CHAPTER 3

CONSTITUTIONAL PROVISIONS – CENTRAL BUDGET

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3.1 Introduction:

There are great similarities between the budgetary systems of Central Government and State Governments but in this study report, systems are separately outlined for clearer understanding of the functions, programmes and activities of the Union and the State Governments. The main differences between the Central Government and the State Government are their functions and powers. The Central Government looks after foreign affairs or external affairs, defense and printing of currency and coinage; State Government cannot perform these functions.

Although there is a Union List covering Union subjects there is no separate State List and the concurrent list allows the intervention by the Central Government in the State subjects. The residuary functions and powers are also with the Union Government.

As narrated by Srinivasan G.,\(^57\) ‘The thrust of the budget is to consolidate the position obtained so far by equipping the system for higher growth.’ The term ‘budget’ has been defined and described variously by different scholars. In the generally understood sense, budget is a balanced estimate of expenditure and receipts for a given period of time. In the hands of administration, the budget is a record of the past performance, a method of current control, and a projection of future plans.

The budgetary responsibilities of a modern government are vast and grave. In the budget are projected the financial policy of the Government, the aspirations and anxieties of its several organs. The budgetary responsibility, strictly speaking, is not the exclusive concern of one particular ministry, howsoever powerful it may be. All the ministries come into the picture at various stages and in varying capacities.

This chapter highlights conceptual framework of the budget of India. It further points out stages in the preparation and enactment of budget in India. The researcher has made an attempt to present constitutional provisions relating to budget process in India in an easy and simple way through various charts and models. This chapter also covers topics like Parliamentary Committees, Department related Standing Committees of Parliament, and Voting on Taxes: Finance Bill, and Financial Accountability. Post Budgetary Control of the Ministry of Finance is also discussed further along with concluding remarks.

### 3.1.1 History of budget

The term ‘budget’ has been derived from the French word “Bougette” meaning a leather bag or a sachet or wallet used for carrying official papers. The story goes that the term was used in its present sense for the first time in 1733 in a satire “Opening of the Budget” directed against Walpole’s financial plan for that year. In England, the Chancellor of the Exchequer used to carry to the House of Commons a leather bag containing papers on financial plans. He used to open his budget i.e. the bag. Since then, the term has been used for a financial statement of annual income and expenditure of the Government.

The nineteenth century witnessed the growth of the problem of finance on a large scale. On the one hand, the functions of the State became manifold in all directions; on the other hand, the necessity of check in financial administration to prevent fraud and waste and to secure the highest possible result from public expenditures was felt. To solve this vexing problem, there arose the budget system in England which was absolutely non-existing until 1803.

### 3.1.2 Meaning and definition of Budget

Budget is a document containing a preliminary approved plan of public revenues and expenditures. A budget is a financial plan, summarising the financial experience of the past, stating a current plan and projecting it over a specified period of time in future.

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As described by Jain Ashok⁵⁹ in his book, in the words of Willoughby “Budget is or should be at once a document through which the Chief Executive comes before the fund-raising and fund granting authority and makes full report regarding the manner in which he or his subordinates have administered affairs during the last completed year; in which he exhibits the present condition of public treasury and on the basis of such information, sets forth his programme of work for the year to come and the manner in which he proposes that such work should be financed.”

The Indian Constitution, defines Budget as “The Annual Financial statement which is a statement of an estimate of all anticipated revenue and expenditure of the Government of India for the ensuing financial year.”⁶⁰

From the above definitions, following elements of budget can be derived:

- 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, i.e. for a year.
- It sets forth the procedure and manner in which the collection of revenue and the administration of expenditure is to be executed.

3.2 Significance of budget in India:

Budget today has become one of the primary tools of financial administration. It is the master financial plan of the Government. It brings together estimates of anticipated revenues and proposed expenditures implying the schedule of activities to be undertaken and the means of financing these activities. Budget is the very core of democratic government and in the words of Smith Harold, “The objectives of the budget should be to implement democracy and provide a tool which will be helpful in the efficient execution of the functions and services of government. The budget is a device for consolidating the various interests, objectives, desires, and needs of our citizens into a programme whereby they may jointly provide for their safety,

convenience and comfort. It is the most important single current document relating to the social and economic affairs of the people.”

The budget plays a vital role in the economy of a welfare state. Every citizen is interested in gathering from the budget the character and cost of the various activities and programmes of the government. From the budget, citizens can know what benefits they are going to derive from various plans and programmes and how much tax they will have to pay. Through the budget various interests, objectives, desires and needs of the citizens are consolidated into a programme, whereby citizens may lead their life in safety and with convenience and happiness. The taxation policy of the government in the budget may lead to narrowing down of the class distinctions and inequalities. The production policy of the government, as reflected in the budget, may be aimed at removing poverty, unemployment and mal-distribution of wealth.

In India the lack of adequate finance is a major cause of the failure of the Government to improve the standard of living of the people and implement various welfare projects. Over the years, the functions of Government have become greatly diversified and public outlays under the development plans have expanded from year to year. Government operations in terms of functions, programmes and activities have therefore assumed great importance. Budget is the process of quantifying a plan of action into a formal, written, financial description of the activities involved.

3.2.1 Types of budget

Budgets can be classified on the basis of the following principles:

1. The period covered.
2. Number of budgets introduced in the legislature.
3. The overall financial position depicted in the budget.
4. The principle adopted in taking the items of income and expenditure in the budget.
5. The classification of the receipts and expenditure in the budget.

On the basis of the above principles, the budget can be either: Annual budget or long term budgets, Single or Plural budgets, Surplus, Deficit or Balanced budget, Cash budget or Revenue budget, Departmental budget or Performance budget as

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61 The American Political Science Review, Vol. XXXIX, No. 5.
shown in the following chart. Brief descriptions of these various types of budgets follow.

Chart 3.1
Types of Budget in India

1. Annual or long term budgets

Generally, the Government budgets are annual, i.e. they are prepared for one year. In India, England and most of the other commonwealth countries the financial year begins on 1st April and ends on 31st March, but in the U.S.A., Australia, Sweden and Italy the dates are 1st July and 30th June. In France these dates are 1st of January and 31st of December. Some countries adopted the policy of planned economy and to meet the needs of long term planning, they have resorted to long term budgeting, i.e., preparing the budget for three or more years. Such budgets are in fact long term planning rather than long term budgets because what is provided for is financial planning over a period of years to finance the plan. These countries spread the estimated plan expenditure over a number of years. The legislature approves the plan along with its estimated expenditure, but that does not amount to actual voting of appropriations for the entire period. Every year the national budget will include the expenditure on the plan for that year which will be approved by the legislature.

2. Single or Plural budgets

When the estimates of all the Government undertakings find place in one budget, it is known as single budget. The advantage of single budget is that it reveals

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the overall financial position of the Government as a whole. But if there are separate department-wise budgets which are passed separately by the legislature, it is called plural budgeting. In India we have two budgets - one for the railways and the other for all the other remaining departments. The practice of having a separate railway budget started in 1921. In England, there is Single budget.

3. Surplus, Deficit or Balanced budget

A budget is in surplus if the estimated revenues are in excess of the estimated expenditure. But if the anticipated revenue falls short of the anticipated expenditure, it is a deficit budget. In a balanced budget, anticipated revenue equates anticipated expenditure. The budgets are generally Deficit budgets.

4. Cash or Revenue budget

A cash budget is one wherein the estimates of various items of income and expenditure include the amount actually to be received or spent in one year. In revenue budget, the revenue and expenditure, accruing in one financial year, are budgeted, realized or the expenditure is incurred in that financial year. In India, Britain and U.S.A. there is cash budgeting; in France and other continental countries there is revenue budgeting.

5. Departmental or Performance budget

The present practice is to have departmental budgets, i.e., the revenue and expenditure of one department are grouped under that department. It does not give any information as to the activity or performance for which money is budgeted. The performance budget is one where the total expenditure of a particular project is grouped under the head of the particular programme. It is prepared in terms of functions, programmes, activities, and the project. For example, in the case of Education (a function) it will be divided into programmes like those of primary, secondary and higher education. Each programme will be divided into activities, for example, training of teachers is an activity. A project is the last unit of functional classification. It signifies such an activity of a capital nature such as construction of a school building.
Before explaining stages in the preparation of budget in India it is important to view the Union Legislature, Parliament of India, and Financial Powers of Parliament to approve the budget.

3.3 The Union Legislature – Parliament of India:

The Constitution of India describes India as a ‘Union of States’ and provides for a federal system of government. The Indian federation consists of 28 states and 7 Union Territories. India has a single constitution in which provisions have been made for the structure and organization of the government at the center as well as the states. Article 370 in the constitution of India\(^{63}\) has given a special position to the State of Jammu and Kashmir.

Union Territories have small area and population. They do not have the status of a full-fledged state. They are under the direct control and supervision of the Central Government.

A federal system requires three essentials:

1. A written constitution.
2. Division of powers between the Centre and the States.
3. A Supreme Court.

The Indian federal system has all these essentials. Our constitution is a lengthy written constitution in the world. The original constitution included 395 articles and schedules. The number of articles and schedules has changed since then. The constitution has divided powers between the Centre and the States. These powers have been enumerated in

(i) The Union List.
(ii) The State List.
(iii) The Concurrent List.

The Constitution has also provided for a Supreme Court to interpret the Constitution and to resolve the disputes between the Centre and the States. The Indian constitution has created a strong union. The Union is vested with more powers than

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the states. The residuary powers have been assigned to the Union. The Constitution of India has described the organization, powers and functions of the Union legislature, executive and judiciary.

The Union Legislature is known as ‘Parliament’. Parliament consists of:

- The President of India.
- The Council of States (Rajya Sabha).
- The House of the People (Lok Sabha).

Rajya Sabha is the Upper House and Lok Sabha is the Lower House which can be seen in the following chart. The member of each House is called an M.P., i.e. Member of Parliament.

**Chart 3.2**

*The Union Legislature - Parliament of India*

3.3.1 **Lok Sabha**

Lok Sabha consists of representatives directly elected by the people on the basis of universal adult franchise. Every citizen of 18 years of age and above is entitled to vote.
The Constitution prescribes a maximum number of 550 directly elected members for Lok Sabha. Not more than 530 members are chosen by direct election from territorial constituencies in the States and 20 members are chosen from the Union Territories, according to a law passed by Parliament. In addition, not more than two members of the Anglo-Indian Community are to be nominated by the President if he is of the opinion that the community is not adequately represented in the Lok Sabha. In this way, the maximum number of members in Lok Sabha will be 552. The Constitution has made special provision for the reservation of seats for the scheduled castes and the schedule tribes.

3.3.2 Rajya Sabha

The Rajya Sabha is the upper house of Parliament. It represents the States and the Union Territories.

The Rajya Sabha is composed of not more than 250 members. Out of them 12 members are nominated by the President from amongst distinguished persons in the fields of literature, Science, Art, and Social service. The other 238 members are representatives of the States and the Union Territories.

3.3.3 Sessions of Parliament

At least two sessions of Parliament are held in a year. The Constitution provides that there shall not be an interval of more than six months between the two sessions of a house.

3.3.4 Powers of Parliament

The Parliament is the highest legislative body. It can legislate on all subjects enumerated in the Union List, the Concurrent List and matters not included in any of the three lists viz. residuary subjects.

Legislative proposals other than money bills can be initiated in either of the two houses. Approval of both the houses is essential for the passage of a Bill. In case of differences between the two houses on any legislative matter, other than money bills, differences are resolved by majority vote in the joint meeting of both the houses. Powers of Parliament in India are elaborated in the following chart.
Powers of Parliament in India

(1) Legislative Powers
To legislate on subjects in:
   i. Union List
   ii. Concurrent List

(2) To Control the Executive
   i. To ask questions
   ii. Demand for an enquiry
   iii. To move no-confidence motion

(3) Financial Powers
   i. To approve budget
   ii. To impose taxes to abolish taxes

(4) Power to amend the constitution
   A simple majority / a special majority
   Parliament can amend the constitution by a special majority and by a consent of at least one half of the state legislatures

(5) Miscellaneous Powers
   i. To elect the President and the Vice-President.
   ii. To impeach the President of India,
   iii. To remove a judge of the Supreme Court.
• **Powers to Control the executive**

India has adopted parliamentary system of democracy. In this system of democracy the Council of Ministers is the real executive and it is collectively responsible to the Parliament.

Lok Sabha has more effective control over the executive than Rajya Sabha. Rajya Sabha may seek information from ministers and criticize their policies, but it cannot remove the Council of Ministers through a vote of no-confidence.

• **Financial Powers of Parliament**

Parliament enjoys control over Union finances. The parliament approves the annual budget. The Union Government cannot levy any tax or incur any expenditure without the consent of parliament.

Money bills can originate only in Lok Sabha. When it is passed by Lok Sabha, it is referred to Rajya Sabha. The Rajya Sabha must return the money bill to Lok Sabha within fourteen days after its receipt with or without its recommendations. However, Lok Sabha is free to accept or reject these recommendations.

3.4 **Budget preparation in India:**

The responsibility for framing the budget in India is formally entrusted to the President of India. In practice, however, the President instructs his Council of Ministers to undertake the job and in fact, the job is performed by the Ministry of Finance with the approval of the Cabinet.

It may be mentioned that there is no single quasi budget for the entire country; States have their own budgets, the Constitution being quasi federal. Even at the Union level, there are two budgets:

i) The General budget.

ii) The Railway budget.

The Railway budget was separated from the General budget in 1921. The advantage of this arrangement is, first, that a business approach to the railway policy is facilitated, and, secondly, the railways, after paying a fixed annual contribution to the general revenue of the country, can keep their profits for their own development.
The institution of a separate railway budget enabled the railways to develop a coherent railway policy in the country.

The Ministry of Finance, dealing with the financial business of the Government, has overall responsibility for framing the budget. The Finance Minister is the steward of the nation's purse. It is his paramount duty that the national finances are conducted prudently and efficiently. The Finance Ministry, responsible for raising necessary revenues for the State, must have a predominant voice in determining the amount, and, in some degree, the character of the expenditure. The Financial Rules of the Union Government confer financial powers upon the Ministry of Finance. This arrangement has been envisaged under Article 77 (3) of the Indian Constitution, which authorizes the Union President to make rules for conducting the business of the Union Government. In the preparation of budget estimates for the ensuing financial year in India - the financial year commences on April 1 of the current year, and ends on March 31 of the next year.

Four different organs are involved in the preparation of the Budget in India – the Finance Ministry, the Administrative Ministry, the Planning Commission, the Comptroller and Auditor General as shown in the following chart.

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The Finance Ministry is responsible for the preparation of the Annual Financial Statement (i.e., the Budget), for piloting it through Parliament, for supervising its execution by various departments, for collection of revenue, and for exercising financial control generally. The constitution of the Public Accounts Committee of the Legislature and the appointment of Comptroller and Auditor General to scrutinize and audit the accounts of the Departments went in the direction of enhancing the power and prestige of the Finance Department.

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

### 3.4.1 Stages in Preparation of Budget in India

Since the financial year begins on 1st April, the preparation of budget for the forthcoming year, 2005-06, estimates starts in July of the preceding year i.e. 2004.
The work in connection with the preparation of the budget estimates begins 6 to 8 months before the commencement of the next financial year. The initiative comes from the Finance Ministry which dispatches a circular to the various administrative Ministries and departments, asking them to start preparing estimates of expenditure. The stages in preparation of budget are explained in detail in the chart given below.

Chart 3.5

Stages in the preparation of Budget in India

The preparation of the budget goes through seven stages which are depicted in the above chart.
Stage 1: Preparation of the preliminary estimates by the disbursing officers (i.e. Heads of Departments)

The finance ministry supplies skeleton forms to the administrative heads of departments for preparing estimates for their requirements of expenditures in the month of July. The general rule is that he who spends the money must also prepare estimates for it. The 'skeleton forms' are supplied wherein the estimates and other requisite information have to be filled in. The administrative Ministries, in turn, pass on these printed forms to the disbursing officers, i.e., the heads of offices (e.g., Deputy Commissioners in districts).

Each form contains columns for—

a. Actuals of the previous year.
b. Sanctioned estimates for the current year.
c. Revised estimates for the current year.
d. Budget estimates of the next year.
e. Actuals of the current year available at the time of preparation of the estimates.
f. Actuals for the corresponding period of the previous year.

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

• The revised estimates of the current year.
• The 12 months’ actuals of the last and previous year.
• Any recognizable irregularity in past year’s figures.
• Any special circumstances causing variations.

Stage 2: The scrutiny and review by the controlling officers

This is the second stage in the preparation of budget. The skeleton information is scrutinized, reviewed, finalized and consolidated by the Heads of administrative departments. Such estimates are forwarded to Finance Ministry in the month of November. The estimates prepared by the disbursing officers are sent to the head of the department in two parts:

• Part I relates to revenue and standing charges.
Part II is further subdivided into two categories. In the first category are the items which continue from year to year. The second category relates to entirely fresh items.

These estimates are sent to the head of department, who consolidates them for the whole department after such review and revision as may be considered necessary. The estimates from the various departments are, then, sent to the administrative Ministry where again they are subjected to a scrutiny in the light of its general policy. The estimates are, then, passed on to the Budget Division of the Ministry of Finance, by the administrative Ministry sometime in the middle of November.

The searchlight of the Budget Division in the Finance Ministry is turned on these estimates sent by the administrative Ministry. It is mainly concerned with economy and has to keep the demands of the several administrative Departments/Ministries within the funds available to the Government. Its scrutiny is from the financial point of view, i.e., of economy and availability of funds. In carrying out this function, the Finance Ministry does not behave as an expert on the numerous proposals involving expenditure. It “possesses a traditional expertise in criticism and cross-examination, born of long experience but continuously brought up-to-date. Subject to that, its attitude is somewhat that of the intelligent layman;” 65 It asks such questions as:

- Is the proposed expenditure really necessary?
- How have we done so long without it? Why now?
- What is done elsewhere?
- What will it cost and wherefrom is the money to come?
- Who will go short as a consequence of it?
- Are new developments likely to render it necessary?

It may be mentioned here that this exacting scrutiny is applied only to the proposals for new expenditure. The rule is that no proposals for new or increased expenditure, for any department, can be incorporated in the budget without the concurrence of the Ministry of Finance. The administrative Ministries should not get

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more funds than they really need in the face of limited resources available to the Government.

**Stage 3: Scrutiny and review of the estimates by the Auditor General**

The third stage in preparation of budget in India is scrutiny of estimates by the Auditor General. One copy of the department’s preliminary estimates is forwarded to the Auditor General of India, who examines the various items with a view to ensure that all the sanctioned charges are included in the estimates and not any unsanctioned charge. Thus, the Auditor General scrutinizes the estimates from an accountant’s angle to ensure compliance with technical requirements. The administrative heads of the various departments keep in view the comments/observations/objectives of the Comptroller and Auditor General while preparing the revised estimates of their departments.

**Stage 4: Scrutiny and review of the Revised Estimates by the Ministry of Finance**

This is the fourth stage in preparation of budget in India. The revised estimates are verified by the Finance Ministry. Such budget estimates are usually divided into:

a) Standing charges.

b) Continuing schemes.

c) New schemes.

As the position stands, the Finance Ministry passes the demands of the several administrative Ministries, calls for the justification of expenditure, and fixes a net figure for each Ministry. It may be borne in mind that neither the Finance Ministry nor the Finance Minister is an autocrat in these matters.

The budget must find a reflection of the imperative demands of the Five-Year Plan, the policy decisions of the Cabinet and the current conditions in the country as shown in the following chart.
The Finance Ministry closely looks into all proposals that impose a new, or an increased, charge on the Government.

New charges are of two classes:

(i) Grants for purchases, constructions, etc.
(ii) Grants for establishment.

Big purchases or constructions, like the atomic energy reactor in Bombay, are undertaken with the concurrence of the Cabinet. Evidently, the Finance Ministry’s control in regard to inclusion of such charges in the budget may appear to be somewhat restricted. But it watches closely the establishment proposals involving extra expenditure. In case the Minister in charge of a spending department finds the Finance Ministry’s ‘No’ unpalatable, he may take the matter to the Cabinet, whose decision binds all individual members. If the member feels strongly over the matter and cannot reconcile himself to the decision of the Cabinet, he may sever his association with the government by resigning. The Finance Minister’s position in the Cabinet is a peculiarly strong one; the Cabinet must give special weight to his views, at any rate when the expenditure at stake is of a significant dimension.

The question is “Why is the Finance Ministry endowed with such control over the estimate of the spending ministries?” Two reasons may be given for this. In the first place, the Finance Ministry is not itself a spending ministry and can, therefore, act as the disinterested guardian of the tax-payers’ interests. In the second place, this
Ministry has to find out ways and means to meet the proposed expenditure; logically, in determining whether it should be incurred or not.

**Stage 5: Estimating the Revenue by the Finance Ministry**

The fifth stage in preparation of budget is estimating revenue. The work of estimating the revenue is the responsibility of the Finance Ministry. The Ministry compares the figures of income and expenditure with previous year’s figures and proposes changes in the existing rates, if necessary.

At this stage Budget Division in the Ministry of finance prepares an estimate projection of revenue and expenditure and proposals regarding fresh taxes or revision of the existing taxes. The ‘Draft Budget’ is prepared by the end of December.

**Stage 6: The Final Consideration of the Consolidated Estimates by the Cabinet**

This is the sixth stage in preparation of budget. The draft budget is examined by the Finance Minister in January. He consults the Prime Minister and prepares his financial policy, particularly taxation proposals. At the end of February, the budget is finalized by the Finance Minister. The general or skeleton budgets, not the details regarding taxation proposals, are submitted to the Cabinet for its consideration and are usually approved as “as it is” by the Cabinet. A last minute change in some proposal, at the behest of the Cabinet, cannot be ruled out. After the budget is approved by the Cabinet, it is presented to the parliament usually on the last working day in the month of February. However, there can be variation in this regard as the Finance Minister presented his budget for the year 1994-95 on 15th February.

**Stage 7: Budget Presentation in Parliament**

The last stage in preparation of budget is presenting budget in parliament. When the work of preparation of the budget is over, it is submitted to the Parliament for its approval. Article 265 of the Indian Constitution provides that "No tax shall be levied or collected except by authority of law." Similarly, Article 266 provides, that, “no moneys out of the Consolidated Fund of India shall be appropriated except in accordance with law and for the purposes and in the manner as passed by the...

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66 Article 265, ‘Taxes not to be imposed save by authority of law’, Constitution of India, op cit, p 118.
Hence, the budget is submitted by the executive branch to the Parliament for its consideration, scrutiny and approval during the budget session.

The documents placed before the Lok Sabha by the Finance Minister on the day he presents the budget before the parliament are depicted in the following chart.

**Chart 3.7**

**Documents placed before the Lok Sabha**

- The Annual Financial Statement
- The Demand for Grants
- The Finance Bill

It is a cardinal principle that no taxation can be levied and no expenditure incurred, without the prior approval of Parliament. The journey of the Budget, or the ‘Annual Financial Statement’, through Parliament, is a vital part of the process.

### 3.5 Budget Enactment in India:

Besides the General Budget (‘the Annual Financial Statement’), there is also the Railway Budget, separated from the former as early as 1921. Same procedures govern both the budgets. The Railway Budget is regularized by Rule 134 of the Rules of Procedure and Conduct of Business in Parliament,\(^\text{68}\) which make provision for the submission of budget in two or more parts, each part to be dealt with in the same manner as if it were a budget. The Railway Budget precedes the General Budget.

\(^{67}\) Article 266, ‘Consolidated funds and Public Accounts of India and of the State’ Constitution of India, *op cit*, p 118.

\(^{68}\) Avasthi Amreshwari and Maheshwari Shriram, *op cit*, p 473.
The powers of Parliament in respect of the enactment of the budget are enshrined in the Constitution itself. The relevant Articles are 112 to 117 of the Constitution. The following provisions in this respect may be worth noting:

1. No demand for a grant shall be made except on the recommendation of the President.
2. No proposal relating to expenditure can be brought without the recommendation of the President.
3. Parliament cannot increase a tax though it is empowered to reduce or abolish it.
4. ‘Charged’ expenditure upon the Consolidated Fund of India shall not be submitted to the vote of Parliament, though it is subject to discussion.
5. Parliament cannot amend the Appropriation Bill in a way as to have the effect of varying the amount, or altering the destination, of any grantor or varying the amount of any ‘charged’ expenditure.

Powers of the Rajya Sabha are quite restricted in financial matters. Voting of demands for grants is the exclusive privilege of the Lok Sabha. In the passing of the Finance Bill as well, the Rajya Sabha has severely limited powers in that it must give its concurrence, with or without any recommendation, within fourteen days. The Lok Sabha may accept or reject any of all of these recommendations.

The Finance Bill, however, does not go again to the Upper House; it is submitted to the President for assent. For the first time, in 1977, the Rajya Sabha made some changes in the Finance Bill. But the Lok Sabha reasserted its supremacy by rejecting these changes and adopting the Finance Bill in its original form.

The Budget- ‘a statement of the estimated receipts and expenditures of the Government of India’ for the financial year-distinguishes the estimates of expenditure charged upon the Consolidated Fund of India from those made from the Consolidated Fund of India. The ‘charged’ expenditure includes the salaries and allowances of certain high officials, debt charges, certain pensions, sums required to satisfy any judgment, decree or award of any court or arbitral tribunals, etc. This part

70 Article 117, ‘Special provision as to Financial Bills’, Constitution of India, op cit, p 52.
of the total (i.e., the charged expenditure) is not subject to the vote of Parliament, though it can be discussed. The underlying idea of keeping away the salaries and allowances of the President, Judges of the Supreme Court, Speaker, Deputy Speaker, Chairman and Deputy Chairman of the Upper House of Parliament, Comptroller and Auditor General of India from the influence of the vote is to reinforce their independence and remove them from the sphere of party politics. Debt charges, certain pensions, sums required to satisfy judgment, etc., of a court or arbitral tribunal are, inevitably, of fixed nature, and can, accordingly, suffer no reduction or alteration.

Similarly, the Constitution lays down that the estimates of expenditure embodied in the budget shall distinguish expenditure on revenue account from other expenditures. The excess of the revenue receipts over the expenditure on revenue account is the surplus, or deficit is the resultant of the expenditure on revenue account minus the revenue receipts.

3.5.1 Stages in enactment of the Budget in India

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

1. Presentation to the Legislature.
2. General Discussion.
3. Voting on Demand for Grants.
4. Consideration and passing of the Appropriation Bill.
5. Consideration and passing of the Taxation Proposals, that is, the Finance Bill.

The stages in the enactment of the budget by the Parliament are explained in the following chart.
Chapter 3: Constitutional Provisions – Central Budget

Chart 3.8

Stages in enactment of the budget in India

Stage 1: Presentation of the budget in Parliament

The President of India convenes the Budget Session of the Parliament, usually in the month of February. The Budget Session commences with the President’s address and followed by the presentation of the budget; in the name of the President of India.

The budget session has two legs being broken up into two parts. The first part begins with the presentation of the railway and the second is the general budget. The General budget is presented on the last working day of February. 21st March is the last day for the first part of the budget session.
• The Railway Budget is presented in the third week of February by the Union Railway Minister which contains proposals of expenditure and revenue pertaining to the Railway.

• The General Budget is presented on the last working day of February by the Union Finance Minister.

The budget is presented in two parts to the Union Parliament which is displayed in the following chart.

**Chart 3.9**

**Introduction of Budget in Parliament**

The Finance Minister presents the budget to the Lok Sabha on the last working day of February. This he does with the speech known as the Budget speech. The budget speech of the Finance Minister gives information relating to general economic conditions of the country, financial policy to be followed by the government, the explanation for the difference between the budget estimates and the revised estimates of the current year, etc. It highlights the taxation proposals, the new welfare schemes launched by the government, etc.

After the Finance Minister submits the budget and concludes his budget speech, there is no discussion whatsoever on the budget in the House. Rule 130 of the Rules of Conduct of Business of Parliament provides that “No discussion of the budget shall take place in the day on which it is presented.”
The Finance Minister, along with the budget, submits a number of documents to Parliament giving details regarding various aspects of budget so as to enable the members of Parliament to effectively participate in the consideration and approval of the budget. The following documents are submitted:

2. Demands for Grants for Civil Estimates.
3. Demands for Grant of Post and Telegraph.
5. Explanatory Memorandum on the Budget.
6. Finance Bill and explanatory memoranda.
7. Finance Minister’s Budget Speech.
8. Economic survey for the previous year.

**Stage 2: General discussion**

The next stage a discussion does not immediately follow the presentation of the budget. This occasion comes after a few days when a general discussion of the budget takes place. At this stage, which usually lasts for two or three days, the Lok Sabha discusses the budget as a whole on any question of principle involved therein.

The Speaker of Lok Sabha fixes the date on which general discussion on the budget is to take place. Such discussion usually takes place one week after the presentation of the budget. Four days are allotted for the general discussion on the budget.

During this period discussion is held on all items of expenditure including those which are charged to the Consolidated Fund of India and are excluded from the voting of Parliament. Again, discussion is confined to the general principles or policy underlying the budget, and involves review and criticism of the administration and ventilation of grievances of the people.

At the time of general discussion “the House shall be at liberty to discuss the budget as a whole or any question of principle involved therein; but no motion is
moved nor is the budget submitted to the vote of parliament.” Such general discussion on the budget takes place in both the Houses of parliament simultaneously.

The general discussion provides an opportunity to the members to discuss the budget as a whole or any question of principle involved therein. Details of the budget are, however, not discussed. There is no voting, nor are cut motions allowed. General discussion of the budget is a hang-over of the past when Indian Legislature could just air its grievances without any right of voting.

Under the new dispensation it serves some purposes—the members have an opportunity to discuss revenue estimates, the ways and means programme of the government and what perhaps is the most important purpose is the ‘charged’ expenditure. To the Government, this stage provides a foretaste of the feelings of the House on budget proposals for taxes as well as expenditure.

The Finance Minister gives reply to the issues raised in the course of discussion at the end of the discussion. At the end of the debate, the Finance Minister makes a general reply, rebutting, as is to be expected, the various charges made by the members.

The budget is laid before the Rajya Sabha at the end of the Budget speech in the Lower House. After the presentation of budget in Parliament, the latter passes vote-on-account, excess demands for grants, vote-on-account varies from two to more months for the new financial year.

Both Houses then adjourn for a month’s recess to allow departmentally related standing committees to discuss demands of grants of individual ministries.

**Stage 3: Voting of Demands for Grants**

The next stage in the enactment of the budget is voting of Demands for Grants, i.e. voting of the expenditure part of the budget. The Demand is made in a motion. “That a sum not exceeding Rs. XXX be granted to the President to defray the charges which will come for payment during the year ending 31st March 20 XX in respect of (the subject of Demand).”
Chapter 3: Constitutional Provisions – Central Budget

It is pertinent to repeat here that no demand for a grant shall be made except on the recommendation of the President, \(^{72}\) and further, the Lok Sabha shall have power to assent, or to refuse to assent, to any demand, or to assent to any demand subject to a reduction of the amount specified therein. \(^{73}\) This means that the honourable members can only reduce or reject the proposed items of expenditure. In practice, they may not do even this because of the majority behind the Cabinet.

At the end, the demand is put to vote. A demand becomes a grant after it has been duly voted.

These demands are presented ministry-wise. The voting of demands is the exclusive privilege of the Lok Sabha and Rajya Sabha has no role to play except discussing the demands for grants. There are 109 demands in the General Budget, out of which 103 are related to civil expenditure and 6 with the defence expenditure. The Railway Budget has 32 demands. The speaker in consultation with the leaders of the various political parties allots time for discussion. 26 days are available for discussion on the Demands for Grants \(^{74}\) and since it is not possible to discuss all, by mutual understanding the Demands to be discussed and time to be allotted is decided.

This is a vital stage in enactment of budgets which gives the members of the parliament an opportunity to criticize the working of the Ministry whose demands are voted by the House. They can move cut motions such as policy cut motion, economy cut-motion or token cut-motion and concentrate discussion on specific issues. Such motions, when put to vote, are usually defeated but such motions enable the members of the parliament to expose the inefficiency, unsatisfactory working and other deficiencies. The Government always ensures that it has taken a note of the issues raised and will take remedial action. Even if, by default, the cut motion is adopted by the House, it signals ‘lack of confidence’ and the opposition demands resignation of the Minister. In order to ensure that such an awkward situation does not arise, the Government ensures that the members of the ruling party are present by issuing a whip in this regard.

\(^{72}\) Article 113 (3), Constitution of India, \textit{op cit}, p 50.
\(^{74}\) Pratiyogita Darpan, June 2009, No. 36, p 158.
The discussion on the voting of demands continues for 26 days and within this period all the demands are supposed to be discussed and passed. A demand duly voted becomes a grant. It should be noted here that the House can only reject or reduce a demand, but cannot increase it. For more money, supplementary grants are submitted in the month of July or the expenditure can be met from Contingency Fund.

**Stage 4: Consideration and passing of Appropriation Bill**

The next stage in the enactment of the Budget is the Annual Appropriation Bill. After voting of demands is over, the budget enters into the stage of enactment, viz. the consideration and approval of the Appropriation Bill.

After the demands for grants are approved by the Lok Sabha, a Bill is introduced to provide for the appropriation of money required to meet the grants. This is Appropriation Bill. A debate precedes the passing of the Appropriation Bill. The enactment of the Appropriation Bill completes the parliamentary authorisation of the government expenditure.

Voting of the Demands for Grants by itself does not empower the government to withdraw money from the public fund. Hence, all the demands voted by the Lok Sabha and the expenditure charged to the Consolidated Fund of India are put together and incorporated in the Annual Appropriation Bill. Article 114 of the Constitution provide that after the grants have been approved, there shall be introduced a bill to provide for the appropriation out of the Consolidated Fund of India of all moneys required to meet:

a. The grants so made by the House of the People.

b. The expenditure charged on the Consolidated Fund of India but not exceeding in any case the amounts shown in the statement previously laid before Parliament.

The Appropriation Bill is accordingly introduced in the House of People or Lok Sabha. The bill includes all the grants for the year, votable and non-votable.

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76 *ibid.*
Chapter 3: Constitutional Provisions – Central Budget

The bill follows the same procedure in the House as any other money bill except in this that no amendment to the grants as voted by the House previously or to the Consolidated Fund charges can be proposed. After the Annual Appropriation Bill is passed in the Lok Sabha, it is certified by the Speaker as a money bill and is sent to the Rajya Sabha.

The Rajya Sabha is empowered to discuss the bill and make recommendations within 14 days to the Lok Sabha. The latter may or may not accept the recommendations. In case the Rajya Sabha does not return the bill within the specified period of 14 days, the bill is deemed as passed by that House also. Thus, after the Appropriation Bill is passed by both the Houses of Parliament, it is sent to the President of India for his/her formal assent. The President cannot return a money bill for reconsideration and his/her approval to it follows as a matter of course. However, if a money bill is introduced, by error, without prior assent of the President, as it happened in 1991, the President is within his rights not to assent such bill on ‘technical’ grounds.

Stage 5: Consideration and passing of the Finance Bill i.e. Taxation Proposals

This is the last stage in the enactment of the budget. Having authorized expenditure Parliament must then approve the raising of the required revenue. This is done through the parliamentary approval of the Finance Bill. There is discussion on the Finance Bill, and even at this stage, the Finance Minister may announce certain concessions. The budget is approved with the passing of the Finance Bill. One must thus note, the entire initiative in financial matters rests with the Executive.

Consideration and passage of the finance Bill is the exclusive right of the House of People or Lok Sabha. The Appropriation Act authorises the government to appropriate money from the Consolidated Fund of India. Article 117 of the Constitution makes a provision for introducing a Finance Bill for raising revenue to meet the expenditure through the means of taxation. For this purpose, a Finance Bill is placed before the Lok Sabha.

The Finance Bill contains the proposals for revenue for the ensuing financial year. It embodies the proposals for imposing, raising or renewal of taxes. The

procedure for enactment of the Finance Bill is the same as in passing the money bill and when this bill is enacted by Parliament and receives the formal assent of the President, the government is authorized to collect taxes as provided in the Finance Bill.

3.5.2 Voting on Taxes – Finance Bill

The proposals of government for levy of new taxes, modifications of the existing tax structure beyond the period approved by parliament are submitted to parliament through this bill. Parliamentary authorization of expenditure does not complete the process. Ways and means must be provided to meet the expenditure. And for this, recourse has to be made to taxation. Article 265 of the Indian Constitution lays down that no tax shall be levied or collected except by authority of law. Parliament is the law-making body, which must give consent to the taxation proposals of the government. It is necessary that the taxes derived from annual and temporary acts should, as Wattal P. K. observes, “bear a substantial proportion to the total revenue and not nominal or insignificant in character, so that the Government may, by economising on superfluities, avoid recourse to Parliament.” This arrangement places the Government under the obligation to annually appear before Parliament to give an account of its stewardship. On closer scrutiny, therefore, this arrangement is intrinsic to the democratic form of Government.

All the taxation proposals of the Government for the ensuing financial year are incorporated in a bill, known as the Finance Bill. Being a money bill, it follows the procedure governing the former.

Unlike the Appropriation Bill, amendments to decrease or reject a tax may be moved; and are sometimes even accepted by the Government. The Parliament, thus, enjoys comparatively greater freedom in reducing taxes proposed by the Government. Thus, in 1951, Parliament succeeded in slicing down taxation to the tune of Rs. 5 crore. After the passage of the Finance Bill in the Lok Sabha, it is sent to the Rajya Sabha for its concurrence. The latter has to return the Bill with its recommendations

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79 Article 265, ‘Taxes not to be imposed save by authority of law’; Constitution of India, op cit, p 118.
81 Avasthi Amreshwar, Public Administration, op cit, p 480.
within fourteen days. The Lok Sabha may accept or reject any or all of the recommendations. In any case, it is sent to the President for his assent; after the assent it becomes the law.

It must be pointed out here that under the federal setup, as we have in India, the Parliament (and the Union Government) possesses a prescribed sphere within which to levy taxes.

3.5.3 Revenue items in the Union list

Some of the taxes are permanent and their rates are fixed by the Government under the provisions of the Acts governing them. Others are to be authorized annually by the legislature—like income tax, customs, etc. The principal items of the revenue are listed as follows.

1) Railways.
2) Posts and telegraphs, telephones, wireless, broadcasting and other like forms of communication.
3) Property of the Union and the revenue therefrom, but as regards property situated in a State.
4) Public debt of the Union.
5) Currency, coinage and legal tender; foreign exchange.
6) Foreign loans.
7) Reserve Bank of India.
8) Post Office Savings Bank.
9) Lotteries organized by the Government of India or the Government of a state.
10) Taxes on income other than agricultural income.
11) Duties of customs including export duties.
12) Duties of excise on tobacco and other goods manufactured or produced in India except—opium, Indian hemp and other narcotic drugs and narcotics, but including medicinal and toilet preparations containing alcohol.
13) Corporation tax.
14) Taxes on the capital value of the assets, exclusive of agricultural land of individual and companies; taxes on the capital of companies.
15) Estate duty in respect of property other than agricultural land.

16) Terminal taxes or, goods or passengers, carried by railways, sea or air; taxes on railway fares and freights.

17) Taxes other than stamp duties on transactions in stock exchanges and future markets.

18) Rates of stamp duty in respect of bills of exchange, cheques, promissory notes, bills of lading, letters of credit, and policies of insurance, transfer of shares, debentures, proxies and receipts.

19) Taxes on the sale or purchase of newspapers and on advertisements published therein.

20) Fees in respect of any of the matters in the Union List, but not including fees taken in any court.

Out of the above list, there are certain taxes which are levied and collected by the Union but distributed between the Union and the States.

1) Taxes on income other than agricultural income.

2) Union duties of excise other than such duties and excise on medicinal and toilet preparations as are mentioned in the Union List and collected by the Government of India.

3.5.4 Taxes levied and collected by the Union but assigned to the States

The following duties and taxes shall be levied and collected by the Government of India, but the net proceeds in any financial year of such duties or tax shall be distributed among those States in accordance with which such principles of distribution as may be formulated by Parliament by law—

1) Duties in respect of succession to other than agricultural land.

2) Estate duty in respect of property other than agricultural land.

3) Terminal taxes on goods or passengers carried by railway, sea or air.

4) Taxes on railway fares and freights.

5) Taxes other than stamp duties on transaction in stock exchanges and markets.

6) Taxes on the sale or purchase of newspapers and on advertisements published therein.
3.5.5 Kinds of Grants in India

It may be recalled that the budget embodies ordinary annual estimates, both of receipts and expenditures. It is likely that, under special or extraordinary circumstances, these estimates may not hold good. To meet these circumstances, provision has been made for the various kinds of grants like vote on account, vote on credit, excess grant, etc. which are presented in the following chart.

**Chart 3.10**

**Kinds of Grants in India**

(i) Vote on Account

A somewhat longer discussion of several demands for grants has been possible since the introduction of a vote on account. The financial year begins on April 1, but Parliament continues discussing the budget even after the inauguration of the new financial year. Will not, therefore, the new year open without any financial provisions for it? It is precisely this contingency which the device of the vote on account wards off. A vote on account is an advance grant made by Parliament in respect of the estimated expenditure for a part of the ensuing financial year, pending the regular passage of the budget.\(^{82}\)

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\(^{82}\) Article 116, "Votes on Account, Votes of Credit and Exceptional Grants" Constitution of India, *op cit.*, p 51.
(ii) **Vote on credit**

The Lok Sabha can grant vote on credit\(^{83}\) to meet an expenditure whose amount or details cannot be precisely stated on account of the magnitude or the indefinite character of the service (for example, war). It is, thus, a sort of the blank cheque given to the executive. The constitutional provision has been made for vote on credit in Article 116(b), though this device has not so far been used in India.

The Lok Sabha can make an exceptional grant which forms no part of the current service of any financial year.

(iii) **Excess grant**

Excess grant\(^{84}\) is voted after the financial year. In India, there is no scheme of centralized payment as in Britain. Since the disbursing authorities are spread all over the country, it is obviously not possible to keep the expenditure within the limit set up by Parliament. Excess money is sometimes spent. Such expenditure is regularized by obtaining an excess grant from Parliament. All such demands for excess grants need first be approved by the Public Accounts Committee before submission to the Lok Sabha. Thus, eleven Demands for excess grants in respect of the General Budget for 1958-59 were voted in 1961. Similarly, three Demands for excess grants in respect of the Railway Budget for 1958-59 were passed in 1961.\(^{85}\)

(iv) **Token grant**

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

(v) **Supplementary grants**

The device of supplementary grants has been profusely used in India. In 1948-49, for example, the supplementary grants totaled Rs. 118 crore as against the original

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\(^{83}\) *ibid.*  
\(^{84}\) Article 115, 'Supplementary, Additional, or Excess Grants', Constitution of India, *op cit.* p 51.  
\(^{85}\) Avasthi Amreshwari and Maheshwari Shriram, *op cit.* p 482.
budget of Rs. 245 crore. After two months of the passing of the Railway Budget for the year 1959-1960, the Railway Minister approached Parliament for supplementary grant for the Railways. In 1973, too, the Central Government presented a supplementary budget. It need be pointed out that the system of supplementary demands not only weakens parliamentary control over public expenditure, but also amounts to a breach of contract between the Government and the parliament.

It is a sound principle, that one, and only one, estimate of national expenditure should be laid before the Parliament during each session; to render parliamentary control effectual it is necessary that the Lok Sabha should have the money transactions of the year presented to it in one mass and in one account. Recourse to the supplementary grants should be made only sparingly.

(vi) Cut Motions

Cut motions are, accordingly, symbolic; they just provide the honourable members with a stick with which to ‘beat’ the government. A criticism of the government is the main plank of the discussion, at the end of which Minister in charge of the subject makes a general reply to the criticism rebutting the charges and assuring the removal of the grievances pointed out by the members.

3.5.6 Supplementary Budget

When framing the budget the Government cannot anticipate, and accordingly incorporate, all of its requirements at the beginning of the financial year. Sometimes, the original estimates for the service are found insufficient in the course of the implementation of the approved scheme. Additional funds are also required to finance a new scheme not envisaged in the budget.

Consequently, supplementary budgets incorporating such additional estimates for expenditure are introduced in Parliament during the course of the year. The procedure prescribed for the original budget is followed in the case of supplementary budgets also.

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86 ibid.
87 Wattal P. K., Parliamentary Financial Control in India. op cit. p 94.
3.5.7 Interim Budget

It is important to understand in what circumstances an interim budget requires to be presented in Parliament. Where the incumbent government has a full financial year ahead to look forward to, a regular, comprehensive budget will be presented. However, when it is envisaged that the residual term of the government is due to end in a few days/months, and that a new government will assume office post-elections, then the incumbent government is not authorized to present a full budget for the ensuing year.

There are instances of one or two Finance Ministers having proceeded with presentation of the whole budget, in anticipation of repeat victory in the elections—a case of sheer over-confidence. On 3rd February 2004, with the NDA government in power, the then Finance Minister Jaswant Singh presented a full budget before the Parliament. The government was ousted, and United Progressive Alliance was voted to office. Thereafter, on 8th July 2004, Finance Minister P. Chidambaram presented an interim cum-final budget in the Parliament.88

Parliamentary approval is necessary for the government to incur whatever expenditure it would need to incur. In fact, without such Parliamentary approval, no incumbent government can dispose of even a single rupee from the treasury—this is a cardinal tenet.

Vote on account is the interim budget that remains operative till the incoming new government makes a full budget presentation. Further, this interim budget sets out just the table of accounts—no reliefs or packages are announced therein. Well, this is the law. The underlying rationale is that any facility or remission would be open to the interpretation that it has been done with an eye on the elections. From 1947-48 to 2007-08, say a 60-year span, as many as 72 budgets have been presented in Parliament, 60 of which were full-fledged ones and 12 were interim affairs.89

In 1947, Finance Minister Shanmukham Chetty presented the first budget of independent India. Finance Ministers and Year of Budget from 1947 to 2008 are exhibited herein below.

89 ibid.
Finance Ministers of India and Year of Budgets (YOB)

- **R.K. Shannukham Chetty**
  - Year of Budget (YOB): 1947, 1948

- **Dr. John Matthai**
  - YOB: 1949, 1950

- **C.D. Deshmukh**

- **T.T. Krishnamachari**

- **Jawaharlal Nehru**
  - YOB: 1958

- **M. Morarji Desai**

- **Sachindra Chaudhari**
  - YOB: 1966

- **Indira Gandhi**
  - YOB: 1970

- **V.B. Chavan**

- **C. Subramaniam**
  - YOB: 1975, 1976

- **H. M. Patel**

- **Charan Singh**
  - YOB: 1979
Finance Ministers of India and Year of Budgets (YOB)
3.6 Post Budgetary Control of the Ministry of Finance:

After the enactment of the Budget by the Union Parliament, different ministries, departments, subordinate and attached offices of the Government of India are authorised to incur expenditure.

The Finance Ministry administers the finance of the government; indeed, the entire structure of financial administration is woven round this Ministry. It is the responsibility of the Finance Ministry to formulate the ‘Annual Financial Statement’ in consultation with other administrative Ministries; after parliamentary approval of the budget it controls the entire expenditure of the government, the objective being the realization of economy in the spending of public money by the administrative Ministries.

The Finance Ministry’s control over the spending Ministries does not cease with the presentation of the budget to Parliament. It is expected that the “Spending Ministries” will confine their expenditure to the ‘extent of Demands for Grants’ sanctioned by the Parliament. This post-budgetary control on the Spending Ministries is exercised by the Finance Ministry. Its control is continuous, operating both before and after parliamentary approval of the estimates. At the time of the framing of budget, estimates, the Finance Ministry’s check is very broad. Hence, a more detailed control by it is necessary before any money is actually spent. It is based on the notion that the Parliament makes the grants to the Government as a whole and not to individual Ministries. The Budget Division of the Ministry of Finance applies broad checks and determines gross amount for the various schemes.

The Finance Ministry, as the agency responsible for managing the finances of the government, need, therefore, to be convinced about the desirability and prudence of the proposed expenditure before it lets the administrative Ministry involved proceeding with it. The concurrence of the Finance Ministry is not required for the normal existing expenditure, which is taken as a matter of routine. But new expenditure must have the prior approval of the Finance Ministry. This implies that the latter’s concurrence with proposal of expenditure over new schemes is only tentative at the preparatory stage of the budget.
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The Finance Ministry’s predominant position manifests itself in other ways as well as the post-budgetary stage. It watches the progress of expenditure in the spending departments through monthly expenditure statements, periodic reports from them, and cautioning them when necessary. Also, it sees that the unspent balances are surrendered by the spending Ministries as early as possible before the close of the financial year. Above all, it gives financial advice and guidance to the spending Ministries generally.

The Estimate Committee, in its Ninth Report, 1953-54, explained that, “The Budget Division of the Ministry of Finance receives the various proposals from the Ministries in one lump sum during one or two months towards the close of the financial year. Consequently, the Budget Division does not have sufficient time to examine the proposals in greater detail and to scrutinize each and every item carefully. The practice has, therefore, been that the Budget Division applies broad check and determines certain gross amounts for the various schemes without committing itself or the Ministry of Finance to their spending during the next financial year. The system is that whatever has been included in the estimates is merely with a view to get the vote of the House thereon and does not entitle the administrative Ministry to incur expenditure unless a detailed expenditure sanction has been issued by the Ministry of Finance.”

The Finance Ministry must exercise adequate control on public funds, and must not seek cheap popularity in the matter. An inevitable tendency to be somewhat irresponsible marks the behavior of spending departments. The expenditure of public funds avails the risk of large scale wastage or misapplication of funds. The mere allocation of money in a budget cannot be considered as adequate sanction. Even after the Parliament has passed the budget, a scheme has to be examined from financial as well as other points of view. This is done by the financial advisers and the Finance Ministry.

The Finance Ministry’s control over expenditure at the execution stage of the budget has come in for a great deal of adverse criticism. The remedy lies in the administrative Ministries preparing fully detailed schemes at the very outset so the Finance Ministry may give its sanction to them at an early date bringing to minimum

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the post-budgetary checking and control. But total elimination of Finance Ministry’s check and control is neither possible nor desirable. On the contrary, such control is essential to maintain financial accountability of the government.

3.7 **Reforms in financial administration of Central Government:**

In a bid to further streamline the administrative machinery, the Government of India has, since August, 1961, delegated greater responsibility for financial management both on the administrative Ministries and executive agencies. The scheme includes:

- Formulation of a programme for incentive pre-budget scrutiny between the ministry of Finance and the administrative Ministry necessitating the preparation of budget estimates earlier than usual in cases in which actuals of the last year are not an important consideration.

- Further liberalization of financial powers to the Ministries in order to avoid references to the Finance Ministry in the post-budget period except on vital matters.

- The exercise of control of important financial aspects by the Finance ministry through adequate reporting system and test checks.

3.7.1 **Creation of Financial Branch**

Each administrative Ministry has now a Financial Branch consisting of:

- The Financial Advisor.

- Deputy Financial Adviser or Assistant Financial Advisor.

This staff is solely concerned with the financial and budgetary work and is associated with the formulation of proposals to be included in the budget. This staff must be consulted on all financial matters involving the exercise of the powers now delegated or matters requiring reference to the Ministry of Finance. It also helps the Ministry in the control of expenditure against appropriation. These Financial Advisers work under the control of the Secretary of the department. Now, the departmental Secretary has the informed and constructive criticism flowing from within his
Ministry from persons well-grounded in financial knowledge and familiar with the difficulties of the administrative phase of the operating Ministry.

### 3.7.2 Scheme of Integrated Financial Advisors

The scheme of Integrated Financial Advisers was introduced in all the ministries in the Central Government in 1976. In pursuance of this scheme, Integrated Financial Advisers of the rank of joint secretary or additional secretary have been appointed in the administrative ministries. A Financial Adviser is responsible both to the administrative ministry in which he is posted as well as to the Ministry of Finance. Wider financial powers have simultaneously been delegated to the administrative ministries as part of the scheme of financial reform.

The Financial Adviser assists in budget formulation, scrutiny of projects and programmes by the Ministry of Finance. He is also associated with post-budget vigilance to ensure that there are neither considerable shortfalls in expenditure nor unforeseen excesses. There is now a close association of Integrated Financial Adviser with the formulation and implementation of all proposals involving expenditure. The Integrated Financial Adviser is also responsible for the preparation of the Ministry’s performance budget and the monitoring of progress of various schemes against the budget.

### 3.8 Financial administration of Central Government:

Many changes were made in the financial administration of the Central Government in 1976. Consequent to separation of audit from accounting in 1976, the Secretary of a Ministry is deemed as the chief accounting authority. The Secretary signs appropriation accounts and ensures preparation of financial accounts of his ministry. The Integrated Financial Adviser, assisted by the circle and pay officers of the ministry, is made responsible, among other things, for keeping entitlement, loan and provident fund accounts. He arranges for the pre-check and payment of all bills by cheques. Maintenance of records relating to payment, reconciliation with banks and final compilation of account, etc, is now the responsibility of the ministry, not of the Auditor-General. For the efficient implementation of these financial reforms, a senior officer is appointed in each ministry who has the necessary expertise and knowledge of the civil accounting system and its rules.
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Under the new accounting dispensation, the field formations or offices of the different ministries are organized into suitable circles depending upon the nature and volume of work involved. Each circle has one or two more pay officers who are to pre-check all claims and make payments through cheques or demand drafts. They would compile monthly accounts and send them to the Integrated Financial Adviser of the respective ministry. Each ministry has an internal audit cell and although it is organizationally a part of the office of the Integrated Financial Adviser, it is directly under the Secretary of the ministry. The account circles constitute the forward base of the internal audit cells. Each ministry, in consultation with the Auditor-General, determines the manner in which its accounts are to be maintained and furnished to the Comptroller and Auditor General. The ministries also evolve suitable procedures to facilitate the linking of accounts with performance budgeting and performance appraisal.

3.8.1 Financial accountability of Central Government

Administration and finance are intimately related. Every administrative act involves expenditure of money. Finance fuels the administrative engine. Without finance administration cannot operate. Kautilya\(^1\) in his “Artha Shastra” has observed that “All undertakings depend upon finance. Hence, foremost attention shall be paid to the treasury.” Sound fiscal management is essential for smooth working of the governments. As revenue is derived from the citizens, it is morally binding upon the government to spend money efficiently and economically. Imprudent financial management alienates the people from the government and endangers the existence of government. The critics tend to identify extravagance and other ill-practices with democracy. Unsound financial administration blasts the prospects of democracy. The unprecedented increase in governmental expenditure in modern times makes it absolutely necessary that sound principles, tools and techniques of financial administration are evolved and employed by all governments. The American people had raised the banner of revolt when the British Parliament imposed unjust taxes without consulting the representatives of the native population by giving slogan “No taxation without representation.” Since that time the principle of accountability of the government to those from whom the taxes are collected has been firmly established.

This financial control is also declared as financial accountability of the government to the people is ensured through their elected representatives.

### 3.8.2 Nature of financial accountability

The budget is the nuts and bolts of public policy. Financial administration involves operations designed to raise, spend and account for funds needed to be expended on public services. These operations, which act in a continuous chain, are performed by the following agencies.

1) The Executive which needs funds.

2) The Legislature which alone can grant funds.

3) The Finance Ministry (or the Treasury in Britain) which controls the expenditure of funds sanctioned by the Legislature.

4) The Audit Department.

The operations of these several agencies comprise planning, determining, executing and controlling. The executive branch formulates its work programme for the year in the form of the budget and presents it to know the annual financial needs of the government to the legislature. The legislature is the fund-raising and fund-granting authority. Thus, all proposals for grants and taxation emanate from the executive and are sanctioned only by Parliament.

To safeguard the rights and interests of the taxpayer and to ensure financial accountability of the executive branch, following three fundamental institutional safeguards are provided:

a. No tax can be levied or collected except by authority of law.

b. No expenditure can be incurred from public funds except in the manner provided in the Constitution, and in accordance with law, i.e. unless it has been sanctioned by Parliament.

c. The executive is bound to spend the money in the manner as sanctioned by Parliament. This control is exercised through the Comptroller and Auditor-General.
3.9 Parliamentary control over Government finance – Budgetary control:

The principal means of ensuring financial accountability of the government is the budgetary control. It is the basis of efficient fiscal management. An estimate is first made of the expenditures that will be required for the proper conduct of governmental affairs during a fixed period, usually one year, together with proposals for raising the money to meet these expenditures. On the basis of the estimate, revenue and appropriation acts are passed giving legal authority for the action determined upon. Following this, the operating services open revenue and appropriation acts, and proceed to expend the money so voted. The data recorded in these accounts are examined by the auditing and accounting department to insure their accuracy to see that they correspond to the real facts and represent a full compliance with all provisions of law. The information furnished by these accounts is then summarised and given publicity in the form of the reports. Finally, on the basis of these data new estimates for the next year are made and the circuit is begun again. In this chain of operations the budget is the instrument through which several operations are correlated, compared and examined at one and the same time.

3.9.1 Parliamentary Committees of Central Government

Effective control of the Parliament over the governmental expenditure requires that the Parliament should satisfy itself that the appropriations have been utilized economically for approved purposes within the framework of the grants. It should undertake a detailed examination of the annual budget estimates of the government to suggest possible economies in the implementation of the plans and programmes embodied therein. Both these functions are of pivotal importance in making the parliamentary control over governmental expenditure complete. The Parliament does not have time to exercise these functions. Therefore, the Parliament constitutes its committees and entrusts them these functions.

Parliamentary committees in India are:

1. Public Accounts Committee.
2. Estimates Committee.
3. Committee on Public Undertakings.
4. Department related Standing Committees.
A brief account of these committees is given below.

3.9.1.1 Public Accounts Committee

Parliament’s authority over voting money for specific purposes is meaningless unless it has power to ascertain that the money voted by Parliament is utilised by the executive for the purposes for which it was voted. This is secured by subjecting the public accounts to audit by an independent authority, the Comptroller and Auditor General, and the examination of his report by the Public Accounts Committee.

(a) Composition

After the enactment of the Constitution in 1950, the Public Accounts Committee consisted of fifteen members of the Lok Sabha. In 1953, the number was increased to twenty-two by giving representation to the Rajya Sabha.

The Public Accounts Committee is annually elected by the Parliament, by means of proportional representation by single transferable vote. The principal political parties are given representation on the Committee in proportion to their strength in Parliament. The Chairman of the Committee generally belongs to the ruling party,
although at times members from the opposition parties in the Lok Sabha have also been elected to this office.

(b) Report of Public Accounts Committee

The bulk of the committee’s inquiries are concerned with points which the Auditor-General raises. The findings of the Committee are submitted to Parliament in the form of a report. The Committee makes recommendations to the Government in anticipation of the final report, which is placed before the House. A convention has evolved that the recommendations of the Committee are accepted by the Government. If, however, the Government feels that a particular recommendation is not acceptable to it on certain grounds, it requests a reconsideration of the recommendation.

(c) Significant role of Public Accounts Committee

In brief, the main function of the Public Accounts Committee is to examine the report of the Comptroller and Auditor General in order to ascertain whether the money granted by the Parliament has been spent by the Government within the scope of the demands. In other words, it is to see whether moneys as shown in the accounts as having been disbursed were legally available and meant for the services or purposes for which they have been spent. The examination of the committee extends beyond the formalities of the expenditure to its wisdom, faithfulness and economy. It is the duty of the committee, among other things to draw attention of the Parliament to cases of improper, wasteful or extravagant expenditure. It thus detects frauds or irregularities, malpractices, misappropriation, etc.

The significance attached to the working of the Committee varies from critics to critics. They point out that the work as Public Accounts Committee relates to transactions completed and to damage done. It conducts a post mortem examination of the public accounts. The Committee’s findings are nevertheless of value as guidance and warning. As narrated by Ashok Chandra, in his book, quoted by Late Shri Mavlankar, the first speaker of the Lok Sabha, “The very fact of consciousness that there is someone who will scrutinize what has been done is a great check on the slackness or negligence of the executive. The examination, if it is properly carried on,

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thus, leads to general efficiency of the administration by the Committee and may also be useful as a guide for both future estimates and future policies.”

It would be appropriate to remember that the Public Accounts Committee is not an executive body. It is not vested with any executive power and its function is limited to scrutiny of the public expenditure. It is to be hoped that the Committee will emerge as an effective force in the control of public expenditure. However, regular recurrence and ever-changing pattern of official neglect, of default brought to light, year after year; does suggest that the value of the Public Accounts Committee’s deliberations is limited.

3.9.1.2 Estimates Committee

The Public Accounts Committee as seen above carries only a post mortem, examination of public accounts. It cannot therefore, provide sufficient checks over the excess and misappropriations done by the Executives. The examination of the estimates presented to the House is done by the Estimates Committee of the Parliament.

The establishment of the Estimates Committee was urged as early as in 1937. It is a standing committee of the Parliament and is set up every year. Its functions, method of appointments and other relevant matters are laid down in the Rules 310 to 312 of Procedure and Conduct of Business in the Lok Sabha.

The Estimates Committee was created in our country after the inauguration of our Constitution in 1950 on the suggestion of Mathai John, the then Finance Minister to scrutinize expenditure of each Department of the Government and of the Government as a whole.

(a) Composition of Estimates Committee

The Estimates Committee consists of 30 members of the Lok Sabha, who are selected by the method of proportional representation by means of a single transferable vote. The political parties secure representation in proportion to their numerical strength in the Lok Sabha. The Chairman of the Committee is nominated by the Speaker. If the Deputy Speaker is a member of the Committee, he

93 Mathai John, Union Finance Minister 1949-50.
automatically becomes the Chairman of the Committee. No Minister can be appointed in the Estimates Committee.

(b) Report of Estimates Committee

The responsibilities of the Committee are increasing in view of a continuous increase in the Government’s activities. The tenure of members is one year but the formation of the Committee is constituted sometime in the month of June and it starts working from July. The procedure which the committee has adopted for its work is that it selects the subjects concerning the estimates of the Ministry or Ministries to be examined during the year under review. It then proceeds to collect the necessary information through standard forms which it sends out to the ministry or ministries whose activities are to be reviewed.

It prepares its plan of work for the year by selecting such of the estimates as may seem fit to it. It may constitute sub committees. The sub-committees issue questionnaires to the ministries concerned for furnishing full and complete answers to the points raised. Whenever necessary, study-groups are appointed to undertake on the spot study of the projects under examination. The report which is in the form of recommendations is then submitted to the Lok Sabha. There is no regular debate on the report. The members, however, may refer to the report during the discussion on the budget and the demands for grants.

(c) Significant role of Estimates Committee

The Estimates Committee performs useful work. A majority of the recommendations of the Committee have been accepted by the Government. The ultimate success of the Committee rests on the long-term thinking and planning. This, in turn, demands that the Committee makes are constructive and foresighted suggestions.

The Estimates Committee performs an undoubtedly useful role in the Indian administrative system. It keeps the machinery of public administration under parliamentary scrutiny. By highlighting the shortcomings and mistakes of public organizations, it acts as a kind of standing committee on administrative improvement. This role is quite significant, for most of the recommendations made by it are generally accepted by the Government.
Secondly, the fear of possible exposure by this Committee’s work is, no doubt, in the nature of a post-mortem but in the process its arms do reach the evil-doers and their names and deeds are publicized. This has a deterrent effect. Thirdly, the Estimates Committee publishes its reports and the wide publicity given to its findings and recommendations influences and shapes public opinion. A democratic government is always responsive to adverse reaction of the public opinion.

(d) Lacuna in the functioning of Estimates Committee

It is well to take note of one danger in the working of the Estimates Committee that a department, which has once been examined by the Committee, secures, so to say, immunity for some years. This might make the department complacent and even careless. It is therefore, urged that the whole field of government expenditure should be surveyed by the Committee within a reasonably short time.

3.9.1.3. Committee on Public Undertakings

The concept of accountability of public undertakings to the government leads to parliamentary control over their functioning. In November 1963, the Lok Sabha resolved to form a Committee on Public Undertakings. The Committee on Public Undertakings was constituted on 1st May, 1964 by the Union Parliament, entrusted with responsibility to examine the working of public undertakings in our country.

(a) Composition

The Parliament adopted a motion in 1963 to set up Committee on Public Undertakings from 1st May, 1964 to examine the financial and other aspects of working of the public enterprises. The Committee consists of 15 members - 10 from the Lok Sabha and 5 from the Rajya Sabha. The tenure of the members of the Committee was five years and one-fifth of the members who have been longest in the Committee would retire every year.
(b) Jurisdiction

List of Subjects selected for Examination by the Committee on Public Undertakings (2003-04) \(^{94}\) for Comprehensive Examination are as follows.

1) Airports Authority of India Limited.
2) Hindustan Aeronautics Limited.
3) Bharat Petroleum Corporation Limited.
4) Power Grid Corporation of India Limited.
5) Housing and Urban Development Corporation Limited.
6) IRCON International Limited.
7) National Thermal Power Corporation.
8) New India Assurance Company Limited.
9) Indian Airlines Limited.
10) Air India Limited.
11) Oil and Natural Gas Corporation Limited.
12) Mahanagar Telephone Nigam Limited.
13) Bharat Sanchar Nigam Limited.
14) Mahanadi Coalfields Limited.
15) Central Coalfields Limited.

All the new undertakings set up under Company’s Act in future will automatically come within the purview of this Committee.

(c) Significant role of Committee on Public Undertakings

During 45 years since its inception, the Committee has produced a very large number of reports and recommendations and justified its existence. In the first two and a half years, the period of the Third Lok Sabha, the Committee submitted 40 reports. It submitted 70 reports covering the period of the Fourth Lok Sabha.\(^{95}\) The Committee tries to cover maximum number of undertakings in a record period of time. It is a fact-finding Committee, its function, essentially, is to help Parliament to have a more effective annual debate on the working of the Public undertakings.

\(^{95}\) Jain Ashok, Public Administration, \textit{op cit.} p 176.
The Committee has great value in improving the performance and the profitability of the public enterprises. The Committee functions like the Estimates and the Public Accounts Committee. The Reports of the Committee cover almost every aspect of the working of undertakings right from the history of the undertakings to their aims, objects, administration of stock, lack of inventory control and many other matters of general interest.

The reports of the Committee have an educative value in as much as these reports educate the public, and in particular, inform public, which takes an interest in the working of the government. The reports also educate the members of the Parliament who do not have firsthand knowledge of how undertakings are run. The reports of the Committee have improved the quality of debates in the Parliament, and the main facts and problems of the enterprises are presented before the public in a neat readable manner. Party political controversies are non-existent and the reports are unanimous.

However, it is unfortunate that in a number of cases, the government does not attach any importance to the recommendations of the Committee. Some of the important recommendations of the Committee have not been accepted by the government, and if accepted, have not been fully implemented.

3.9.1.4 Department-related Standing Committees of Parliament

Parliament has been of late consuming too much of ministerial time, thus leaving the ministers with less time to attend to their own policy-making, supervision and leadership tasks. When Parliament is in session the ministers have necessarily to be present there at least most of the time. This means, they have to be away from their office and their own work. Also, Lok Sabha is too large a body and an in-depth, cool discussion is not possible. Even otherwise, it is a political body where every move is politically conditioned. It was; therefore, felt that a dispassionate in-depth discussion of matters demanded the constitution of standing committees, where, protected from public gaze and political considerations, financial, legislative and other policy matters could be discussed. These considerations prompted the Parliament in India to set up its committees and rely more on them for carrying out its multifarious responsibilities.

There is still another advantage in the committee system. In the traditional system,
budgets of many ministries are guillotined and adopted without any discussion due to paucity of time. This would be effectively prevented under the new arrangement.

In 1993, therefore, the parliament took a decision to set up Department-related Standing Parliamentary Committees to scrutinize inter alia, the Demand for Grants of various ministries/departments before these are discussed and voted in the House. The other functions of the Standing Committees include examining Bills referred to them by the Chairman or Speaker, annual reports of ministries and basic long-term policy documents presented to the Houses and referred to them by the presiding officers.

a) The functions of the Department-related Standing Committees

i. To consider the Demands for Grants of the concerned ministries and make a report on the same to the Houses.

ii. To examine Bills pertaining to the concerned ministries.

iii. To consider annual reports of ministries and make reports thereon.

iv. To consider national basic long-term policy documents presented to the Houses.

The list of the Department-related Parliamentary Standing Committees is given in the following table. The following table shows 17 Committees covered by different Ministries.

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96 Avasthi Amreshwar and Maheshwari Shriram, Public Administration, p 477.
### Table 3.1
Department-related Parliamentary Standing Committees

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>Name of the Committee</th>
<th>Ministries Covered</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Committee on Commerce</td>
<td>Commerce, Textiles.</td>
</tr>
<tr>
<td>2.</td>
<td>Committee on Home Affairs</td>
<td>Home Affairs, Law, Justice and Company Affairs Personnel.</td>
</tr>
<tr>
<td>5.</td>
<td>Committee on Science and Technology, Environment and Forest</td>
<td>Science and Technology, Electronics, Space, Ocean Development, Bio-Technology, Environment and Forest</td>
</tr>
<tr>
<td>6.</td>
<td>Committee on Transport and Tourism</td>
<td>Civil Aviation, Surface Transport, Tourism</td>
</tr>
<tr>
<td>7.</td>
<td>Committee on Agriculture</td>
<td>Agriculture, Water Resources, Food Processing</td>
</tr>
<tr>
<td>8.</td>
<td>Committee on Communications</td>
<td>Information and Broadcasting, Communications.</td>
</tr>
<tr>
<td>9.</td>
<td>Committee on Defence</td>
<td>Defence</td>
</tr>
<tr>
<td>11.</td>
<td>Committee on External Affairs</td>
<td>External Affairs.</td>
</tr>
<tr>
<td>12.</td>
<td>Committee on Finance</td>
<td>Finance, Planning Programme Implementation</td>
</tr>
<tr>
<td>13.</td>
<td>Committee on Food, Civil Supplies and Public Distribution</td>
<td>Food, Civil Supplies, Consumer Affairs and Public Distribution</td>
</tr>
<tr>
<td>14.</td>
<td>Committee on Labour and Welfare</td>
<td>Labour, Welfare,</td>
</tr>
<tr>
<td>15.</td>
<td>Committee on Petroleum and chemicals</td>
<td>Petrochemicals, Fertilizers,</td>
</tr>
<tr>
<td>16.</td>
<td>Committee on Railways</td>
<td>Railways</td>
</tr>
<tr>
<td>17.</td>
<td>Committee on Urban and Rural Development</td>
<td>Urban Development, Rural Development.</td>
</tr>
</tbody>
</table>


Of the seventeen Committees mentioned in Table 3.1, six are chaired by the members of the Rajya Sabha and the remaining 11 by the members of the Lok Sabha. Each Committee contains 45 members, 30 from Lok Sabha and 15 from Rajya Sabha.
After Committee scrutiny, it submits a report on the respective demands for grants to both Houses of Parliament for consideration.

b) Deficiency in the functioning of Standing Committees

The Standing Committees possess the power to summon and examine the civil servants. Administrative accountability would thus be more effectively enforced. The committees, comprising members of all parties in Parliament are to promote bipartisan decision-making, which is a wholesome feature. But its most serious disadvantage lies in its closed functioning. The committee meetings are not open to the public and the press and thus it lacks that great advantage of openness which Parliament possesses.

There is another disadvantage too. To claim that budgets of all the ministries are discussed under the new arrangement and guillotine is prevented is not true. Guillotine continues to be applied. In 1997 the budget proposals for the Ministries of Human Resource Development, Energy, Coal etc. were discussed but the guillotine was applied on any further discussion on the 1997-98 budget appropriation Bills for other ministries. This meant that nine-tenths of the grants for crucial areas such as defence, external affairs, agriculture, rural development and irrigation were not even touched on. The basic purpose of setting up of standing committees has been to facilitate the scrutiny of proposals for all the ministries of the Government. This has not been achieved.

3.10 Audit in India as a means of Financial Control:

In India, audit is the watchdog of the country’s finances. Parliamentary control and statutory audit are the basic features of our Constitution and are not barriers to the accomplishment of Government’s objectives. Audit provides healthy safeguard against misuse of public money.

Audit is the development of the nineteenth century and is in inevitably an indispensable part of the parliamentary control over public finance. Audit is defined as “an examination and verification of the accounts after 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. It is the provision for an independent examination of all financial transactions.

One of the important objectives of audit is to fix the accountability of the officers of the Government for any illegal, improper, or incorrect payments made resulting from any false, inaccurate or misleading certificate made by them as well as for any payment prohibited by law which did not represent a legal obligation under the appropriation of the fund involved.

3.10.1 History of Audit

Britain was the first country to evolve an audit of public accounts in order to ascertain whether the behest of the Parliament was complied with or not. The Auditor was independent of the executive and reported directly to the Parliament. These provisions were embodied in the Exchequer and Audit Department Act of 1866. The powers of the Comptroller and Auditor General were considerably widened by the Exchequer and Audit Act, 1921. In the United States, independent audit emerged with the inauguration of the Budget and Accounts Act of 1921.

In India, with the commencement of the Constitution in 1950, the office of the Comptroller and Auditor General of India was provided in the Constitution itself. The designation implies control over issues from the public treasury, the financial administration of India. Financial administration, whether of the States or of Union comes under the undivided authority of the Comptroller and Auditor General of India.

3.10.2 Accounting and Auditing in India

In India the twin functions of maintenance of accounts and their audit were combined in the same hands until 1976. The Comptroller and Auditor-General was entrusted with both sets of functions.

In 1973, the Government of India decided to separate accounting from the audit. In 1976, the Comptroller and Auditor-General of India was relieved of the

97 Avasthi Amreshwar and Maheshwari Shriram, Public Administration, p 505.
responsibility of compiling of accounts of the Union Government and is concerned with the audit of accounts only.

This separation of accounts from audit was completed in three phases, effective from 1st April, 1976 (covering some Ministries of the Central Government), 1st July, 1976 (covering nine more Ministries) and 1st October, 1976 (covering the remaining Ministries). As a result, there is now departmentalization of accounts in the Central Government and the administrative departments have assumed full responsibility for making payments and their accounting. Certain public sector banks have now been entrusted with the work of handling receipts and payments for the different ministries and departments.

This work was being done, until 1976, through the Government Treasuries. Under the new system, the payment functions have been taken over by the Ministries themselves and are discharged by their own Pay and Accounts Officers. Only the Reserve Bank of India and the Branches of the State Bank of India and its subsidiaries were authorised to handle cash transactions of the Government. Apart from putting a heavy burden on the Reserve Bank of India and the State Bank of India, the old system caused a great deal of inconvenience to all those who had transactions with the Government.

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

3.10.3 Role of Comptroller and Auditor-General (CAG) of India

The Comptroller and Auditor General of India is appointed by the President. The Article 148 of the Constitution deals with CAG. The Constitution does not precisely define terms and conditions of his service as well as his duties and powers. The constitution leaves it for the parliament to define the same.

Until 1976, the duties and powers of the Comptroller and Auditor General embraced both the auditing and accounting of all financial transactions of the Central

98 Jain Ashok, Public Administration, op cit. p 178.
Government as well as the Government of all the States. Since 1976, he has been relieved of his responsibilities in regard to the compilation and maintenance of accounts.

He audits all expenditure from the revenue of the Central Government or state Governments in and outside India and ascertains whether – legally available for and applicable to the service and purpose to which they have been applicable whether the expenditure conforms to the authority which governs it. The Comptroller and Auditor General is, thus, engaged in the scrutiny of the financial affairs of the executive and submit his reports to the Parliament to which alone he is responsible. In the case of the State, the report is laid before the State legislatures.

The Comptroller and Auditor General plays an important role and acts as an ‘extended arm’ of the Parliament in controlling public expenditure. He reports on the faithfulness, wisdom, and economy of expenditure. His report is most impartial and based on factual data. This is so because he is free from any kind of pressures.

The undefined nature of his powers and functions makes room for ambiguity and even confusion. This ambiguity led to a controversy between the Auditor-General and the Defence Minister in 1960. It is criticized that the Auditor-General often exceeds his jurisdiction. The Constitution did not define his powers and functions, nor has the Parliament rectified this omission by statutory framework within which he is to function. It is desirable that the Parliament should specify the role and functions of the Comptroller and Auditor-General. His responsibilities in regard to audit of receipts are limited and need to be developed.

### 3.11 Conclusion:

Why the budget is treated with such importance? Why has the way in which the budget is delivered become so important? The easy answer is that this is a response to the increased interest of the media and the irresistible urge for FMs, who are politicians after all.¹⁰⁰ There is another simple reason why the budget speech still matters to so many people, fact is that more people are directly involved in the economy than perhaps was the case before reforms. Sixty years on, the nature of the budget has changed in many ways, but its importance to us remains the same.

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Chapter 3: Constitutional Provisions – Central Budget

The meaning of budget is no longer confined to a mere statement of the estimated revenue and expenditure. It is now given a wider meaning. It is the basis without which there can be no lasting social progress of a country. It is the most important financial plan of the Government.

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

Apart from budget being a “tool of administration” and the basis of an orderly finance, it has now become a very powerful instrument of social and economic policy. The modern states are welfare states and as such budget is used as means for the promotion of welfare objectives.

Besides releasing the plans for higher production in various sectors, the Government aims at correcting the inequalities in the distribution of wealth by higher taxation for the rich and proportionately lower taxation for the poor through the instruments of budget. It lays emphasis on the need for state programme to be executed as efficiently as possible so that maximum results are obtained.

After studying in detail, constitutional provisions relating to the enactment and execution of central budget, a synoptic and analytical view of state budget of Maharashtra is presented in the next chapter.

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“Centre-states relations are crucial to the preservation of Unity and Integration of India within the frame work of its linguistic, cultural and other diversities.

The Principal task of the State government will be to usher in a new era of people oriented planning, in which not only the Government at the Centre and the States, but the people at large, particularly the poor, can fully participate. A participatory planning process is an essential precondition for ensuring equity as well as accelerating the rate of growth of the economy.”