edward Drummond took charge in 1860 as the first Auditor General and the term 'Comptroller and Auditor General of India' was first used in 1884.
- Under the Montagu-Chelmsford Reforms Act of 1919, the Auditor General became independent of the Government.
- The Government of India Act 1935 strengthened the position of the Auditor General by providing for Provincial Auditors General in a federal set-up.

Constitutional Position Of Comptroller And Auditor General

The Comptroller and Auditor General (CAG) of India is an authority, established by Article 148 of the Indian Constitution which audits all receipts and expenditure of the Government of India and the State Governments, including those of bodies and authorities substantially financed by the Government.

For the purpose of securing the highest standards of financial integrity of the administration the Constitution safeguards the independence of the Comptroller and Auditor General in the following ways:

- ❑ CAG is appointed by the President by warrant under his hand and seal and provided with tenure of 6 years or 65 years of age, whichever is earlier.
- ❑ CAG can be removed by the President only in accordance with the procedure mentioned in the Constitution that is the manner same as removal of a Supreme Court Judge.

Constitutional Position Of Comptroller And Auditor General

- ☐ He is ineligible to hold any office, either under the Government of India or of any state, once he retires/ resigns as a CAG.
- ☐ His salary and other service conditions cannot be varied to his disadvantage after the appointment.
- ☐ His administrative powers and the conditions of service of persons serving in the Indian Audit and Accounts Department are prescribed by the President only after consulting him.
- ☐ The administrative expenses of the office of CAG, including all salaries, allowances and pensions are charged upon the Consolidated Fund of India that is not subject to vote.

Organisational Structure the Office of CAG

- ☐ Headquarters Office – CAG; Deputy CAGs; Additional Deputy CAGs
- ☐ Field Offices – Principal Accountant General/ Accountant General or Director General/ Principal Director
- ☐ Senior Deputy AG/ Deputy AG or Director/ Deputy Director
- ☐ Assistant Accountant General
- ☐ Supervisory Officials – Sr. Audit/ Audit or Accounts Officers, Asst. Audit or Accounts Officer

CAG

The Comptroller and Auditor General derives its audit mandate from the different sources:

- ☐ Constitution of India (Articles 148 to 151)
- ☐ The Comptroller and Auditor General's (Duties, Powers and Conditions of Service) Act, 1971
- ☐ Important Judicial Judgments
- ☐ Instructions of Government of India
- ☐ Regulations on Audit & Accounts-2007

CAG: Duties

The Comptroller and Auditor General has the following duties:

- ❑ He audits the accounts related to all expenditure from the Consolidated Fund of India, Consolidated Fund of each State and Union Territory having a legislative assembly.
- ❑ He audits all expenditure from the Contingency Fund of India and the Public Account of India as well as the Contingency Fund and Public Account of each state.
- ❑ He audits all trading, manufacturing, profit and loss accounts, balance sheets and other subsidiary accounts kept by any department of the Central Government and the State Governments including the Indian Railways and Posts and Telecommunications.
- ❑ He audits the receipts and expenditure of all bodies and authorities substantially financed from the Central or State revenues; Government companies; other corporations and bodies, when so required by related laws.

CAG: Duties

About 1,500 public commercial enterprises controlled by the Union and the State Governments, around 400 non commercial autonomous bodies and authorities owned or controlled by the Union or the States and over 4,400 authorities and bodies substantially financed from Union or State revenues are subject to the audit of the Comptroller and Auditor General.

CAG: Functions

- ☐ He audits all transactions of the Central and state governments related to debt, sinking funds, deposits, advances, suspense accounts and remittance business.
- ☐ He audits the accounts of any other authority when requested by the President or Governor e.g. Local bodies.
- ☐ He advises the President with regard to prescription of the form in which the accounts of the Centre and States shall be kept.
- ☐ He submits his Audit Reports relating to the accounts of the Centre to the President, who shall, in turn, place them before both the houses of Parliament.
- ☐ He submits his Audit Reports relating to the accounts of a State to the Governor, who shall, in turn, place them before the State Legislature.
- ☐ He ascertains and certifies the net proceeds of any tax or duty and his certificate is final on the matter.
- ☐ He submits 3 Audit Reports to the President: Audit Report on Appropriation Accounts, Audit Report on Finance Accounts and Audit Report on Public Undertakings.

CAG: Functions

- Before 1976, the CAG had a two-dimensional role, that accounting and auditing.
- Due to the separation of accounts and audit in 1976, the CAG's duty is the auditing of accounts.
- Since 1976, accounting is being done by the various departments themselves with the help of Indian Civil Accounts Service.

CAG: Role

- The Comptroller and Auditor General of India plays a key role in the functioning of the financial committees of Parliament and the State Legislatures.
- CAG helps the Parliament/State Legislatures to hold their respective Governments accountable.
- He acts as a guide, friend and philosopher of the Public Accounts Committee (PAC) of the Parliament. His reports generally form the basis of the Committee's working.

CAG: Role

- In the recent past CAG's reports on 2G, Coal blocks allocation, Delhi Airport PPP have made the Government very uncomfortable with the audit findings.
- Some members of political parties have raised questions about CAG's jurisdiction and pointed out that he has exceeded his mandate.
- The Comptroller and Auditor General plays a unique role in Indian democracy, by upholding the Constitution and the laws in the field of financial administration.