

STRUCTURE OF STATE FINANCIAL ADMINISTRATION IN INDIA

In a Parliamentary set-up like India the overall process of control over the financial administration in a State has three aspects : Legislative; Administrative; and Audit.

Legislative control over the finances is effected in two stages - one, at the time of policy making; and second, during the implementation of the policy. The Legislature controls the purse by determining the manner of raising the resources and the quantum and how the money so raised shall be spent. The initial control is exercised at the time of the presentation of the annual budget or the Annual Financial Statement by indicating therein the estimated receipts and proposed expenditure of the State Administration, for the financial year. At the second stage, the Legislature ensures that moneys voted by it have been utilised by the Government for the purpose for which and in the manner in which it wanted them to be utilised. This second stage of control is effected through a purposive use of Parliamentary procedures and a system of Committees.

The Administration is accountable to the Legislature not only in regard to the manner in which it has collected moneys as authorised by the Legislature but also in regard to their utilisation for implementation of the policies laid down by the Legislature.

The scope of State Audit encompasses the following elements :

(a) Fiscal accountability - which includes fiscal integrity as well as compliance with applicable laws and regulations;

(b) Managerial accountability - which is concerned with efficiency and economy in the use of public funds; and,

(c) Programme accountability - which is concerned with whether Government programmes and activities have achieved the objective established for them with due regard to both costs and results.

State Audit is the main instrument through which accountability of the lower formation in the set-up to the Administration as well as the Administration to the Legislature in the area of financial administration is secured.

Structure :

From January 26, 1950 (the date of commencement of the Constitution), India has been constituted into a Union of States. At present, the Union of India is made up of 25 States and 7 Union Territories as shown below :

<u>States</u>	<u>Union Territories</u>
Andhra Pradesh	Andaman and Nicobar Islands
Arunachal Pradesh	Dadra and Nagar Haveli

States

Assam  
 Bihar  
 Goa  
 Gujarat  
 Haryana  
 Himachal Pradesh  
 Jammu and Kashmir  
 Karnataka  
 Kerala  
 Madhya Pradesh  
 Maharashtra  
 Manipur  
 Meghalaya  
 Mizoram  
 Nagaland  
 Orissa  
 Punjab  
 Rajasthan  
 Sikkim  
 Tamil Nadu  
 Tripura  
 Uttar Pradesh  
 West Bengal

Union Territories

Delhi  
 Daman and Diu  
 Lakshadweep  
 Pondicherry

The executive power of the Union vests in the President of India. The executive power of a State vests in the Governor who is appointed by the President and holds his office at the pleasure of the President. The Governor exercises the authority vested upon him either directly or through officers subordinate to him. The Governor

has a Council of Ministers with Chief Minister at the head, to aid and advise him in the exercise of his functions except in so far as he is by or under the Constitution required to exercise his functions or any of them 'in his discretion'.<sup>1</sup>

Every Union Territory is administered by the President through an administrator appointed by him with designation as he may specify. However, the Union Territories of Daman and Diu, and Pondicherry, under the Government of Union Territories Act, 1963, have separate Legislatures. The Administrator of each of Union Territories has a Council of Ministers with Chief Minister at the head to aid and advise him in the exercise of his functions.

Article 246<sup>2</sup> of the Constitution of India governs the distribution of the Legislative Powers between the Union and the States.

At the outset, the control over finances of Government was confined to Ministry of Finance in the Centre and the Finance Department in the States. With the phenomenal growth and complexity in the activities of the Government, the financial powers were delegated to Administrative Ministries<sup>2A</sup> though the Ministry of Finance or Finance Department in a State continues to enjoy the overall responsibility of co-ordination and control of all departments. In order to streamline their functions in financial matters an Integrated Financial Adviser is attached

to each Ministry/Department. He advises both on internal and external financial issues. In respect of internal financial matters the financial adviser would be consulted in the exercise of powers delegated to the Ministries/Departments under the Delegation of Financial Power Rules, 1978. And in respect of the matters outside the competence of the Administrative Ministry/Department, he would act as an external financial adviser on behalf of the Ministry of Finance.

Each head of the department is responsible for the administration of his department and who, in this respect, is controlled and guided by the Administrative Ministry/Department. "In financial matters, each head of a department is thus responsible for the collection of revenue and for the control of expenditure pertaining to his department, the receipt and disbursement of which are effected at various places and through various persons." <sup>3</sup>

#### Finances :

From April 1, 1950, each State has a separate Consolidated Fund entitled the 'Consolidated Fund of the State', <sup>4</sup> into which all revenues received by the Government of the State, all loans raised by that Government by the issue of Treasury Bills, loans or ways and means advances and moneys received by that Government in repayment of loans are credited and from which the expenditure of the State, when authorised by the appropriate Legislature, is met.

Each such State has also a separate Public Account of the State which incorporates all other public moneys received by or on behalf of the state, and from this Account all the disbursements are made in accordance with the prescribed rules. The revenues received by the Government of India including those received by Union Territories having no separate Legislature, loans or ways or means advances and moneys received by that Government in repayment of loans are credited into a separate Consolidated Fund, entitled the 'Consolidated Fund of India' and from that Fund expenditure of the Government of India including such Union Territories are made when so authorised by the Parliament.

In the case of a Union Territory, with a separate Legislature having power to make laws, all revenues received in such Union Territory by the Government of India or the Administrator of that Union Territory and all grants made and all loans advanced to the Union Territory from the Consolidated Fund and all moneys received by the Union Territory in repayment of loans from one Consolidated Fund entitled the 'Consolidated Fund of the Union Territory.' Further, all other public moneys received by or on behalf of the Government of India including those received by the Union Territories are credited to the Public Account of India and disbursements therefrom are made only in accordance with the prescribed rules. No moneys out of the Consolidated Fund of India or the Consolidated Fund of a State or of a Union Territory can be appropriated except in accordance with law and for the purposes and in the manner provided in the Constitution or in the Government of Union

Territories Act, 1963.

Article 267 of the Constitution of India empowers the Parliament and the Legislature of State to create 'Contingency Fund of India' and 'Contingency Fund of State' whereas Section 48 of the Government of Union Territories Act empowers the Legislature of a Union Territory to create 'Contingency Fund of the Union Territory.' The Fund remains at the disposal of the President or the Governor or the Administrator of the Union Territory to enable advances to be made by him for meeting unforeseen expenditure pending authorisation of such expenditure by Parliament or the State or Union Territory Legislature under appropriations made by law. The law made by the appropriate Legislature regulates the procedure to be followed<sup>5</sup> for the custody of the payment of moneys into and the withdrawal of moneys from such fund and pending such authorisation by law the rules made by the President or the Governor or the Administrator govern such expenditure.<sup>6</sup> In any case such cash balances in the separate Consolidated Funds or Contingency Funds and Public Accounts of India and of States, save as may be specifically provided, are to be either held in a Government treasury or kept with the Bank.<sup>7</sup>

#### Allocation of Financial Resources :

Sources of revenue which have been allocated to the Union are not meant entirely for the benefit of the Union activities. In fact, the Union and the States together form one organic whole for the purposes of utilisation of

the resources of the territories of India as a whole.<sup>8</sup>

The sources of revenue and taxation of States or Union Territory with separate Legislature are to a large extent distinct from those of the Government of the Union. This has been done for the sake of convenience in order to avoid competitive exploitation of the same tax and duplication of tax administration.

The special arrangements made by the Constitution are as follows :

(i) Some duties are levied by the Union but collected and entirely appropriated by the States after collection. In respect of a Union Territory such taxes are collected by the Union Government.

(ii) There are certain taxes levied and collected by the Union (excepting the proceeds attributable to Union Territories), but the proceeds are then assigned by the Union to those States within which they have been levied.

(iii) Again, there are taxes which are both levied and collected by the Union (excepting those attributable to Union Territories) but the proceeds are distributed between the Union and the State.

The distribution of the tax-revenue between the Union and the States, according to the foregoing principles, are as follows :

- (1) Taxes which belong to the Union exclusively :
- (i) Customs, (ii) Corporation Tax, (iii) Taxes on capital

value of assets of individuals and Companies, (iv) Surchage on Income Tax, etc. (v) Fees in respect of matters in the Union List. [ List I - Union List - Seventh Schedule of the Constitution of India ].

(2) Taxes which belong to the States exclusively :

(i) Land Revenue, (ii) Stamp duty except in documents included in the Union List, (iii) Succession duty, Estate duty, and Income tax on agricultural land, (iv) Taxes on passengers and goods carried on inland waterways, (v) Taxes on lands and buildings, mineral rights (vi) Taxes on animals and boats, on road vehicles, ~~Taxes on animals and boats, on road vehicles,~~ on advertisements, on consumption of electricity, on luxuries and amusements including entertainments, betting and gambling, (vii) Taxes on entry of goods into local areas, (viii) Sales Tax, (ix) Tolls, (x) Fees in respect of matters incorporated in the State List, (xi) Taxes on professions, trades, etc. not exceeding Rs.250 per annum. [ List II - State List - Seventh Schedule of the Constitution of India ].

(3) Duties Levied by the Union Government but collected and appropriated by the States :

Stamps duties on bills of Exchange, etc., and Excise duties on medicinal and toilet preparations which contain alcohol, though they are incorporated in the Union List and levied by the Union, are to be collected by the States insofar as leviabale within their respective territories, and form part of the States by whom they are collected.<sup>9</sup>

(4) Taxes levied and collected by the Union, but assigned to the States within which they are leviable :

(i) Duties on succession to property other than agricultural land, (ii) Estate duty in respect of property other than agricultural land; (iii) Terminal taxes on goods or passengers carried by railway, sea or air; (iv) Taxes on railway fares and freights; (v) Taxes other than stamp duties on transactions in stock-exchanges and future markets; (vi) Taxes on the sale or purchase and advertisements in newspapers; (vii) Taxes on the sale or purchase of goods other than newspapers, where such sale or purchase takes place in the course of inter-state trade or commerce; (viii) Taxes on inter-state consignment of goods.<sup>10</sup>

(5) Taxes levied and collected by the Union and distributed between Union and the States :

There are certain taxes which are both levied and collected by the Union, but their proceeds are divided between the Union and the States in a certain proportion, in order to give effect to the principle of an equitable division of the financial resources as well as to fulfil a measure of inter-dependence between the nation and state Governments which becomes more pronounced in a developing economy.<sup>11</sup> They are :

(i) Taxes on income other than on agricultural income.<sup>12</sup> (ii) Duties of excise as are mentioned in the Union List, other than medicinal and toilet preparations, may also be distributed, if Parliament by law so provides.<sup>13</sup>

The principal sources of non-tax revenues of the Union are the receipts from :-

Railways; Posts and Telegraphs; Broadcasting T.V. telecasts; Opium; Currency and Mint; Industrial and Commercial Undertakings over which the Central Government has direct jurisdiction, viz., the Industrial Finance Corporation; the Air Corporations; and Industries in which the Union Government have made investments, such as the Sindri Fertilisers and Chemicals Ltd.; the Hindustan Shipyard Ltd.; the Indian Telephone Industries Ltd.

Similarly the States have their receipts from :-

Industrial Undertakings (such as Soap, Sandalwood, Iron and Steel in Mysore, Paper in Madhya Pradesh, Milk Supply in Bombay, Deep-sea Fishing and Silk in West Bengal), Irrigation and Commercial Enterprises (like Electricity, Road Transport) and Forests.

Provision also exists in the Constitution for grants-in-aid to the States, as Parliament may determine, to be in need of assistance for different purposes, such as, for the promotion of welfare of tribal areas, including special grants to Assam in this connection.<sup>14</sup>

#### State Power of Borrowing :

The Union Government can raise money by borrowing upon the security of the Consolidated Fund of India within India or outside within such limits, if any, from time to time be fixed by Parliament by law.<sup>15</sup> The borrowing power

of a State is, however, subject to a number of Constitutional limitations, e.g., in no case it can borrow outside India. A State may only borrow within the territory of India, upon the Security of the Consolidated Fund of the State within such limits, as may from time to time be fixed by law, by the Legislature of the State subject to the condition that the State may not without the consent of the Government of India raise any loan if there is still outstanding any part of loan made to the State by the Government of India in respect of which a guarantee has been given by the Government of India or by its predecessor Government. A State may also obtain loans from the Government of India subject to such conditions as may be laid down by or under any law made by Parliament.<sup>16</sup>

Treasuries : Each State is comprised of a number of districts and in each district headquarters there is a Government treasury, called the 'District Treasury' with one or more sub-treasuries. The treasuries situated in the State are called State treasuries, because they are under the control of the State Government, whereas the treasuries which are situated in the Union Territories are called Union treasuries. The treasuries are the units of fiscal system and they are the points at which the public accounts start. The Treasury maintains a check on monetary transactions of the Government departments because Treasury is the via-media through which only either money can be drawn or payments can be made by Government departments. When any department has to draw money against specific Government allotment for the purpose, then the said department is required to place with

the Treasury a receipted bill. Against this receipted bill the Treasury issues cheque in favour of the concerned department encashable at the bank if presented.

Subject to the provisions of the agreement made by the Central Government and each State Government (except Jammu and Kashmir and Sikkim) with the Reserve Bank of India as well as the provisions of the Reserve Bank of India Act, 1934 and such orders given to the Bank by the concerned Government from time to time, the treasury business of each of these Governments including the receipt, collection, payment and remittance of moneys on behalf of the Treasury is conducted by the Reserve Bank of India at every station where it has got a branch or by a branch of the State Bank of India as its agent. The operations of each State are confined to the branches of these two Banks which have been designated as falling within the area of that particular State.<sup>17</sup> This decentralisation of treasury work is the characteristic feature of the Indian financial system and marks the essential difference from the financial system existent in England. There are no outlying State treasuries in England like in India and every monetary transaction of the Government is centralised at Bank of England in London.<sup>18</sup>

The procedure to be followed for the custody of the payment of moneys into and the withdrawal of moneys from the Consolidated Fund, the Contingency and the Public Account as the case may be is regulated by law made by appropriate Legislature and pending such legislation by the rules made in this behalf by the President, or the Governor of the State, or the Administrator of the Union Territory.<sup>19</sup>

These rules are Central Government Accounts (Receipts and Payments) Rules, 1983, or State Treasury Rules as may be appropriate.

Inter-Government Transactions :

The Treasury Rules<sup>20</sup> of each of State Government provide that moneys may be received and payments may be made on behalf of the Union Government including Union Territory Governments and other State Governments by State Treasuries; but after the departmentalisation of accounts<sup>21</sup> of the Union Government in recent years only certain limited category of transactions relating to the Union Government are permitted to be routed through the State Treasuries, and such transactions are initially brought to account in the State Section of Account under "Suspense"<sup>22</sup> pending settlement by cheque or Demand draft with the Pay and Accounts Officer of the Ministry or Department concerned by the State Accountant-General. In respect of transactions occurring in a State treasury on account of other states, they are carried in the first instance against the balance of the State in which the treasury is situated, and the requisite money settlement is also<sup>23</sup> subsequently initiated by the Accountant General through the Central Accounts Section of the Reserve Bank, Nagpur.<sup>24</sup> Similarly, all State transactions in the Pay and Accounts Offices of Central Ministries or Departments are carried initially against the balances of the Union Government pending adjustment between the balances of the Governments concerned through cheque or Demand draft between the Pay and Accounts Offices and Accountant-General or through the medium of the Central Accounts Section of the Reserve Bank of

India depending upon the nature of the transactions.<sup>25</sup>

Initial Accounts : The initial accounts of receipts and payments on behalf of the State Governments are maintained and compiled at the State treasuries in the respective States and forwarded them to the Accountant-General concerned every month. However, certain larger departments like Public Works and Forests, whose Divisions have been vested with cheque drawing powers, maintain their own accounts themselves and into the treasuries they remit their receipts and surpluses periodically.<sup>26</sup> These Divisions render monthly to the respective Accountants-General compiled accounts of transactions incorporating therein the total amount of cheques drawn and money remitted into the Treasuries during the month in question under the relevant Remittance heads prescribed for the purpose. The Treasuries in their initial accounts for the month rendered to the Accountants-General incorporate the contra debits and credits on account of the cheque paid and moneys received by the Treasuries. The pairing off the credits and debits relating to cheques drawn and encashed and moneys remitted and brought to account by the treasuries are watched by the Accountant-General of the State-concerned. In the case of Central Government and Union Territory Government each office or branch of the Reserve Bank of India or other bank who handles their transactions maintains separate accounts in respect of each Ministry and Department and render an account of the transactions to the Pay and Accounts Officer concerned at such intervals as may be prescribed by the Governments, together with all the supporting challans, paid cheques.

The system is a bit different in respect of certain larger Departments, like Railways, Postal, Telecommunications and Defence. The transactions of these Departments arising at offices and branches <sup>of</sup> the Reserve Bank and State Bank of India, acting as the agent of the Reserve Bank are classified separately for each Railway, each Circle of Posts, each Accounts Officer of Telecommunications, and each Controller of Defence Accounts respectively so as to enable these transactions being taken against the Railway Fund, Postal Account, Telecommunications Account and Defence Account respectively, in the books of the Reserve Bank. Daily scrolls, together with the requisite challans and paid cheques relating to the transactions pertaining to each one are furnished to the Accounts Officer concerned of the Railways, Posts, Telecommunications and Defence Departments, as the case may be.

Classification of Accounts : "The accounts of the Union and of the States shall be kept in such 'form' as the President may on the advice of the Comptroller and Auditor-General of India prescribe."<sup>27</sup>

The word 'form' has a comprehensive meaning. It indicates not only the broad form in which the accounts are to be kept but also the basis for selecting appropriate heads under which the transactions are to be classified. Accordingly the Comptroller and Auditor General, after obtaining the approval of the President, determines the classification of any transaction or class of transactions in Government accounts. The estimates of receipts and

expenditure framed by the Government or in any order of Appropriation should indicate provisions, ordinarily against heads opened in conformity with the existing rules. Where there is divergence the corresponding receipt or expenditure shall be brought to account under the appropriate Major head or Minor head or other unit of classification as determined by the President on the advice of Comptroller and Auditor-General.<sup>28</sup>

It is a general rule that the classification of transactions in Government accounts must have closer reference to the function, programme and activity of the Government and the object of the revenue or expenditure, rather than the department in which the revenue or expenditure occurs. For instance, expenditure incurred on the construction of a Hospital by the Public Works Department is debited as expenditure under the major head "2210-Medical" or "4210-Capital Outlay on Medical" as the case may be, and not to the major Head for "Public Works." This principle is, however, subject to such exceptions as may be authorised specially in any individual case or class of cases, e.g., receipts representing "Interest" are shown under "0049-Interest Receipts" and Expenditure on the maintenance and Repairs of Non-Residential Buildings under the administrative control of the Public Works Department are shown under the Major Head "2059-Public Works" irrespective of the functions to which they relate.<sup>30</sup>

With effect from 1st January, 1982, and in case of Jammu and Kashmir, Maharashtra, Manipur and Sikkim from

15th January, 1982, State Governments have been entrusted with their consent<sup>31</sup>, the functions of the Central Government related to the opening of sub-heads and detailed heads of accounts under various Major and Minor Heads of Accounts in the State concerned, subject to the condition that orders issued by a State Government for opening of sub-heads and detailed heads are consistent with the directions issued by the Central Government from time to time.

Similar orders have been issued<sup>32</sup> to the Administrators of the Union Territories of Arunachal Pradesh,<sup>33</sup> Daman and Diu, and Pondicherry on 1st April, 1987 by the President but subject to the forms prescribed by the President under Article 150 of the Constitution of India.

#### Compilation of Accounts :

The initial accounts of Government transactions in India are supposed to be prepared by the authorities -concerned through whom the transactions occur, e.g., treasuries, the various departmental offices, pay and accounts organisations etc. From these initial account the Indian Audit and Accounts Department and the Central Accounting organisations of the Union Government compile, under different heads prescribed for Government accounts, and put forward, monthly as well as annually, the combined results of all transactions which occur during that period. From the accounts so compiled by the Indian Audit and Accounts Department and other agencies, the Comptroller and Auditor General prepares

the Combined Finance and Revenue Accounts of the Union and the State Governments. Into these accounts incorporated the results of the total Government transactions arising both in and outside India.

In fact, the accounts are built-up from below. Each of the numerous district treasuries and sub-treasuries contribute their quota; and these together with the detailed accounts of their treasury transactions prepared by the departmental offices, processed monthly to the various account centres, whence, after certain processes, they merge in large streams and ultimately converge and concentrate in the office of the Comptroller and Auditor General of India, where they are combined into one consolidated account for the whole country.

Ways and Means :

This refers to methods of maintaining the Government's daily cash balance at a level sufficient to meet its day to day requirements. Into these cash balances incorporated not only the multifarious sums due to and by Government which are generally known as revenue and expenditure, but also the very large amounts borrowed by Government for capital expenditure and also other amounts in regard to which Government acts as a banker or remitter, or borrower or lender, such as deposits of all kinds, money order and loan receipts and issues, advances,

remittances etc., which are grouped in the accounts under the 'Debt' Deposit and Remittances Sections.<sup>34</sup> All amounts falling under these headings affect the Government cash balance. The Reserve Bank acts as the Banker to the Central and State Governments (except Jammu and Kashmir and Sikkim). According to the provisions of the agreement with the Reserve Bank, the Governments are required to maintain a minimum balance with the Bank. Therefore, a constant watch is kept on Government's cash balance so that it does not fall below the prescribed minimum at any stage. For this purpose, it becomes essential that a watch is kept over the progress of receipts and expenditure as well as an effective control is maintained over expenditure.

Despite the checks imposed, it is generally observed that the current receipts of Governments fall short of the current expenditure during the earlier part of the financial year. And sometimes it so happens that exceptionally heavy payments in excess of cash balance are also required to be made. In such cases, the Union Government borrows from the Reserve Bank against issue of Treasury Bills, whenever necessary, for replenishing its cash balance. In cases of the State Governments they obtain Ways and Means advances from the Reserve Bank which are repayable within a period not exceeding three months or special 'Ways and Means' advances. But every request to the Bank must be accompanied by a demand promisory note for the amount on behalf of the Governor. At the same time, the particulars of the advance, that is the amount and the interest payable thereon, has to be communicated by the Government to the Accountant-General.<sup>35</sup>

After repayment, the Bank cancels the promissory note for the advance repaid or makes a note on it if it is a part payment. The note on final cancellation is returned to the Government through the Accountant-General.<sup>36</sup>

In addition to this the Central Government also assists a State Government by phased releases of statutory grants, shares of divisible taxes and duties and Plan assistance to them. In case if these arrangements prove insufficient to make up for the deficit, then the State Governments may approach the Central Government for temporary accommodation.

#### Resource Operations :

The cash balance of a Government is comprised of the balance in its account with the Reserve Bank of India and the balances at treasuries and sub-treasuries; the cash business of which is not conducted by the Bank. It is seen that some treasuries collect more receipts than they require for payments and others less; therefore an arrangement becomes imperative that all the treasuries have at all times enough funds to meet the demands on them.<sup>37</sup> This process of distribution of funds for the purpose in question is referred to as Resource Operations. The control of the Resource Operations of the Government of India and of States, is vested in the Reserve Bank. This work is conducted under the control of the Bank by a number of currency officers each of whom is in charge of an Issue Department of the Bank and is responsible for the work of one or more states within his jurisdiction.

The need to enable the Bank to meet the disbursements which the bank has to make on its account at its various branches, a responsibility falls on each Government to keep a sufficient sum in its account at the Reserve Bank. At places where there is no branch or agency of the Bank, Government has to hold the Treasury Officer of the concerned treasury responsible for keeping sufficient funds in order to meet all Government disbursements and for maintaining the balances as low as possible so that money may not be locked up unnecessarily.

Annual Financial Statement : Every year, each Government presents to its Legislature a statement of its estimated expenditure called 'annual financial statement' which is commonly known as "the Budget." This statement incorporates the sums required to meet expenditure charged upon the Consolidated Fund of India or the Consolidated Fund of the State or the Consolidated Fund of the Union Territory and the sums required to meet other expenditure proposed to be met from the Fund are shown separately, the expenditure on revenue amounts being distinguished from other expenditure.<sup>38</sup> The Budget shows receipts and payments of the Government under three heads :

(a) Consolidated Fund; (b) Contingency Fund; and (c) Public Account.

The Budget comprises : (i) Revenue Budget; and (ii) Capital Budget.

At present, the budget at the Centre and in the

States radically differs from the traditional 'line item budget', which highlighted only the objects of expenditure. This new system of budget is called performance-oriented budget, which presents "government operations in terms of functions, programmes, activities and projects."<sup>39</sup> Performance Budgeting system has been introduced with a view to have a meaningful reflection of the national development effort and also to evaluate the progress of projects against set targets as well as to serve as a tool for securing the efficient management of operations entrusted to the Administration. The individual items incorporated in the budget are shown in financial terms as well as in physical terms in order to establish a proper relationship between inputs and outputs. This enables a proper assessment of the performance in relation to costs.

So much of the estimate as relates to expenditure charged upon Consolidated Fund of India/the Consolidated Fund of a State is not submitted to the vote of Legislature/ to the vote of the Legislative Assembly, though it is open to discussion of the members in the Legislature/the Legislative Assembly.<sup>40</sup> So much of the estimate as relates to other expenditure is submitted to the Legislature concerned in the form of Demands for Grants on the recommendation of the President or the Governor of the State or the Administrator of the Union Territories with Legislature, as the case may be.<sup>41</sup>

After the Demands for Grants have been Voted and the total expenditure involved comes into the picture, then

only the Finance Bill containing the annual taxation proposals is considered and passed by the Legislatures. Then it enters the Statute as Finance Act.

Appropriation Act :

As soon as the demands for grants have been voted by the Legislature, a bill is introduced to provide for the appropriation out of the Consolidated Fund of India or of the State or of the Union Territory with Legislature for all moneys required to meet -

(a) the grants so made by the Legislature; and  
(b) the expenditure charged on the Consolidated Fund, but not exceeding in any case the amount shown in statement previously laid before the Legislature.

Before this bill is passed by the Legislature, no money can be withdrawn from the Consolidated Fund. The bill so passed becomes the Appropriation Act.<sup>42</sup>

It is intended through the sums authorised in the Appropriation Act to cover all charges including the liability of past years, to be paid during a financial year or to be adjusted in the accounts of that year. The balance of fund which remains unutilised till the closure of the the financial year automatically lapses and does not remain available for utilisation in the following financial year.

For the purposes of financial control each Grant or Appropriation is divided into a number of units called

subordinate heads or sub-heads and, if required, into further smaller units called 'Detailed Heads.' All allotments and re-appropriations within sub-heads and sub-divisions of sub-heads within the amount of each Grant or Appropriation may be sanctioned by the Government or by such subordinate authorities as are duly authorised to do so, but any expenditure not falling within the scope or intention of a Grant may not be authorised from funds provided under that Grant. Reappropriations from one Grant or Appropriation to another Grant or Appropriation are not permissible. Even any allotment or Appropriation after the expiry of the financial year, to which such Grant or Appropriation is related, is also not permissible. In fact, in States the Accountant-General is ultimately responsible for the control of expenditure against the grant or appropriation.<sup>43</sup>

#### Audit :

The Comptroller and Auditor General of India is in charge of the audit and accounts not only of the Union but also of the States.<sup>44</sup> State Accountant General,<sup>45</sup> who keeps accounts of State, in fact, is subordinate to the Comptroller and Auditor General of India. The audit of the Comptroller and Auditor-General is comprehensive and includes :

(a) Regularity Audit; (b) Propriety Audit; and

(c) Efficiency-cum-Performance Audit. The Comptroller and Auditor-General of India is required to uphold the Constitution of India and the laws made thereunder.<sup>46</sup> His audit functions are summarised as follows :

(a) He audits all receipts which are payable in the Consolidated Fund of India and of each State and each Union Territory having a Legislative Assembly and satisfies himself that the rules and procedures in that behalf are designated to secure an effective check on the assessment, collection and proper allocation of revenue and are being duly observed and makes for this purpose such examination of the accounts as he thinks fit. (b) He audits all expenditure from the Consolidated Fund of India and of each State and of each Union Territory having a Legislative Assembly and ascertains whether the money shown in the Accounts as having been disbursed were legally available for and applicable to the service or purpose to which they have been applied or charged and whether the expenditure conforms to the authority that governs it. (c) He audits all transactions of the Union and of the States relating to the Contingency Funds and Public Accounts. (d) He audits all trading, manufacturing, profit and loss accounts and balance sheets and other subsidiary accounts kept in any department of the Union or of a State. (e) He audits the accounts of stores and stock kept in any Office or department of the Union or of a State and in each case reports on the expenditure, transactions or accounts so audited by him.<sup>47</sup>

The Comptroller and Auditor-General examines the propriety of executive actions<sup>48</sup> and looks beyond formality of expenditure to its wisdom, faithfulness and economy and brings to the notice of the Legislature cases of waste, loss, extravagant or nugatory expenditure and he is thus empowered

to challenge any improper exercise of discretion and comment on the propriety of expenditure attempted in the audit of development schemes.

In recent years, the pattern of Governmental expenditure, its nature and dimensions underwent radical transformation in the wake of increasing Governmental outlays in developmental activities. Therefore, the concept of efficiency-cum-performance audit has been developed to meet the changing requirements. Today, Audit examines how far the agency assigned with the task of executing various schemes, is competently discharging its financial responsibility in regard to the said schemes and tries to ascertain whether the schemes are being executed and their operations conducted economically and efficiently and whether they are yielding results expected of them.

#### Audit of Public Debt :

With regard to borrowings it is the duty of Audit to see that the proceeds of loans are properly brought to account and that they are expended only on objects for which the loans were originally raised and have been properly applied in accordance with the sound principles of public finance. Audit also has to see that adequate arrangements are made by Government for amortisation of debt especially when borrowed moneys are utilised on objects or works which cannot be regarded as productive and should bring to the notice of the Government if there are instances in which amortisation has been ignored or appears to be prima facie inadequate.

The results of all these audits are incorporated in the Audit Reports by the Comptroller and Auditor-General for submission to the President or the Governor of the State or the Administrator of the Union Territory, as the case may be, for presentation to the concerned Legislature. These Audit Reports point out cases of significant variations from the funds voted by the Legislature and other irregularities. In fact, they form the instruments through which the second stage of Parliamentary control, viz., control over implementation of policies, is exercised.

After the Audit Reports, Finance Accounts and Appropriation Accounts are placed before the Legislature, they are examined by the Public Accounts Committee consisting of members of the Parliament/the State Legislature. Another Financial Committee called the Committee on Public Undertakings examines the reports and accounts of the Public Sector Undertakings and also the Reports of the Comptroller and Auditor-General on Public Undertakings.

The accounts of the Union and the States should be kept in such form as the President of India prescribes after obtaining the advice of the Comptroller and Auditor General of India.<sup>49</sup> Accordingly the Comptroller and Auditor General is also required to obtain the approval of the President before determining the classification of any transaction or class of transactions in Government accounts. The Accountant General of each State is simply an Accounts Officer subordinate to the Comptroller and Auditor General of India.<sup>50</sup>

The Comptroller and Auditor General of India derives his powers and duties in relation to the accounts of the Union and of the States, as is obvious, from Articles 149 and 150 of the Constitution of India. The duties and powers of the Auditor General of India vis-a-vis the accounts of the Dominion of India and of the Provinces prior to the commencement of the Constitution of independent India have been prescribed in the Audit and Accounts Order, 1936 as adapted by the India (Provisional Constitution) Order, 1947, and in the Initial and Subsidiary Accounts Rules made by the Governor General under sub-paragraph (3) of the paragraph (11) of the former order. By virtue of the stipulations laid down under Article 149 of the Constitution, the relevant conditions of the former Order, and Initial and Subsidiary Accounts Rules, continue to remain in force and regulate the duties and powers of the Comptroller and Auditor General in relation to the accounts of the Union and of the States until an Act to this effect is passed by Parliament under that Article.<sup>51</sup>

It appears that the Comptroller and Auditor General of India is in charge of the audit and accounts not only of the Union but also of the States. From Article 150 of the Constitution it transpires that the centralised and combined system that existed prior to the Constitution has been perpetuated notwithstanding the change in the set-up. Besides, there is no provision in the Constitution corresponding to Section 167 of the Government of India Act, 1935, under which a Provincial Legislature had the power to create the office of an Auditor-General for that Province.

Therefore, under the present Constitution of India there is no scope whatsoever for the appointment of a Provincial Auditor-General. The keeping of the accounts of the States and the audit thereof is performed by the staff of the Comptroller and Auditor-General of India at present in each State by the State's Accountant General, who in fact, is an assistant to the Comptroller and Auditor-General. The advantages of this centralised system are uniformity and ~~also~~ economy.

Notes and References :

- 1 Article 163(1) of the Constitution of India.
- 2 Article 246. Subject-matter of laws made by Parliament and by the Legislatures of States -
  - (1) Notwithstanding anything in clauses (2) and (3), Parliament has exclusive power to make laws with respect to any of the matters enumerated in List I in the Seventh Schedule (in this Constitution referred to as the "Union List")
  - (2) Notwithstanding anything in Clause(3), Parliament, and, subject to clause (1), the Legislature of any State also, have power to make laws with respect to any of the matters enumerated in List III in the Seventh Schedule (in this Constitution referred to as the "Concurrent List").
  - (3) Subject to clauses (1) and (2), the Legislature of any State has exclusive power to make laws for such State or any part thereof with respect to any of the matters enumerated in List II in the Seventh Schedule (in this Constitution referred to as the "State List").
  - (4) Parliament has power to make laws with respect to any matters for any part of the territory of India not included in a State notwithstanding that such is a matter enumerated in the State List.
- 2A This was done in the year 1962 by vide Memorandum No.F. 10(4)-E (Coord)/62 dated 1st June, 1962 of the Ministry of Finance (Department of Expenditure), Govt.of India.
- 3 Para 70 of the Introduction to the Indian Government Accounts and Audit, Third Edition, 1963.
- 4 Article 266 of the Constitution.
- 5 Articles 115, 116, 205 and 206 of the Constitution of India.
- 6 Article 7-A, Account Code Vol.I, Govt.of India, 1972.

- 7 Article 8 *ibid.*, Vol.I, 1972
- 8 Cdfee Board vs. C.T.O., A.I.R.1971 Supreme Court, 870.
- 9 Article 268 of the Constitution.
- 10 Article 269 of the Constitution.
- 11 Report of the Third Finance Commission, 1961, p.16.
- 12 Article 270 of the Constitution.
- 13 Article 272 of the Constitution.
- 14 Article 275 of the Constitution.
- 15 Article 292 of the Constitution.
- 16 Article 293 of the Constitution.
- 17 Article 9 of the Govt.of India Account Code, Vol.I, 1972.
- 18 The Governments of Jammu and Kashmir and Sikkim are yet to enter into agreement with the Reserve Bank of India for the conduct of their treasury business by the Bank.
- 19 Article 7-A of the Government of India Account Code, Vol.I, 1972.
- 20 Issued under Article 283(2) of the Constitution of India.
- 21 From April 1, 1976, the Scheme of departmentalisation of accounts of the Union Government has been brought about in a phased manner. This departmentalisation of accounts aimed at two changes :  
(a) abolition of media of Exchange Accounts;  
(b) replacement of the system of settlement account by settlement through cheque/drafts in the cases of inter-Government transactions.
- 22 Suspense Account itself means : items of receipts and payments which cannot at once be taken to a final head of receipt or charge owing to lack of information as to their nature or for any other reasons. This particular head of account is known as : '858-Suspense Account.'

- 23 This initially is brought to account in the State Section of Account under the head : "893-Inter-State Suspense."
- 24 Articles 5.1, 5.2, and 5.3 of the Account Code for Accountants General issued by the Ministry of Finance, Govt. of India(1984).
- 25 In fact, at present the Central Accounts Section of the Reserve Bank of India acts as the medium only for grant of Loans and Grants to the States by the Centre and its repayments thereof. Other payments are ordinarily settled by cheque or draft.
- 26 Article 39 of Account Code, Vol.III issued by the Comptroller and Auditor General of India, 1971.
- 27 Article 150 of the Constitution of India.
- 28 Article 29 of the Account Code Vol.I, <sup>1972.</sup> At present there exists a five-tier arrangement of the classification structure of Government Accounts, viz. - (a) the Sectors; (b) Major Heads; (c) Minor Heads; (d) Sub-Heads; and (e) Detailed Heads.
- 30 Article 30 of the Account Code, Vol.I, *Govt. of India, 1972.*
- 31 Article 258(1) of the Constitution.
- 32 Under Article 239(1) of the Constitution.
- 33 Arunachal Pradesh became a full fledged state of the Union in December, 1986.
- 34 Para 91, An Introduction to Indian Govt. Accounts and Audit (1963).
- 35 Subsidiary Rule 388 of the West Bengal Treasury Rules, 1978.
- 36 Subsidiary Rule 389 of West Bengal Treasury Rules, 1978.
- 37 Para 92 of 'Introduction to Indian Government Accounts and Audit (1963).
- 38 Articles 112 and 202 of the Constitution of India and Section 27 of the Govt. of Union Territories Act, 1963.
- 39 "Administrative Reforms Commission : Report on finance accounts audit 1968", pp.7-8.

- 40 Articles 113(1) and 203(1) of the Constitution of India.
- 41 Articles 113(2) and 203(2) of the Constitution of India and Section 28 of the Govt. of Union Territories Act, 1963.
- 42 Articles 114 and 204 of the Constitution and Section 29 of the Government of Union Territories Act, 1963.
- 43 Para 56 of the 'Hand Book for use by Drawing and Disbursing Officer' issued by Director of Treasuries and Accounts, West Bengal (1987).
- 44 Article 150 of the Constitution of India.
- 45 "Accountant-General" means the head of the office of audit and accounts, subordinate to the Auditor-General of India, who keeps the accounts of the State and exercises audit functions in relation to these accounts on behalf of the Auditor-General of India.
- 46 Article 71 of "Audit Code" issued by the Comptroller and Auditor-General of India (1950).
- 47 Sections 13, 16 and 17 of the "Comptroller and Auditor-General's [Duties, Powers and Conditions of Service] Act, 1971."
- 48 Article 48 of "Audit Code" issued by Comptroller and Auditor-General of India (1950).
- 49 Article 150 of the Constitution of India.
- 50 Para 1.1 of the Account Code for Accountants General, Ministry of Finance, Govt. of India, 1984.
- 51 Appropriate extracts of the Audit and Accounts Order, 1936, as adapted, defining the powers and duties of the Comptroller and Auditor General in relation to accounts are noted thus. In applying them under the Constitution references to the Auditor General, Dominion, Province, Governor General and "the Act" should be deemed to refer to the Comptroller and

Auditor General, Union (Central Government),  
State, President, and "the Constitution"  
Respectively :

- 11(1) Subject to the provisions of this paragraph, the Auditor General shall be responsible for the keeping of the accounts of the Dominion and of each Province other than accounts of the Dominion relating to Defence or Railways and accounts relating to transactions in the United Kingdom.
- (2) As respects accounts of the Dominion, the Governor General, and as respects accounts of a Province, the Governor, may after consultation with the Auditor General, make provision by rules for relieving the Auditor General from responsibility for the keeping of the accounts of any particular service or department.
- (3) The Governor General may after consultation with the Auditor General make provisions by rules relieving the Auditor General from responsibility for keeping accounts of any particular class or character.
- (4) The Auditor General shall, from the accounts kept by him and by the other persons responsible for keeping public accounts, prepare in each year accounts (including in the case of accounts kept by him, appropriation accounts) showing the annual receipts and disbursements for the purposes of the Dominion and each Province, distinguished under the respective heads thereof, and shall submit these accounts to the Dominion Government or as the case may be, to the Government of the Province on such dates as he may, with the concurrence of the Government concerned, determine.
- (5) Notwithstanding anything in this paragraph, the Auditor General shall comply with any general or

special orders of the Governor General or, as the case may be, Governor as to the head of account under which any specified transactions or transaction of any specified class is, or are, to be included.

In issuing any such order as aforesaid the Governor General or Governor shall consult the Auditor General.

12. It shall be the duty of the Auditor General to prepare annually, in such form as he with the concurrence of the Governor General may determine, and to submit to the Governor General a General Financial Statement incorporating a summary of the accounts of the Dominion and of all the Provinces for the last preceding year and particulars of their balances and outstanding liabilities, and containing such other information as to their financial position as the Governor-General may direct to be included in the statement.

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15. It shall be the duty of the Auditor General, so far as the accounts for the keeping of which he is responsible enable him so to do, to give to the Dominion Government and to the Government of every Province such information as they may from time to time require and such assistance in the preparation of their annual financial statements as they may reasonably ask for.

16. The Dominion and every Province shall -

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(ii) give to him such information as he may require for the preparation of any account or report which it is his duty to prepare.

17. The Auditor General shall have authority to inspect any office of accounts which is under the control of

the Dominion or of a Province, including treasuries and such offices responsible for the keeping of initial or subsidiary accounts as submit accounts to him.

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19. Anything which under this order is directed to be done by the Auditor General may be done by an officer of his department authorised by him, either generally or specially. Provided that except during the absence of the Auditor General on leave or otherwise an officer shall not be authorised to submit on his behalf any report which the Auditor General is required by the Act [the 'Act' implies here the Government of India Act, 1935, as adapted by the India (Provisional Constitution) Order, 1947] to submit to the Governor-General or the Governor of a Province.

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