FINANCIAL ADMINISTRATION IN INDIA

- **Subject code : 18BPA53C**

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The content is prepared according to the text book and reference book given in the syllabus.

Year	Subject Title	Sem.	Sub Code
2018 -19 Onwards	Core 8: Financial Administration in India	V	18BPA53C

UNIT – I: INTRODUCTION

Nature, Scope and Significance of Public Financial Administration – Meaning- Principle and types Budget – Modern Techniques of Public Financial Administration.

UNIT – II: BUDGETARY PROCESS AND PUBLIC BUDGETING IN INDIA

Aspects of Indian Budgetary system – Preparation and Enactment of Budget – Execution of Budget - Control Over Public Expenditure in India – Finance Ministry.

UNIT – III: FINANCIAL COMMITTEES OF PARLIAMENT

Public Accounts Committee – Estimate Committee – Committee on Public Undertakings – Committee on Subordinate Legislation - Standing Committees of Departments.

UNIT – IV: ACCOUNTING AND AUDITING

Meaning of Accounting and Auditing- Types of Accounts and Audit- Audit in India – Comptroller and Auditor General of India – Separation of Accounts from Audit.

UNIT – V: PUBLIC FINANCE AND FINANCIAL RELATIONS

Finance Commission of India – Union - State Financial Relations– Resource Mobilization – Tax Administration in India – Public Debt Administration in India – Local Finances in India – State Finance Commission.

Reference Books

1. Sarapa.A. Public Finance In India, Kanishka Publishers, Distributros, New Delhi,2004.

2. R.Duff And K.P. Sundharam, Indian Economy, S.CDhand&Company,New Delhi,2004.

3. Goel.S.L, Public Financial Administration, Deep & Deep Publishers,New Delhi,2004

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FINANCIAL ADMINISTRATION IN INDIA

Degree: III B.A. **Subject Code: 18BPA53C**

Semester: V

UNIT – I

INTRODUCION

PUBLIC FINANCE ADMINISTRATION MEANING:

Public finance administration is concerned with raising public revenue, allocating public funds and resources, and managing public assets to ensure that the government has enough money to fund all its activities. Public expenditures, public revenue and particularly taxes may be considered to be the fundamental elements of public finance. Important terms derived from these three elements include deficit, public debt, budgetary policy and fiscal policy. The principal sources of revenue are income taxes, taxes on sales and business operations, and excise duties. Infrastructural improvements, defense expenditures, and debt service continue to lead among the categories of outlays.

- **Kautilya: "**All undertaking depend upon finance hence for most attention shall be paid to the treasury".
- **Lloyd George: "** Government is finance"

Morstein Marx: " Finance is a universally involved in administration as oxygen is in the atmosphere".

Prof. **M.S Kenderic**, "The financial administration refers to the financial measurement of govt. including the preparation of budget method of administering the various revenue resources the custody of the public fund, procedures in expending money, keeping the financial records and the like. These functions are important to the effective conduct of operation of public finance"

Prof. **Dimock**, “Financial administration consists of a series of steps whereby funds and made available certain official under procedures which will ensure their lawful and efficient use. The main ingredients are budgeting, accounting, auditing and purchase and supply.”

According to **Jaze Gaston** "Financial Administration is that part of government organization which deals with the collection, preservation and distribution of public funds, with the coordination of public revenue and expenditure, with the management of credit operations on behalf of the State and with the general control of the financial affairs of public household:' Though this definition covers some important aspects of fiscal management, it fails to project a comprehensive scope of financial administration. Perhaps, after realising this limitation,

G.S. La11 states that financial administration is concerned with all the aspects of financial management of the State. Since public administration is more and more concerned with public affairs and public interest, the frontiers of financial administration are expanding and therefore there is a need for a comprehensive definition of financial administration. As an attempt towards this direction, the following definition is presented. "Financial Administration includes all the activities which generate, regulate and distribute monetary resources needed for the sustenance and growth of the members of a political community,"

The term Financial Administration consists of two words viz. 'Finance' and 'Administration'. The word 'administration' refers to organization and management of collective human efforts in the pursuit of a conscious objective. The word 'Finance' refers to monetary (money) resource. Financial Administration refers to that set of activities which are related to making available money to the various branches of an office, or an organization to enable it to carrying out its objectives. Whether it is the Department of Agriculture, Railways, Road Transport Corporation, Primary Health Centre, Municipality or Gram Panchayat, or for that matter, a family, its day-today activities would depend updo the availability of funds with which financial , Financial Administration : Basin Now let us get to know some more accurate definitions of Financial Administration. and Objectives

According to **L.D. White**, "Fiscal Management include's those operations designed to make funds available to officials and to ensure their lawful and efficient use? According to Jaze Gaston "Financial Administration is that part of government organization which deals with the collection, preservation and distribution of public funds, with the coordination of public revenue and expenditure, with the management of credit operations on behalf of the State and with the general control of the financial affairs of public household:' Though this definition covers some important aspects of fiscal management, it fails to project a comprehensive scope of financial administration. Perhaps, after realking this limitation, G.S. La11 states that financial administration is concerned with all the aspects of financial management of the State. Since public administration is more and more concerned with public affairs and public interest, the frontiers of financial administration are expanding and therefore there is a need for a comprehensive definition of financial administration. As an attempt towards this direction, the following definition is presented. "Financial Administration includes all the activities which generate, regulate and distribute monetary resources needed for the sustenance and growth of the members of a political community ," The Distinction between Public Finance.

Public finance is the study of the role of the government in the economy.[1] It is the branch of economics that assesses the government revenue and government expenditure of the public authorities and the adjustment of one or the other to achieve desirable effects and avoid undesirable ones.[2] The purview of public finance is considered to be threefold, consisting of governmental effects on:[3]

1. The efficient allocation of available resources;
2. The distribution of income among citizens; and
3. The stability of the economy.

Public Finance:

1) Adjustment of income to expenditure

2) Popular control

3) Elastic resources

4) Resource mobilization through coercive power

5) Tendency towards deficit

6) Direction of expenditure towards public service

NATURE:

Governments, like any other legal entity, can take out loans, issue bonds, and make financial investments. Government debt also known as public debt or national debt is money or credit owed by any level of government; either central or federal government, municipal government, or local government. They perform budget and payroll dealings, maintain distinct account such as discretionary and grant funding, and maintain accurate financial records for tax related purposes.

As the name suggests this area of public finance is all about the administration of all public finance i.e. public income, public expenditure, and public debt. Financial administration includes preparation, passing, and implementation of government budget and various government policies. Richard A. Musgrave, an economist who has been called the father of modern public finance.

Two different views regarding the nature of financial administration.

These are

i) Traditional view

ii) Modern view

i) Traditional View Advocates of this view conceive financial administration as a sum total of activities undertaken in pursuit of generation, regulation and distribution of monetary resources needed for the sustenance and growth of public organisations. They emphasise upon that set of administrative functions in a public organization which relate to an arrangement of flow of funds as well as to regulating mechanisms and processes which ensure proper and productive utilisation of these funds. When one looks at this view from systems perspective, it represents an integral sub-system of supportive system. A financial administrator shoulders responsibility for ensuring adequate financial backing for running public organization in the most efficient manner. Hid job is to plan, programme, organise and direct all financial activities in public organizations so as to achieve efficient implementation of public policy. The participants of this system are considered as financial managers and they discharge managerial functions of financial nature. Further, this view reflects the stand taken by pure theorists of public finance like Seligman. The central thesis of pure theory of public finance is that public finance should deal with the problems of public income, public expenditure and public debt in an objective manner without any relation to a set of values and premises of the political party in power. Accordingly, theorists of financial administration subscribing to this view take a value-neutral stance. For instance, Jaze Gaston reflects this view when he says that financial administration is that part of government organization which deals with the collection, preservation and distribution of public funds.

Modem view The modem view considers financial administration as an integral part of the overall management process of public organisations rather than one of raising and disbursing public funds. It includes all the activities of all persons engaged in public administration, for quite obviously almost every public official takes decisions which are bound to have some direct or indirect consequences of financial nature. Further, it rejects the value-neutral stand of the traditional theory. It combines in itself three prominent theories of public finance, viz., the socio-political theory as expounded by Wagner, Edge worth and Pigou, the functional theory of Keynesian perspective and activating view of modem public finance theorists. According to this view financial administration has the following roles.

a) Equalising Role: Under this role financial administration seeks to demolish the mequalities of wealth. It seeks, through fiscal policies, to transfer income from the affluent to the poor.

b) Functional Role: Under normal circumstances the economy cannot function on its own. Under this role, financial administration seeks to ensure, through taxation, public expenditure and public debt, and proper functioning of the economy. It evolves policy instruments to maintain high economic growth and full employment.

C) Activating Role: Under this role financial administration involves the study of such steps that will facilitate a smooth and rapid flow of investment and its optimal allocation to increase the volume of national income.

d) Stabbing Role: Under this role, the objective of financial administration is the stabilisation of price level and inflationary trends through fiscal as well as monetary policies.

e) Participatory Role: According to this view, financial administration involves formulation and execution of policies for making the state a producer of both public and private goods with the objective of maximising social welfare of the community. It also seeks to promote economic development through direct and indirect participation of the State. Thus, financial administration provides a framework of choices regarding ends and means which reflect the nature and character of the State and its ideological base as well as its values. For instance, financial administration of socialist countries differ from that in democratic countries. Thus, the essence of financial administration would differ under different socio-political systems depending upon particular model of operation of socio-economic and political force

SCOPE:

Gaston Jaze's definition, quoted in that context, points out that the government organization which deals with the following four aspects constitutes financial administration. These include :

1) The collection, presentation and distribution of public funds
2) The coordination of public revenues and expenditure.
3) The management of credit operations on behalf of the State.

4) The general control of the financial affairs of the government.

In modern governments all the above aspects are dealt with by the Finance Department and its subordinate agencies. Though the Finance Department may be considered as central financial agency of modem governments, it cannot be equated with financial administration. Its role constitutes financial management rather than financial administration. As a financial manager it deals with the systems, tools and techniques contributing to economic decision making in government. These processes are, in fact, the integral part of financial administration. The scope of financial administration is much wider than what these processes suggest.

PUBLIC INCOME

As the name suggests, public income refers to the income of the government. The government earns income in two ways – tax income and non-tax income. Tax income is easy to recognize, it’s the tax paid by people of the country in the form of income tax, sales tax, duties, etc. On the other hand non-tax income includes interest income from lending money to other countries, rent & income from government properties, donations from world organizations, etc.

This area studies methods of taxation, revenue classification, methods of increasing government revenue and its impact on the economy as a whole, etc.

PUBLIC EXPENDITURE

Public expenditure is the money spent by government entities. Logically, the government is going to spend money on infrastructure, defense, education, healthcare, etc. for the growth and welfare of the country.

his area studies the objectives and classification of public expenditure, effects of expenditure in different areas, effects of public expenditure on various factors such as employment, production, growth, etc.

PUBLIC DEBT

When public expenditure exceeds public income, the gap is filled by borrowing money from the public, or from other countries or world organizations such as The World Bank. These borrowed funds are public debt.This area of public finance explains the burden of public debt, why it is necessary and its effect on the economy. It also suggests methods to manage public debt. Where we have discussed the meaning of financial administration, Gaston Jaze's definition, quoted in that context, points out that the government organization which deals with the following four aspects constitutes financial administration. These include

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According to some authorities on public administration, the term financial administration refers to the financial processes and institutions involved in legislative financial control. In their view, the scope of financial administration encompasses the preparation of estimates, appropriation of funds, expenditure control, accounting, audit, reporting, review and so on. In a democratic context, this view may gain wider acceptance as it ensures executive responsibility to legislature. But, the experience of modem democracies has shown that the legislative involvement in the determination of the desired volume, range and direction of programmes, the use of independent judgement relating to the financial resources required by administrative agencies is becoming nominal day by day.

It is a known fact that the average member of the legislature is not adequately informed to ensure effective control over executive. Thus, the view appears to be of no significant validity. Further, legislative control of financial aspects of the government does not represent the scope of financial administration in its entirety. Yet another view advocates a budget oriented outline for the scope of financial administration. According to them the scope of financial administration is limited to I the preparation of budget, the enactment of budget and execution of budget. Though the budget is the core of financial administration, certain operations which precede budget preparation are equally important. There is a pertinent need to include planning process as an integral part of financial administration.

I In the ultimate analysis, there is a need to adopt an integrated approach so that all the above views are incorporated into the scope of public administration. As an outcome of such an approach, the following aspects emerge as the core areas of financial administration.

i) Financial planning

ii) Budgeting

iii) Resource mobilization

iv) Investment decisions

v) Expenditure control

vi) Accounting, Reporting and Auditing

Financial Planning :

In a restrictive sense one may consider budgeting as planning since its basic concern is to facilitate the formulation and adoption of policies and programmes with a view to achieving the goals of government. But planning, in a broad sense includes the concerns in terms of whole range of government policy and it demands a time frame and a perception of the inter relationships among policies. Nature and Scope of Financial Administration Financial Administration. Basin It looks at a policy in the framework of long-term economic consequences.

There is and Objectives a need to coordinate planning and budgeting. The correct of planning-programming-. Budgeting System (PPBS) represents an attempt in this direction. Financial Administration, under this phase, should consider the sources and forms of finance, forecasting expenditure needs, desirable fund flow patterns.

Budgeting:

This area is the core of financial administration. It includes examination and formulation of such important aspects as fiscal policy, equity and social justice. It also deals with principles and practices associated with refinement of budgetary system and its operative processes.

A budget is a financial plan for a defined period, often one year. It may also include planned sales volumes and revenues, resource quantities, costs and expenses, assets, liabilities and cash flows. Companies, governments, families and other organizations use it to express strategic plans of activities or events in measurable terms. A budget is the sum of money allocated for a particular purpose and the summary of intended expenditures along with proposals for how to meet them. It may include a budget surplus, providing money for use at a future time, or a deficit in which expenses exceed income.

Resource Mobilization:

Imposition of taxes, collection of rates and taxes etc. are associated with resource mobilization effort. Due to the ever increasing commitments of government, budgetary deficits have become regular feature of government finance. In this context deficit financing assumes greater importance. But deficit financing, if used in an unrestrained manner, may prove to be a dangerous problem for a nation's economy for it can cause galloping inflation. Another challenge faced by administration is tax evasion and growth of parallel economy. Finally public debt constitutes yet another element of state resources. The proceeds of debt mobilization effort should be used only for capital financing. Thus, modem financial administrator has to be fully conversant with all the dimensions of resource mobilization efforts.

Investment decisions:

Financial and socio-economic appraisal of capital expenditure constitutes what has come to be known as project appraisal. Since massive investments have been made in the public sector a thorough knowledge of the concepts, techniques and methodology of project appraisal is indispensable for a financial administrator.

Expenditure control:

Finances of the modem governments are becoming quite inelastic. Almost every government is suffering from resource crunch. Further, the society cannot be taxed beyond a certain point without doing a great damage to the economy as a whole. Thus, there is an imperative need for careful utilization of resources. Executive control is a process aimed at achieving this ideal. Legislative control is aimed at the protection of the individual tax payers interest as well as public interest. There is also the need to ensure the accountability of the executive to the legislature.

Accounting, Reporting and Auditing:

These aspects are designed to aid both the executive control and legislative control. In India, the Comptroller and Auditor General (C & AG) and the Indian Audit and Accounts Department over which the C & AG presides ensure that the accounting and audit functions are performed in accordance with the provisions of the Constitution. We shall be discussing in detail about these areas in subsequent blocks of this course.

Scope of Financial Management

To understand the financial management scope, first, it is essential to understand the approaches that are divided into two sections.

1. Traditional Approach
2. Modern Approach

Traditional Approach to Finance Function

During the 20th century, the traditional approach was also known as corporate finance. This approach was initiated to procure and manage funds for the company. For studying financial management, the following three points were used

(i) Institutional sources of finance.

(ii) Issue of financial devices to collect refunds from the capital market.

(iii) Accounting and legal relationship l between the source of finance and business.

In this approach, finance was required not for regular business operations but occasional events like reorganization, promotion, liquidation, expansion, etc. It was considered essential to have funds for such events and regarded as one of the crucial functions of a financial manager.

Though he was not accountable for the effective utilization of funds, however, his responsibility was to get the required funds from external partners on a fair term. The traditional approach of finance management stayed until the 5th decade of the 20th century. The traditional approach only emphasized on the fund's procurement only by corporations. Hence, this approach is regarded as narrow and defective.

Limitations of Traditional Approach

- **One-sided approach-** It is more considerate towards the fund procurement and the issues related to their administration, however, it pays no attention to the effective utilization of funds.
- **Gives importance to the Financial Problems of Corporations-** It only focuses on the financial problems of corporate enterprises, so it narrows the opportunity of the finance function.

- **Attention to Irregular Events-** It provides funds to irregular events like consolidation, incorporation, reorganization, and mergers, etc. and does not give attention to everyday business operations.
- **More Emphasis on Long Term Funds-** It deals with the issues of long-term financing.

Modern Approach to Finance Function

With technological improvement, increase competition, and the development of strong corporate, it was important for Management to use the available financial resources in its best possible way. Therefore, the traditional approach became inefficient in a growing business environment. The modern approach had a more comprehensive analytical viewpoint with a focus on the procurement of funds and its active and optimum use. The fund arrangement is an essential feature of the entire finance function.

The main elements of this approach are an evaluation of alternative utilisation of funds, capital budgeting, financial planning, ascertainment of financial standards for the business success, determination of cost of capital, working capital management, Management of income, etc. The three critical decisions taken under this approach are.

(i) Investment Decision

(ii) Financing Decision

(iii) Dividend Decision

Features of Modern Approach

The following are the main features of a modern approach.

- **More Emphasis on Financial Decisions-** This approach is more analytic and less descriptive as the right decisions for a business can be taken only on the base of accounting and statistical data.

- **Continuous Function-** The modern approach is a constant activity where the financial manager makes different financing decisions unlike the traditional method,
- **Broader View-** It gives importance not only to optimum use of finance also abut the fund's procurement. Similarly, it also incorporates features relating to the cost of capital, capital budgeting, and financial planning, etc.
- **The measure of Performance-** Performance of a firm is also affected by the financial decision taken by the Management or finance manager. Therefore, to maximize revenue, the modern approach keeps a balance between liquidity and profitability.

The other scope of financial management also includes the acquisition of funds, gathering funds for the company from different sources, assessment and evaluation of financial plans and policies, allocation of funds, use of funds to buy fixed and current assets, appropriation of funds, dividing and distribution of profits, and the anticipation of funds along with estimation of financial needs of the company.

Roles of Financial Management:

- Taking part in utilising the funds and controlling productivity.
- Recognizing the requisites of capital (funds) and picking up the sources for that capital.
- Investment accords incorporate investment in fixed assets known as capital budgeting. Investing in current assets are part and parcel of investment decisions known as working capital decisions.
- Financial decisions associated with the finance raised from different sources which would rely upon the accord on – the kind of resource, when is the financing done, cost incurred and the returns as well.
- In the case of dividend decision, the finance manager is the who is responsible for the accord that is taken by him or her; regarding the net

profit distribution (NPD). However, Net profits are classified into two(2) types:

1. Dividend for shareholders: The rate of dividend and the amount of dividend has to be decided
2. Retained profits: The amount of contained (retained) gains has to be ascertained which would rely upon the development and variety of strategies of the trading conc

SIGNIFICANCE:

The Fiscal responsibility law came up with the purpose of changing the bureaucracy of public administration by a managerial administration, being able through this, make the public service effectively to society by encouraging the development and economic expansion and the Socialist country. The aim of financial management in the public sector is: "to manage limited financial resources with the purpose to ensure economy and efficiency in the delivery of outputs required to achieve desired outcomes effectiveness, that will serve the needs of the community appropriateness".

Fiscal Management Finance/Tax and Budgeting presents the four key components of public finance: budget preparation, strategic planning based on financial management principles, raising capital by issuing bonds and levying taxes, and management of cash and employee retirement funds.

Thus, it is evident Public finance is very important for the growth and development of a country. It is obvious that the government of a country can push up the industrial and economic development of the country, provide more employment opportunities, encourage investments and savings in the desired direction and increase social benefits through public expenditure. It therefore, affects the overall economic and social system of the country. The major importances of public finance are listed below as:

Steady state economic growth:

Public finance is important to achieve sustainable high economic growth rate. The government uses the fiscal tools in order to bring increase in both aggregate demand and aggregate supply. The tools are taxes, public debt, and public expenditure and so on.

Price stability:

The government uses the public finance in order to overcome form inflation and deflation. During inflation it reduces the indirect taxes and genera expenditures but increases direct taxes and capital expenditure. It collects internal public debt and mobilizes for investment. In case of deflation.

Economic stability:

The government uses the fiscal tools to stabilize the economy. During prosperity, the government imposes more tax and raises the internal public debt. The amount is used to repay foreign debt and invention. The internal expenditures are reduced. During recession, the case is just reversed.

Equitable distribution:

The government uses the revenues and expenditures of itself in order to reduce inequality. If there is high disparity it imposes more taxes on income, profit and properties of rich people and on the goods they consume. The money collected is used for the benefit of poor people through subsidies, allowance, and other types of direct and indirect benefits to them.

Proper allocation of resources:

The government finance is important for proper utilization of natural, manmade and human resources. For it, on the production and sales of less desirable goods, the government imposes more taxes and provides subsidies or imposes taxes lightly on more desirable goods

Balanced development

The government uses the revenues and expenditures in order to erase the gap between urban and rural and agricultural and industrial sectors. For it, the government allocates the budget for infrastructural development in rural areas and direct economic benefits to the rural people

Promotion of export:

The government promotes the export imposing less tax or exempting form the taxes or providing subsidies to the export oriented goods. It may supply the inputs at the subsidized prices. It imposes more taxes on imports and so on.

Infrastructural development:

The government collects revenues and spends for the construction of infrastructures. It has to keep peace, justice and security too. It has to bring socio-economic reformation too. For all these things it uses the revenues and expenditures as fiscal tools.

Theorists of public finance have identified three elements of public finance. They are : a) Public Revenue b) Public Expenditure c) Public Debt Since financial administration concerns itself with public finance and deals with the principles and practices pertinent to the proper and efficient administration of the state finances, the thinkers of financial administration have included the administrative aspects in the &hope of finahcial administration. Some other thinkers, taking clue from Luther Gulick, have tried to project POSDCORCs view where in

P - Stands for Financial Planning

O - Stands for Financial Organizationsuch as Finance Ministry

S - Stands for financial Personnel

D - Stands for Direction such as Financial advise

CO - Stands for Coordination of Income and Expenditure

R - Stands for Financial Reporting such as accounting

C - Stands for control which includes executive control, audit control and legislative control. The above exposition does not reveal the exact picture related to the elements of financial administration. An organisational system consists of the following basic elements

a) The People

b) Work and structure

c) Systems and procedure People represent human resources of the organisation. Work and structure represent efforts and processes concerning definition of tasks and roles, and organization of I exporting relationships. Systems and procedures represent framework to facilitate interactions between the people and the work. These interactions result in organizational output. it is possible to identify the following elements of financial administration:

Human Element

Tax payers

Fee Remitters

Suppliers (Funds and materials)

Employees (Public Officials)

Entrepreneurs (Politicians)

Customers & Common person

Work and Structures

The Legislature and its financial committees

The Cabinet

The Finance Department

The Administrative Departments

The Executive Departments

The Audit Department

Systems and Procedures

Planning

Systems

Budgeting systems procedure

Controlling systems such as accounting and auditing.

Human element consists of participants whose involvement is determine' by contribution-inducement equilibrium. This consideration implies that people, for instance, wish to contribute their money. support the government as long as there is a feeling on their part that they are suitably rewarded for their sacrifice and support. No public organization can easily overlook this consideration. Work and structure refer to the organization processes viz. divisional processes and integration processes by means of which organization subdivisions are created with a provision for mutual interaction. Systems and procedures are the devices which link the people to the work and structure. These three components interact with each other to produce organizational outcomes.

No discussion on administration's components would be complete unless there is a reference to the environment which affects content, character and capabilities of the components. Financial administration is enveloped by two environments. Everyone is aware of supra system known as socio-economic and political environment in which the financial administration operates. There is an intermediary sub-system' comprising the goals pursued by financial administration, the norms, values, beliefs and behaviour as reflected in the culture: of financial administration and the nature of technology employed by financial administration.

All societies have their financial administrative systems as an integral component of its public administrative system. In contemporary societies, financial administration began to assume the multifaceted role in order to secure 'maximum human welfare. Public finance and private finance have much in common although there are certain distinct differences. Financial administration, in its evolutionary process, has proved to be a dynamic entity capable of developing itself into a potential measure to meet requirements of changing socio-economic demands from time to time. Of late, financial administration has assumed the role of a provider of choices with regard to ends and means for a society. As we have discussed, its scope is expanding day by day and at present it encompasses many dynamic aspects such as financing, planning and budgeting, resource mobilization and its investment, public expenditure, control including financial control etc. The human element, work and structure, and systems and procedures constitute its important elements.

BUDGET

The nineteenth century encountered the growth of the problem of public finance on a gigantic scale. The problem arose, owing to the growth of the functions of the State in all directions, the establishment of parliamentary control over public finance, the necessity of check in financial administration to prevent fraud and waste, and to secure the highest possible results from public expenditures, and the growth in credit operations which resulted in the creation of central banks as the bankers of the Government. To solve this problem, there arose a new system in England, called Budgetism or the Budget system, which was wholly unknown until 1803. Etymologically speaking, the word ‘budget’, derived from the French word ‘budgete’, means a sack or pouch from which the Chancellor of Exechequer used to take out his papers, for laying 2 before the Parliament, containing the Government’s financial scheme for the ensuing year. Now, the term ‘budget’ refers to the financial papers, certainly not to the sack. The budgets began to develop in the late Middle Ages, which were characterised by the presence of absolute regimes in England as well as in Europe. The budget was a statement of revenue and expenditure, and was regarded as the business affair of the King and secret of the State.

This was so because the revenue was derived from the King's domain. It was not until the revolution of 1688 that the principle of 'no taxation without representation' could be generally recognized. Even at that period all Government expenditures were not subject to parliamentary control. Full legislative control of the purse strings is the feature of this century. There is no unanimity among writers regarding the definition of the term 'budget'. It has been defined differently by different writers of public administration. Dimock — "A budget is a financial plan summarizing the financial experience of the past stating current plan and projecting it over a specified period of time in future." Munro "A plan of financing for the incoming fiscal year. This involves an item estimate of all revenues on the one hand and all expenditures, on the other." W.F. Willoughby

According to him, a budget comprises of three components:

(a) A statement of the sums required for the due conduct of public affairs during the period to which such estimate relates

(b) An estimate of the probable income from revenue and loans on the basis of existing provisions of law regarding public dues and credit operations

(c) A statement showing conditions of treasury in terms of assets and liabilities. So, it is very clear that the budget is the cornerstone of financial administration and the various operations in the field of public finance are correlated through the instrument of budget.

Budgeting involves:

(1) Preparation of the estimates,

(2) Collection and custody of funds,

(3) Disbursement and control of expenditure,

(4) Recording of all the transactions whose legality and regularity are duly verified and reported to the Legislature by an independent audit.

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

1. Executive Programming:

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

2. Executive Responsibility:

The Chief Executive must see that the departmental programmes fulfil the intent of the legislature and due economy is observed in the execution of the programme.

3. Reporting:

Budgetary process like preparation of estimates, legislative action and the budget execution must be based on full financial and operating reports coming from all levels of administration.

4. Adequate Tools:

The Chief Executive must have an adequately equipped budget office attached to him, and an authority to earmark monthly or quarterly allotment of appropriations.

5. Mutiple Procedures:

The method of budgeting may vary according to the nature of operations. Thus, the budgeting of quasi-commercial activities may be different from that of purely administrative activities

6. Executive Direction:

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

7. Flexibility in Timing:

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

8. Two-Way Budget Organization;

Efficient budgeting depends upon the active cooperation of all departments and their sub-divisions.

The basic characteristics of government budgeting are as follows:

i) There is a strong emphasis on expenditure control with estemised ceilings and sanctions. The French system of budgeting is largely based on this principle, a strong financial control system. For historical and administrative reasons, Indian budgetary system is also set in a framework of strong financial control. Although, after Independence, this feature has become diluted through various schemes of delegation of powers and decentralization.

ii) Another characteristic is the tendency towards instrumentalism. The bulk of ongoing activities is left untouched. Only marginal adjustments are made in raising and allocating resources from one year to the other. In spite of various budgetary innovations, budgetary systems the world over are essentially incremental in nature.

iii) There is usually no attempt to relate inputs to outputs or expenditure to performance and benefits. Any such attempt, if at all it is made, is limited to the economic function and the largest component of government activities, perse, are mainly expenditure-oriented.

iv) Generally budgets are prepared for a time span of one year. Since budgeting presupposes planning it must, therefore, adopt a longer time frame.

v) Some of the budgetary systems (Netherlands) reflect application of commercial principles to budget, including provision of depreciation allowances and in some systems, accrual-based amounting. The Italian budgetary system shows the availability of funds beyond the financial year with parallel operation of the preceding and current year's budgets. |

vi)In some countries, special accounts are maintained (Japan) and these are outside the budgetary process. In other countries, extra-budgetary devices of various.

A budget is a powerful instrument in the hands of government. It has manifold objectives. Account bill in the early phase, legislative control and accountability were the primary functions of the government budget. This arose from the legislature's desire to control (impose, amend and approve) tax proposals and spending. The executive was accountable to the legislature for spending-within limits approved by the latter, under several heads of expenditure, and only for approved purposes. Similar accountability was to exist within the executive on the part of each subordinate authority to the one immediately above in the hierarchy of delegation. Accountability continues to be an important function of the government budget even today owing to its usefulness in budget execution and plan implementation. Management Budgeting is an executive or managerial function. As an effective. Tool of management, budgeting involves planning, coordination, control, evaluation, reporting and review. Many of the budgetary innovations such as functional classification, performance measurement through norms and standards, accounting classification to correspond to functional classification, costing and performance audit and use of quantitative techniques have become important aids to management. Various budgetary systems like performance budgeting and Zero base budgeting are specifically management-oriented systems. Coat ml Control essentially implies a hierarchy of responsibility, embracing the entire range of executive agencies, for the money collected and expenditure, within the framework of overall accountability to the legislature. In a democracy, control assumes new dimensions and gives rise to exceedingly difficult problems. The basic concern in a truly representative government is to bring about suitable notifications in the sign and operation of the financial system so as to ensure executive responsibility to the legislature which is the law-making, revenue determining and fund-granting authority.

Legislative control would mean that the legislature can meaningfully, and not merely formally, participate in the formulation of broad policies and programmes, their scrutiny, approval and implementation through the annual budget. It also means that the legislature can effectively relate performance and achievement of the executive to the objectives and policies as laid down by it. Members of the legislature are not always adequately acquainted with the complexities of financial administration, nor can they always understand the enormity of the vast scale of operations and therefore the level of funds required. Various devices are, therefore, used to assist legislatures in exercising their legitimate powers over the executive. The Congressional committees of the United States and the Parliamentary Select committees of the United Kingdom and India help the legislature in exercising their control over the public purse.

We shall be discussing in detail about the role of financial Committees in Unit 19 of Block 6 of this course. Statutory audit also examines the accounts and other relevant records to ensure that the moneys granted by the legislature are spent strictly in accordance with law. Also, audit tries to ensure that the government obtains value for the tax-payers' money and that the norms of economy, efficiency and effectiveness are observed. Planning Budgeting provides a plan of action for the next financial year. Planning, however, involves the determination of long term and short term objectives, budget and Budgetary ($determination of quantified targets, fixation of priorities. Planning also spans a whole range of government policies keeping the time factor and interrelationships between policies in view. Planning envisages broad policy choices. At the level of projects and programmes, the choice is between alternative courses of action so as to optimise the resource utilization. The goals of public sector,

(i) optimal allocation of resources,
(ii) stabilisation of economic activity.
(iii) an equitable distribution of income,
(iv) the promotion of economic growth are all pursued in an organisational context. In the short-run, achievement of these goals has to be co-ordinated by means of administrative and legal instruments among which budget policy and procedure are the most important. Planning in the budget process reflects political pressures as well as financial pressures and financial analysis.

Functional Classification Performance budgeting is based on a "conviction that the way in which revenue and expenditure are grouped for decision making is the most important aspect of budgeting". A functional classification of the budget is necessary under the system of performance budgeting. The presentation of budgeted expenditure should, therefore, be in tern of functions, programmes, activities and projects. Such a classification is an aid to the managerial function of performance measurement relative to the costs incurred. The output of a programes activity in terms of physical targets has to be related to the inputs required. These are translated into financial terms and shown as the budget provision asked for the implementation of the programme. Object-whe CLurllication Traditional budgeting ensures control of expenditure and the need to ensure accountability of the executive to the legislature as well as that of the subordinate formations of the executive to the higher echelons. The budget is divided into sections according to organisational units, departments, divisions and expenditure is detailed by each category such as salary, wages, A typical classification would be as follows :

I) Salary

2) Wages

3) Travelling allowance

4) Office expenses

5) Machinery and equipment

6) Works

7) Grants-in-aid

8) Other charges

9) Suspense account

Merit

i) As almdy stated, the rationale for this type of classification was the need to facilitate control and accountability. Inter-agency, inter-organiation and interdepartment comparison of expenditure could easily be made. This information would also be available on a time-aeries basis, that is, from year to year, so that the departments conarned could be pulled up if the expenditure trends, as revealed through this classification, were not satisfactory. It shows clear allocation of funds. For example, what percentage of the Covannmt Bdgdhg : PrMpla expenditure is on salaries, travelling allowances, etc. and Functbm

iii) In times of financial stringency, this classification enables across-the-board cuts on specific heads such as travelling allowances, foreign travel etc.

i) The basic philosophy of budgets with this type of classification is that spending the budgetary allocation is in itself a virtue. Whatever the amount allocated to a I particular object it has to be spent, without emphasis on the likely outcome of that expenditure. Since control is not related to performance, it easily degenerates into wastefulness and extravagence. Performance thus takes a back seat.

ii) Emphasis is laid on procedural considerations, legality and regularity of expenditure and all the complex rules that are framed to satisfy regularity audit. Evaluation, justification for expenditure and obtaining value for money become only incidental.

iii) Inadequate information is available about the government's objectives and programmes. The emphasis on control and accountability exerts an influence on the criteria which govern budget decisions. Programme control, contribution to development, programme co-ordination and efficient resource allocation are neglected.

iv) Any duplication, redundant activities and expenditure are hard to detect and avoid.

v) It is only the most pressing demands which receive attention of the budget makers. Policies, programmes and projects which have only long term benefits

PRINCIPLE AND TYPES OF BUDGET:

BUDGET:

The term “Budget” is derived from an old English word “Budget” which means a sack or pouch. It was a leather bag from which the British chancellor of Exchequer extracted his papers to present to the parliament the government’s financial programme for the ensuring fiscal year.

Willoughby; “The budget is something much more than a mere estimate of revenues and expenditure. It is or should be at once a report an estimate and a proposal”.

Union Budget : The union budget is the budget prepared by the central government for the country as a whole. The Union Budget of India, also referred to as the Annual Financial Statement in the Article 112 of the Constitution of India, is the annual budget of the Republic of India. The Government presents it on the first day of February so that it could be materialized before the beginning of new financial year in April. Until 2016 it was presented on the last working day of February by the Finance Minister in Parliament.

This is also called as traditional budgeting or conventional budgeting. This system of budgeting was developed in the 18th and 19th century. It emphasizes on the items of expenditure without highlighting its purpose and conceives budget in financial terms. Under this system, the amount granted by the legislature on a specific item should be spent on that item only. The objectives of this budgeting are to prevent wastage, over-spending and misuse of money granted by the legislature. This system of budgeting facilitates maximum control of public expenditure. In fact, the sole object of line-item budgeting has been the accountability of funds, that is, ensuring legality and regularity of expenditure.

State Budget : In countries like India, there is a quasi-federal system of government thus every state prepares its own budget.

Plan Budget: It is a document showing the budgetary provisions for important projects, programs and schemes included in the central plan of the country. It also shows the central assistance to states and union territories.

Performance Budget: The central ministries and departments dealing with development activities prepare performance budgets, which are circulated to members of parliament. These performance budgets present the main projects, programs and activities of the government in the light of specific objectives and previous years' budgets and achievements.

The system of performance budgeting (earlier called as functional budgeting or activity budgeting) originated in the USA. The term performance budget was coined by the First Hoover Commission (1949). This commission recommended the adoption of performance budgeting in the USA to make effective management approach to budgeting. Accordingly, it was introduced in 1950 by President Truman. The advantages of the performance budgeting are as follows:

a. It presents more clearly, the purposes and objectives for which the funds are sought by the executive from the parliament.

b. It brings out the programmes and accomplishes on financial and physical terms

c. It facilitates a better understanding and better review of the budget by the Parliament.

d. It improves the formulation of budget.

e. It facilitates the process of decision-making at all levels of government.

f. It increases the accountability of the management.

g. It provides an extra tool of management control of financial operations.

h. It renders performance audit more purposeful and effective.

Programming budgeting

Like performance budgeting, programme budgeting (also known as planning – programming – budgeting system – PPBS) also originated in the USA. It incorporates a scheme of planning in the budgeting process. Programme budgeting or PPBS emphasizes the planning aspect of budgeting for selecting the best out of a number of available programmes and for optimizing the choice in economic terms while allocating funds in the budget. It treats budgeting as an allocative process among competing claims to be conducted by using the relevant planning techniques.

Supplementary Budget:

This budget forecasts the budget of the coming year with regards to revenue and expenditure.

Zero-based Budget:

The ZBB also originated and was developed in the USA. It was created in 1969 by Peter A. Pyhr, a manager of a private industry. It was introduced in the USA by President Jimmy Carter in 1978. Like the performance budgeting or PPBS, the ZBB is also a rational system of budgeting. Under this system, every scheme should be reviewed critically and rejustified totally from zero before being included in the budget. Thus, the ZBB involves a total reexamination of all schemes afresh instead of following the incremental approach to budgeting which begins with the estimation of the current expenditure. The basic feature of a zero – based budget is that the departments, while preparing their budgets, should not take anything for granted and, therefore, should start on a clean slate. The budget making for the ensuing year should be started from zero instead of treating the current budget as the base or the starting point. ZBB may be viewed as an operating, planning and budgeting process which requires each manager to justify his entire budget request in detail from scratch (hence the term zero – base), and shifts the burden of proof to each manager, to justify why he should spend any money at all, as well as how the job can be done better.

The advantages of ZBB technique are: a. It eliminates or minimizes the low priority programmes. b. It improves the programme effectiveness dramatically. c. It makes the high impact programmes to obtain more finances. d. It reduce the tax increase e. It facilitates critical review of schemes in terms of their cost – effectiveness and cost benefits. f. It provides for quick budget adjustments during the year. g. It allocates the scarce resources rationally. h. It increases the participation of the line personnel in the preparation of budget

The principles are:

1. Manage budgets within clear, credible and predictable limits for fiscal policy.
2. Closely align budgets with the medium-term strategic priorities of government.
3. Design the capital budgeting framework in order to meet national development needs in a cost-effective and coherent manner.
4. Ensure that budget documents and data are open, transparent and accessible.
5. Provide for an inclusive, participative and realistic debate on budgetary choices.
6. Present a comprehensive, accurate and reliable account of the public finances.
7. Actively plan, manage and monitor budget execution.
8. Ensure that performance, evaluation and value for money are integral to the budget process.

There are a few principles followed in budget preparation:

Principle of Annuality

This implies that a budget is prepared every year on annual basis. One year is considered ideal period for budget because it's an optimum period for which the legislature can afford to give financial authority to the executive. Further, executive also needs this much time to implement the budget proposals effectively. Further, a year corresponds with the customary measures of human estimates. Annuality in budget formation is a widespread Penomena. In some countries of OECD, yearly budgets are now framed within a multi-year framework.

Rule of Lapse

Principle of Annuality also implies that the money left unspent in a year must also lapse to the public treasury and government should not be able to spend it unless it is re-sanctioned in next year's budget. This is called Rule of Lapse and is useful as an effective tool of financial control.

Fiscal Discipline

Budget should be balanced and should be able to display congruence between the income and expenditure. This is known as Fiscal Discipline and it adheres to the Keynesian School of Thought. Fiscal discipline helps to eliminate fiscal deficits and offset fiscal surplus.

Inclusiveness

Budget should be comprehensive and inclusive of diverse budget estimates. An inclusive budget includes all government revenue and expenditures and helps evaluating the much required trade-offs between different policy options.

Accuracy

Budget figures are essentially predictions of the amount of money to be generated in the forthcoming year and its expenditure. The Finance Ministry is accountable for its formulation with the help of the data and material from the various departments. These estimates need to be accurate and precise. The preciseness is dependent real and credible input data, information and unbiased information.

Transparency and Accountability

Budget transparency and accountability are two of the eight basic indicators of good governance as propounded by United Nations. Budget transparency implies that government gives out all data regarding budget. These two traits of budget also involve ethics on the part of the Government. For the sake of clarity and transparency, the revenue and capital portion of the budget are kept separate.

EXECUTION-BUDGET

Budget is of no use unless it is enforced, revenue and expenditure are regulated according to it. The execution of the budget is the responsibility of the executive Government, and therefore, the distribution of powers within the executive Government determines the procedure for the execution of the budget. Efficient execution depends on the extent to which financial control combines operational freedom and flexibility with accountability for performance. Besides, it requires strong central direction and control. Control of expenditure within the terms of the budget is a far more complex affair than the collection of revenue and in budget execution. Primary emphasis is placed on it. The objects of control of expenditure are, To see that it does not exceed the budgetary grant under any head, To ensure that it is not improper, extravagant, wasteful. The amounts voted in the budget are the maxima upto which the executive may spend for the specified purposes, and which must not be exceeded in any case without fresh legislative sanction. This does not mean that the executive may spend so much without due regard to necessity and economy. It is always implied that notwithstanding budgetary provision the executive shall spend on any object only the minimum amount absolutely necessary as an ordinarily prudent person does in private life. The machinery of executive control over expenditure consists of the heads of various administrative departments.The Finance Ministry In India, the Ministry of Finance has been given the responsibility to exercise over-all control over the budget execution. As an instrument for carrying out the financial policies of the Government, the Ministry of Finance supervises the finances of spending authorities by checking over their expenditure at three stages. These are approval of programmes or policies in principle acceptance of provisions in the budget estiemates

MODERN TECHNIQUES OF PUBLIC FINANCIAL ADMINISTRATION:

a). Equalizing Role: Under this role financial administration seeks to demolish the equalities of wealth. It seeks, through fiscal policies, to transfer income from the affluent to the poor.

Equalization payments are commonly known as "transfer payments" because they represent transfers of wealth and income directed by the government from some people to others. "Equalization payments" is the preferred term among proponents of such policies because of the positive connotation widely attached to the concept of equality.

b). Functional Role: Under normal circumstances the economy cannot function on its own. Under this role, financial administration seeks to ensure, through taxation, public expenditure and public debt, and proper functioning of the economy. It evolves policy instruments to maintain high economic growth and full employment.

c). Activating Role: Under this role financial administration involves the study of such steps that will facilitate a smooth and rapid flow of investment and its optimal allocation to increase the volume of national income.

d) **Stabbing Role:** Under this role, the objective of financial administration is the stabilization of price level and inflationary trends through fiscal as well as monetary policies.

Participatory Role: According to this view, financial administration involves formulation and Distribution of Income

Distribution of income is the calculation of the wealth and income of a nation once it is divided by its total population. The overall distribution can be evaluated through a series of statistical studies. Wealth and income are two separate entities. Wealth is the overall value of a population's physical possessions and financial assets. Income is the exact monetary value of a population's net intake over a selected period of time. The information gathered from a country's wealth and income can be a valuable resource to help answer a variety of political, social and economic questions.

Macroeconomic Stabilization

Macroeconomic stabilization is a process by which the stabilization and growth of the economy is monitored through the development of fiscal and monetary policies, laws and regulations. Stabilization of the economy acts as the foundation to economic growth. Without stabilization, the economy is doomed to collapse. To achieve a stabilized macroeconomic environment, a balance is required between the government budgeting, domestic commerce, banking operations, international trade and governing institutions. In order to maintain ongoing macroeconomic stabilization and an optimal level of economic efficiency, the market must be managed to ensure interest rates, business cycles and demand within the economy remains steady.