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Phases of Budgetary Cycle in India

*M. M. Sury**

ABSTRACT

As in the case of other democratic societies, government budgeting is a constitutional obligation in India. Given the huge size and federal structure of Indian economy, budgeting is a complex task which involves considerable efforts on the part of the Ministry of Finance and other related Ministries and Departments. With the help of their financial advisers, individual Ministries/Departments formulate their spending plans on the basis of their previous year spending and the new schemes and projects which they intend to take up. This paper outlines the phases of budgetary cycle in India focusing largely on preparation of the budget, legalisation of the budget, execution of the budget and auditing of accounts.

***Keywords**: Budget; Ministry of finance; Grants; Expenditure; Revenue.*

1.0 Introduction

The Government of India was also responsible for the financial administration of Provincial Governments till the introduction of Provincial Autonomy in 1937 when popularly elected Provincial governments responsible to legislatures were established. From 1921 onwards, the Central Legislative Assembly, with a non-official majority, was for the first time given the right to discuss and pass the Annual Budget of the Government of India in respect of *non-reserved* subjects, as also to pass the Finance Bill containing taxation proposals. A committee on Public Accounts, with 8 non-official members of the Central Legislative Assembly and 4 official members (including the Finance Member as chairman) was also constituted to receive and examine Annual Reports of the Auditor-General.

The system of financial control in accordance with the rules and orders in force prior to Independence was continued after August 15, 1947, pending the framing of the new constitution of India.

**Formerly Economic Advisor, Delhi State Finance Commission, Formerly Reader, University of Delhi, Delhi, India. (Email: mmsury43@gmail.com)*

When the new constitution was promulgated on January 26, 1950, the then prevailing system of financial control was permitted to continue, with necessary changes.

In the Constitution of India, procedures in respect of financial matters of the Central Government are regulated by Articles 112 to 117.

As in other democratic societies, government budgeting is a constitutional obligation in India. The budgetary process in India involves the following four operations:

- Preparation of the budget.
- Legalisation of the budget.
- Execution of the budget.
- Auditing of accounts.

2.0 Preparation of the Budget

Preparation of the budget involves considerable efforts on the part of the Ministry of Finance, other Ministries/ Departments and the Planning Commission. It is sometime in the month of September every year that the Budget Division of the Department of Economic Affairs of the Ministry of Finance sends a circular to various Ministries/ Departments, requesting them to prepare estimates of expenditure to be incurred by them in the following year. Specific information is sought on the following matters:

- Actuals of the previous year.
- Sanctioned budget estimates for the current year.
- Revised estimates for the current year.
- Proposed estimates for the next financial year with explanation for any increase or decrease in estimates.

With the help of their financial advisers, individual Ministries/Departments formulate their spending plans on the basis of their previous year spending and the new schemes and projects which they intend to take up. These estimates of expenditure are furnished to the Ministry of Finance during December/January for screening and integration into the main budget.

The Ministry of Finance, after having scrutinised the estimates, embarks upon the process of compilation and co-ordination of estimates of expenditure of different Ministries/Departments. It may prune excessive demands because there are limits to financial resources available to the Government. It also ensures that the estimates conform to the various economy instructions issued from time to time. Before the expenditure estimates are finalised, discussions take place between the Secretary (Expenditure), Ministry of Finance, and the financial advisers of the Ministries/Departments concerned. However, the Ministry of Finance has the final say in regard to all estimates.

Estimates of revenue are prepared by the Department of Revenue, Ministry of Finance. The Department remains equipped with records of yields of various taxes for previous years and on that basis it prepares estimates for the ensuing year. It also undertakes quick estimates of non-tax revenue and non-RBI (Reserve Bank of India) funded borrowings including external aid. A view is then taken on the likely total resources including additional resource mobilisation and RBI credit to the Government. The RBI credit to the Government has to be consistent with the current state of the economy and fiscal consolidation policy (i.e. restraint on both fiscal deficit and monetised deficit). Based on these projections of resources and the non-Plan expenditure commitments, an idea of likely availability of budgetary resources for financing the Plan is conveyed to the Planning Commission.

The Plan expenditure of the Centre comprises (a) Central assistance for the Plans of the States and Union Territories and (b) budget support for Central Plan and Centrally sponsored Plan schemes. The Central Plan sector includes activities of national and strategic importance such as steel, cement, coal, petrochemicals, railways, ports, airways and telecommunications

Estimates of Plan outlay are scrutinised by the Planning Commission. It commences discussion on the Annual Plan with the State Governments and Central Ministries/Departments in November/December regarding availability of resources—States' own resources and the Central assistance that can be made available. An attempt is made to match the needs of various projects and schemes to available resources and fix the size of the annual Plans of each of the States. Similarly, discussions are held with each of the Central Ministries on the fund requirements of various programmes.

After the discussions are completed, a tally is made of the total budgetary support required. Generally, the support required is in excess of the total fund availability as intimated by the Ministry of Finance. Meetings are then held between the Ministry of Finance and the Planning Commission to explore the extent to which resources can be improved and/or the fund requirements can be reduced. Finally, an agreement is reached regarding the approved size of the Plan for the year.

During this period, the Finance Minister remains in close touch with the secretaries of revenue, expenditure, and economic affairs in the Ministry of Finance. The budget proposals prepared by the Ministry are examined by the Finance Minister and he may make changes in them in consultation with the Prime Minister.

Budget-making in India is a highly secretive exercise. The team of officials working on the budget go almost underground for weeks preceding the presentation of the budget to the Parliament. In line with the British tradition of parliamentary privilege, details of the budget proposals must be kept secret before they are made known to the legislators. Changes in rates of taxes and duties constitute the most sensitive part of the budgetary proposals. Any leakages of these proposals can have unsettling effect on the product as well as the capital market. Hoarders and speculators swing into action on hearing rumours of duty cuts or hikes. To prevent such eventualities, elaborate security arrangements are made which, *inter alia*, include transportation of budget documents to Parliament in heavily guarded vehicles.

On the budget day (generally the last working day of February), the Finance Minister calls on the President to apprise him of the budget proposals. Similarly, the Finance Minister briefs the Cabinet about the budget shortly before it is presented to Parliament.

3.0 Legalisation of the Budget

Once the budget is prepared, it has to pass through the following review and approval stages in the Parliament.

- Presentation of the budget by the Finance Minister in both the Houses of Parliament.
- General discussion on revenue and expenditure proposals.
- Presentation, discussion and voting on demands for grants.
- Voting and passing of the Appropriation Bill.
- Passing of the Finance Bill.

3.1 Presentation of the budget

The procedure for presentation of the budget in and its passing by the Lok Sabha is as laid down in Articles 112-117 of the Constitution. The budgets of the Union Territories and States under President's rule are also presented to the Lok Sabha.

The budget is presented in the Lower House, viz. Lok Sabha (House of the People) on such a day as the President may direct. Simultaneously, a copy of the budget is laid on the table of the Upper House, viz. Rajya Sabha (House of the States). The long-standing tradition of British Raj of presenting the budget at 5.00 P.M. was discarded in 1999. It is now presented in the morning at around 11.00 A.M.

By convention, the budget was presented on the last working day of the month of February each year till 2016-17. However, beginning 2017-18, the presentation of the

Budget has been advanced to February 1, to enable the Parliament to avoid a Vote on Account and pass a single Appropriation Bill, before the close of the current financial year. Similarly, the colonial practice of presenting Railways Budget separately, prevalent since 1924, has been discontinued. Beginning 2017-18, Railways Budget has been merged with the General Budget1.

The proceedings of the day start and end with the budget speech of the Finance Minister. Conventionally, the Finance Minister will start with a review of the economic situation in the current year. He will inform the House about the Economic Survey (generally laid on the table of the House a couple of days before the presentation of the budget). However, he will highlight the major points of the Economic Survey or other economic developments such as agricultural production; price situation, balance of payments situation or any other international development (say oil crisis) which has bearing on the Indian economy. In a way he prepares the background for his budget proposals.

He then outlines the economic policy of the government in the ensuing year. What will be emphasized (infrastructure, agriculture, power etc.), what new schemes will be launched for various sections of society (generally for rural areas and poor people). In short, the presentation of the budget offers an opportunity to the Government to review and explain its financial and economic policies and programmes to the Legislature.

Then he presents the revised estimates for the current year and reasons for changes in receipts/expenditure, if any. Then he presents the budget estimates for the ensuing year. Generally, estimated expenditure is more than estimated receipts, leaving a deficit (or gap) in budget.

Then he proposes measures for Additional Resource Mobilisation (ARM). This may include new taxes or enhancement of rates on existing taxes. He also proposes tax concession wherever required.

He then summarises the net effect of his tax proposals. By ARM he reduces the gap between expenditure and receipts. Some gap still remains (deficit financing) which he considers reasonable and believes will not have undue adverse effect on price level.

The budget papers are made available to members after the Finance Minister's speech is over, the Finance Bill has been introduced, and the House has adjourned for the day. No discussion on the budget takes place on the day it is presented to the House.

3.2 General discussion

The Government has to approach the Parliament for approval of its plans to collect, keep and spend money. The budget presented to the House by the Finance

Minister is discussed in two stages: the general discussion followed by a detailed discussion, and voting on the demands for grants.

The general discussion, in both the Houses of Parliament, relates to budget as a whole (or any question of principle involved therein), a review and criticism of the administration but no motion is moved at this stage nor is the budget submitted to vote. The scope of discussion is confined to an examination of the general scheme and structure of the budget, items of expenditure and tax policy as expressed in the budget and in the speech of the Finance Minister. The Finance Minister has the general right to reply at the end of the discussion. The Rajya Sabha has no further business with the budget beyond the above general discussion.

Presentation of the budget in itself does not authorise the Government to collect taxes/additional taxes or incur expenditure. For giving effect to tax proposals contained in the budget, a bill called Finance Bill [explained below in section 2.5.2 (E)] is introduced in the Parliament immediately after the budget speech of the Finance Minister.

3.3 Demands for grants

Article 113 provides that expenditure charged upon the Consolidated Fund of India shall not be submitted to the vote of Parliament, but there is no objection to discussion thereon in either House of Parliament. The voted portion of the estimates of expenditure shall be submitted in the form of demands for grants to the Lok Sabha, who shall have power to assent, or to refuse to assent, to any demand or to assent to any demand subject to a reduction of the amount specified therein.

Further, according to Article 113 the financial initiative is the executive's privilege. The Article reads, 'no demand for a grant shall be made except on the recommendation of the President'. The implication is that only the Government can present a demand for grant and not the private members. The purpose of this restriction is obvious because the balancing of revenue and expenditure is the job of the executive and if private members were to propose fresh items of expenditure and the Parliament were to approve of them, the Government finances will fall into disarray. Thus, limiting financial initiative to the Government protects taxpayers against improper appropriation of public funds. It is noteworthy that when a demand for a grant is presented, the Parliament can object to it, refuse it, reduce it but cannot increase it.

The estimates of expenditure for various Departments which need to be voted by the Parliament are submitted in the form of demands for grants. In case a Ministry/Department is in-charge of a number of distinct services, a separate demand for each of the major services is presented. Each demand for grant shows the total amount required for a service during the year showing revenue and capital expenditure separately. Furthermore, they are presented for gross amounts of expenditure. The demands for grants are presented to the Lok Sabha along with the budget statement. They are generally not moved in the House by the Minister concerned. The demands are assumed to have been moved and are proposed from the Chair to save the time of the House.

The detailed demands for Grants are laid by the respective Ministries/ Departments on the table of the Lok Sabha sometime after the presentation of the Budget, but before the discussion on Demands for Grants commences. Detailed Demands for Grants further elaborate the provisions included in the Demands for Grants as also the actual expenditure during the previous year. A break-up of the estimates relating to each programme/organization is given under a number of object heads which indicate the categories and nature of expenditure incurred on that programme, such as salaries, wages, travel expenses, machinery and equipment, grants-in-aid, etc. At the end of these Detailed Demands are shown the details of recoveries taken in reduction of expenditure in the accounts.

3.3.1 Charged and voted expenditures

Under Article 112 (2), estimates of expenditure contained in the budget show separately (i) the sums required to meet expenditure described by the Constitution as expenditure charged upon the Consolidated Fund of India and (ii) the sums required to meet other expenditure proposed to be made from the Consolidated Fund. The estimates of expenditure charged upon the Consolidated Fund are not submitted to the vote of Parliament (non-votable expenditure) but each House is competent to discuss any of these estimates. The estimates relating to other expenditure are submitted in the form of demands for grants to the Lok Sabha, and it has the power to accept, or reject any such demand, or to accept any such demand subject to a reduction of the amount specified therein.

Thus, the demands for grants indicate separately the charged and voted items of expenditure. Though normally the Government cannot spend any money without the authorisation of the Parliament, certain items of expenditure have been allowed to be incurred even without the Parliament's vote. Such items are called charged items. These are indispensable items of expenditure. Lest they should be subjected to changing political fortunes, they have been placed beyond the vote of the Parliament. If Parliament does not vote an item of expenditure, the Government falls immediately. But the President has to carry on, the Supreme Court has to function and liabilities of the Government have to be cleared.

Under Article 112 (3) of the Constitution, the following expenditure is charged on the Consolidated Fund: (a) emoluments and allowances of the President and other expenditure relating to his office, (b) the salaries and allowances of the Chairman and the Deputy Chairman of the Council of States (Rajya Sabha), and the Speaker and the Deputy Speaker of the House of People (Lok Sabha), (c) debt charges for which the Government of India is liable, (d) (i) salaries, allowances and pensions payable to or in respect of judges of the Supreme Court, (ii) the pensions payable to or in respect of judges of the Federal Court, (iii) the pensions payable to or in respect of judges of any High Court, (e) the salary, allowances and pensions payable to or in respect of the Comptroller and Auditor-General of India, (f) any sums required to satisfy any judgement, decree or award of any court or arbitral tribunal, (g) any other expenditure declared by the Constitution or by the Parliament by law to be so charged.

3.3.2 Plan and non-plan expenditures

Prior to 2017-18, out of the total expenditure of the Central Government, a significant proportion was incurred as Plan expenditure. Therefore, the demands for grants showed separately the Plan and Non-Plan expenditures of the Ministry/Department. The document Expenditure Budget (Volume 1) gave the total Plan provisions for each of the Ministries arranged under various heads of development and highlighted the budget provisions for the more important plan programmes and schemes. The document titled Plan Budget indicated the total provision for the Central Plan, Plans of Union Territories, and Central assistance for State Plans. The details of Plan outlay at both the Central and the State levels were contained in the document titled Annual Plan prepared separately by the Planning Commission.

A significant proportion of Plan expenditure by the Central Government was incurred on public sector undertakings through investment in shares and loans.

Non-Plan expenditure was a generic term used to cover all government expenditure not included in the Plan. It included both revenue and capital expenditure, developmental and non-developmental expenditure. A part of the expenditure was obligatory in nature as, for example, interest payments, pensions and statutory transfers to the States. A part of the expenditure was essential such as defence and internal security. Expenditure on the maintenance of assets (buildings, roads etc.) created in previous Plans was also treated as non-Plan expenditure. A large part of resources of the Government was pre-empted by various items of non-Plan expenditure.

Beginning 2017-18, the classification of government expenditure into Plan and Non-plan has been done away with in order to take a holistic view of allocations for sectors and ministries.

3.3.3 Cut motions

At the time of discussion on the demands for grants, copies of the Annual Reports and Performance Budgets of the Ministries are made available to the Members of Parliament. The presentation of demands for grants by a Ministry is an occasion to review the working of that Ministry by the Members of Parliament. The scope of discussion at this stage is confined to matters falling under the administrative purview of the Ministry. It is open to members to disapprove policies of a Ministry or to suggest measures for economy in the administration of that Ministry.

At this stage, a cut motion can be moved to reduce any demand for grant but no amendments to a motion seeking to reduce any demand are permissible. The motions to reduce amounts of demands for grants are called cut motions. The object of a cut motion is to draw the attention of the House to the matter specified therein. Cut motions can be classified into three categories.

- **Disapproval of Policy Cut:** A cut motion which says “that the amount of the demand be reduced to Re. 1” implies that the mover disapproves of the policy underlying the demand.
- **Economy Cut:** Where the object of the motion is to effect economy in the expenditure, the form of the motion is “that the amount of the demand be reduced by Rs...(a specified amount).” The amount suggested for reduction may be either a lump sum reduction in the demand or omission or reduction of an item in the demand.
- **Token Cut:** Where the object of the motion is to ventilate a specific grievance within the sphere of responsibility of the Government of India, the form of the motion is “that the amount of demand be reduced by Rs. 100.” Discussion on such a cut motion is confined to the particular grievance specified in the motion and which is within the sphere of responsibility of the Government of India.

3.3.4 Principle of guillotine

Discussion on the demands for grants in the Lok Sabha has to be completed in the budget session. These discussions take place under pressure of time and in practice only a limited number of demands are discussed in the Lok Sabha. As the budget session draws to a close, the principle of guillotine is applied, i.e. demands are passed without any detailed discussion or scrutiny.

In the Constitution of India, the real power in relation to financial matters rests with the Lok Sabha. The voting of demands takes place in this House only. Rajya Sabha can discuss the demands, if it so chooses, but it does not vote the demands.

3.4 Appropriation bill

Article 114 provides for introduction of a bill to provide for the appropriation out of the Consolidated Fund of India of all moneys required to meet the grants approved by Lok Sabha and the charged expenditure. No money shall be withdrawn from the Consolidated Fund of India except under appropriation made by law passed in accordance with the provisions of this Article.

After the demands for grants are voted by the Lok Sabha, the Appropriation Bill is introduced, considered, and passed by it. The Bill incorporates all moneys required to meet (i) charged expenditure and (ii) grants made by the Lok Sabha. This Bill is then passed as a Money Bill subject to the condition that no amendment is proposed to it in either House which has the effect of varying the amount or altering the destination of any grant or varying the amount of any expenditure charged on the Consolidated Fund . No money can be withdrawn from the Consolidated Fund, either with respect to voted grants or the non-votable *charged* items of expenditure, except under an Appropriation Act passed by the Parliament. It provides the legal authority for the withdrawal of sums from the Consolidated Fund. In other words, the passing of the Appropriation Bill completes the authorisation by Parliament of Government expenditure. The Parliament then goes to consider the Finance Bill.

The Appropriation Bill is first passed by the Lok Sabha and then transmitted to the Rajya Sabha. If the Rajya Sabha does not return the Bill within 14 days the Bill is deemed to be passed by both Houses. If the Rajya Sabha makes some changes and the Lok Sabha does not accept them, then also the Bill is deemed to be passed by both the Houses in the form in which the Lok Sabha had passed it.

After the Appropriation Bill is passed in the foregoing manner, the various Ministries/Departments inform the respective spending agencies and project authorities the amount allocated in the budget to each of them.

Normally, the budget of the Government is presented by the end of February. The Parliament has to discuss the budget, vote the demands for grants, and finally pass the Appropriation Bill. The Appropriation Bill has to be passed before March 31 so as to enable the Government to incur expenditure from the beginning of the ensuing financial year. Since the presentation, discussion, and voting of demands for grants and passing of Appropriation Bill generally go beyond the current financial year, a provision exists in the Constitution empowering the Lok Sabha to make any grant in advance through a *Vote on Account* to enable the Government to carry on until the voting of demands for grants and the passing of the Appropriation Bill. This enabling authorisation gets enacted before March 31.

3.4.1 Vote on account

Article 116 provides for vote on account, votes of credit and exceptional grants to cover expenditure for a part of any financial year pending the completion of the procedure prescribed for the voting of such grants and the passing of law in relation to that expenditure, and to make a grant for meeting unexpected demand when on account of the magnitude or the indefinite character of the service the demand cannot be stated with details ordinarily given in the annual financial statement. The exceptional grant is intended to cover expenditure which does not form part of the current service of any financial year.

Under Article 116 of the Constitution of India, a government can present Vote on Account (popularly known as Interim Budget) to the Parliament. Literally, vote on account means vote on the accounts of the government.

The regular annual budget of the Government of India is presented to the Parliament towards the end of February. Situations can arise when the presentation of the regular budget is not feasible or desirable. It is possible that a government is at the fag end of its term in the month of February or a government takes office just before the beginning of the financial year (running from April 1 to March 31 of the next year). Under such situations a vote on account is sought by the government. According to the Constitution, government cannot spend any money without the approval of the Parliament (Appropriation Act). Vote on account is taken so that the government is enabled to spend from the Consolidated Fund of India for 3 to 4 months after the expiry of the financial year on March 31. It cannot be for a period longer than 6 months as the Constitution stipulates that the gap between 2 Parliament sittings cannot be more than 6 months.

It is noteworthy that there is no constitutional restriction on presentation of a full budget by an outgoing government. It is by convention that a government at the end of its tenure opts for a vote on account. It is regarded improper that an outgoing government should impose its economic and fiscal policies on its successor. Hence, no changes are made in the rates etc. of taxes/duties and no new programmes/schemes are announced.

A vote on account is passed by the Lok Sabha after the general discussion on the budget is over and before the discussion on demands for grants is taken up. Traditionally, vote on account is treated as a formal matter and passed by the Lok Sabha without discussion.

3.4.2 Vote of credit

Situations may arise when the Government requires huge amounts of money urgently, e.g. if the country is threatened with war. Under such extraordinary situations the Government may not be in a position to furnish details of expenditure to be incurred. To deal with such circumstances, the Parliament may grant a sum in gross to the Government on a vote called a *Vote of Credit* and leave the responsibility of distributing the money to the executive (Article 116).

3.4.3 Excess grant

Article 115 provides for supplementary, additional or excess grants in respect of expenditure for new service not contemplated in the annual financial statement. The procedure for withdrawal of funds in each such demand is the same as indicated earlier, namely by introduction of an appropriation bill equal to the amount of the grant approved by Parliament.

At the end of the financial year, all voted amounts lapse. If the Government incurs expenditure on any service during a financial year in excess of the grant voted by the Parliament, a demand for such excess has to be presented to the House which may vote on *excess grant* [Article 115 (1) (b)]. All such cases are brought to the notice of the Parliament by the Comptroller and Auditor-General through his report on Appropriation Accounts. The excess grants are then examined by the Public Accounts Committee which makes recommendations regarding their regularisation in its report to the House. The demands for excess grants are made after the expenditure has actually been incurred and after the financial year to which it relates has ended.

3.5 Finance bill

It is expressly laid down in the Constitution that no tax shall be levied or collected except by the authority of law (Article 265). The regular budget contains proposals with regard to both direct and indirect taxes. These proposals regarding the levy of new taxes, modifications in the existing tax structure or continuance of existing rates of taxation for a further period are presented through the Finance Bill. Article 117 provides for the introduction of Finance bills only on the recommendation of the President and provides for compulsory introduction of such bills in the Lok Sabha and *not* in the Rajya Sabha and no such bill can be passed unless the President has recommended the consideration of the bill.

Taxation proposals take effect the moment the Finance Bill is presented, indirect taxes immediately and direct taxes on a date specified in the Bill (normally the first day of the ensuing financial year, i.e. April 1). The introduction of the Finance Bill cannot be opposed and it may be introduced without prior circulation of copies to Members. The scope of discussion on the Finance Bill is vast and the whole administration comes under review.

The procedure in respect of the Finance Bill is the same as in the case of other money bills. Only after the Finance Bill is passed and becomes the Finance Act, does the collection of revenues get legislative authority. A document titled *Memorandum Explaining the Provisions in the Finance Bill* is also presented along with the Finance Bill to facilitate easy appreciation of the taxation proposals made in the Finance Bill. As in the case of other bills, the presentation and passing of the Finance Bill involves a time lag. However, as the Finance Bill contains, *inter alia*, changes in duty rates on commodities, economic activities in the economy will get disrupted if these changes are made public but not implemented immediately. Hence, a mechanism exists under which those taxation proposals, where it will not be in public interest to defer bringing them into force forthwith, take effect immediately pending the passing of the Finance Bill. Under the Provisional Collection of Taxes Act, 1931, the Government is empowered to collect taxes for a period of 75 days or taking of decision by Parliament on the Bill, whichever is earlier. In a way, it sets out the time frame within which the budget authorisation process has to be completed in the Parliament.

3.5.1 Money bills

Under Article 110 (1), bills dealing with imposition, abolition, remission, alteration, or regulation of any tax or the regulation of the borrowing of money by the Government or the custody and payment of Government money are all money bills[2]. Money bills can be introduced only in the Lok Sabha. After a money bill has been passed by the Lok Sabha, it is sent to the Rajya Sabha for its recommendations. The Rajya Sabha cannot reject, amend or vote upon money bills. It can only offer recommendations which may or may not be accepted by the Lok Sabha. Also, the Rajya Sabha cannot take more than 14 days for considering the return of a money bill. Thus, in case a money bill is not returned to the Lok Sabha within 14 days, the bill is considered to have been passed by both the Houses. Therefore, the power of voting on money bills is limited to the directly elected Lok Sabha. Similarly, although the budget is presented before both Houses of Parliament, the demands for grants are submitted only to the Lok Sabha.

3.6 Supplementary budget

It is likely that the forecasts on the basis of which the original budget was prepared go haywire due to exogenous factors (international economic crisis) and/or internal disturbances like industrial unrest, political instability etc. Government may then present to the Parliament a supplementary budget to deal with such shocks.

Furthermore, if a grant voted by the Parliament in accordance with the estimates presented in the budget for a particular service for the current financial year is found to be insufficient for the purpose of that year, the Government presents a s*upplementary estimate* [Article 115(1)(a)] and the Parliament may make a s*upplementary grant.* Also, the Government may approach the Parliament when a need has arisen during the current financial year for supplementary or additional expenditure on some *new service* not contemplated in the budget of that year. The supplementary demands for grants are presented to and passed by the House before the end of the financial year.

4.0 Execution of the Budget

Once the Appropriation Bill and the Finance Bill are passed, the executive departments get a green signal to collect revenue and spend money on approved schemes. Collection of revenue is the duty of the Revenue Department of the Ministry of Finance. This Department has two wings: the Central Board of Direct Taxes and the Central Board of Excise and Customs. There are detailed departmental rules governing the mode of assessment, collection and remittance of various taxes into Government treasury.

More important, however, is the executive control of public expenditure. Once the appropriations are voted and approved by the Parliament, spending authorities are authorised to draw the necessary amounts and spend them. Individual Ministries/Departments are informed by the Ministry of Finance about their respective budget allocations. All appropriated amounts lapse at the end of the financial year. Hence, they must be spent during the current financial year. Reappropriation between expenditure heads is allowed subject to prescribed rules in this regard. However, reappropriation between voted and charged items of expenditure is not allowed. Similarly, reappropriation is not permitted for meeting expenditure on a new service not provided for in the budget.

4.1 Maintenance of accounts

The system of government accounts is a matter of great significance in any democratic country. The primary objective of government accounts is to facilitate the formulation, authorisation and the execution of the budget. The manner in which various items of receipt and expenditure are grouped and presented plays an important role in determining the character and quality of the decisions at various stages of the budgetary process. The adequacy and effectiveness of legislature over financial administration is chiefly determined by the form and contents of consolidated and classified financial statements.

In India, the budget is presented to Parliament and the State Legislatures in terms of the various sections and major heads of account grouped under them as prescribed by the Comptroller and Auditor General (CAG) with the approval of the President. The structure of the accounting system of the Central Government is primarily meant to satisfy the needs of Parliament and the executive including its subordinate agencies. The system ensures that the Parliament receives a full and reliable account of the funds provided to the executive.

An important feature of the accounting structure in India is its uniformity as between the transactions of the Central and the State Governments. This uniformity is intended to facilitate understanding and comparison of the variety of financial transactions both of the Centre and the States from one financial year to another.

Article 149 of the Constitution prescribes duties and powers of the CAG. Under Article 150, the CAG is required to prescribe the format in which the accounts of the Union and the States are to be kept. Similarly, Article 151 requires the CAG to present reports relating to the accounts of the Union and the States.

The CAG performs such duties and exercises such powers in relation to the accounts of the Union and of the States as may be prescribed by the Parliament. In exercise of this power, the Parliament enacted the Comptroller and Auditor-General (Duties, Powers, and Conditions of Service) Act, 1971 which after amendment in 1976, relieved him of his duty to prepare the accounts of the Union. The other important provisions relating to his duties are as follows:

- To audit and report on all expenditure from the Consolidated Fund of India and of each State as to whether such expenditure has been in accordance with the law.
- To audit and report on all expenditure from the Contingency Fund and the Public Account of the Union and of the States.
- To audit and report on all trading, manufacturing, profit and loss accounts kept by any Department of the Union or a State.

Constitutional provisions have safeguarded the independence and freedom of the CAG and have placed him beyond political influences. He is an officer of the Constitution. Though appointed by the President, he may be removed on an address from both the Houses of Parliament on grounds of *proved misbehaviour* or *incapacity*. His salary and conditions of service are statutory, i.e. as laid down by the Parliament by law and are not liable to variations to his disadvantage during his term of office.

As already noted, the CAG continued to maintain accounts of the Central Government as well as of all the State Governments until 1976 when it was decided to relieve him of this responsibility in respect of Central Government accounts. Under a new system of *Integrated Financial Administration*, introduced with effect from October 1, 1976, the Secretary of a Ministry/Department acts as the chief accounting authority. He discharges his responsibilities through and with the assistance of the *Integrated Financial Adviser* of the Ministry/Department. It is the responsibility of the Integrated Financial Adviser to render financial advice, prepare the budget, distribute budget allocations among the various sections of the Ministry, arrange payments, compile and consolidate accounts, and also to ensure accuracy in accounts on the part of various sections of the Ministry/Department. Under the Integrated Financial Adviser, there is a Controller of Accounts for each Ministry. The latter has under him, the Regional Pay and Accounts Officers functioning in various parts of the country. The banking business of each Ministry/Department is conducted by a designated public sector bank nominated by the RBI as its agent. The account of the Ministry/Department is operated with a branch of that public sector bank by the Pay & Accounts Officer of the Ministry/Department.

This departmentalised system of payments and accounts separates accounts from audit and provides for a separate Controller of Accounts for each Ministry. Under the old system, prevalent in the States, the primary responsibility for incurring and controlling expenditure and for maintaining accounts, rests with the departmental officers. The final accounts are compiled by the Indian Audit and Accounts Department from the initial accounts submitted by the departmental officers.

Under Article 150 of the Constitution, estimates of receipts and disbursements in the budget have to conform to the accounting classification prescribed by the CAG. The estimates of receipts and disbursements in the budget and of expenditure in the demands for grants are shown according to this classification. The prescribed classification is intended to help the Parliament and the public to meaningfully scrutinise the allocation of resources and the purposes of Government expenditure.

The accounting classification of the Central budget has undergone two major changes, once in 1974-75 and again in 1987-88. Besides, there have been regrouping and reclassification of certain receipts and expenditure items between revenue and capital accounts. These regroupings and reclassifications, *inter alia*, included (a) external grants which were treated as capital receipts prior to 1991-92, are now reclassified under revenue receipts since then and (b) beginning 1987-88, the budgetary classification has been changed by regrouping the expenditures into plan and non-plan heads from the classification of developmental and non-developmental heads followed then. This was done to bring about correspondence with the Plan heads of development.

In October 1976, an organisation named Controller-General of Accounts (CGA) was set up to administer matters pertaining to the departmentalisation of accounts of the Union Government. This organisation which works as part of the Ministry of Finance performs, *inter alia*, the following main functions.

- Prescribing the form of accounts relating to the Union and the State Governments.
- Laying down accounting procedures.
- Overseeing the maintenance of adequate standards of accounting by Central Accounts Offices.
- Consolidation of the monthly and annual accounts of the Government of India.
- Administration of rules under Article 283 of the Constitution relating to the custody of the Consolidated Fund of India, the Contingency Fund, and the Public Account.

The CGA prepares a condensed form of the Appropriation Accounts and the Finance Accounts of the Union Government.

5.0 Auditing of Accounts

Audit of public expenditure is an ex-post check to ensure that the spending was within the budgeted amount and for the purpose intended. Audit in relation to government accounts has, at least, the following four functions:

- Appropriation Audit: Its objective is to ascertain whether the amounts spent by the government have been applied to the purposes and within the limits set by the appropriations authorised by the legislature.
- Regulatory Audit: It is concerned with ensuring that the various rules and regulations are fully adhered to by the spending agencies.
- Propriety Audit: It includes within its scope an examination of the propriety (wisdom) of executive actions even where their legality is not in question.
- Efficiency Audit: It examines the efficiency (economy) with which the agency under audit is discharging its financial responsibilities.

The institution of CAG in India has already been mentioned in section 2.5.3 (A) above. The appropriation audit and regulatory audit are the statutory duties of the CAG. The other two types of audit (propriety and efficiency) are discretionary in nature in the sense that it is left largely to CAG to determine whether and to what extent he should extend his audit into these areas.

Preparation of accounts by CGA is not enough. It is necessary to verify the accuracy and completeness of the accounts and to ensure that the expenditure incurred has been sanctioned by the Parliament and that it has taken place in conformity with the rules sanctioned by the Parliament. Thus, the accounts prepared by CGA are audited by the CAG. The audited accounts are placed on the table of both the Houses of Parliament along with the CAG report. The CAG is responsible for auditing all expenditure of the Central and State Governments and submitting his audit reports to the President or the Governor for being placed before the appropriate legislature. The report of the CAG amounts to the issuance of a *certificate*. The *observations* of the CAG summarise objections and irregularities in relation to voted and charged expenditures in the budget.

Thus, the audit department scrutinises, independently and fearlessly, the expenditure incurred by the Central and State Governments and seeks to ensure that expenditure is not irregularly and wastefully incurred. In this manner it assists the legislature in exercising financial control over the executive.

Endnotes

1. Although Railways are a Department of the Government, traditionally the detailed railway budget was presented separately to the Parliament about 2 to 3 days in advance of the General Budget. However, the total of the receipts and expenditure of the Railways was incorporated in the budget statement of the Government of India.
2. If any question arises whether a bill is a money bill or not, the decision of the Speaker of the Lok Sabha is final in this regard. When a bill is sent to the Rajya Sabha or is presented for the assent of the President it bears the endorsement of the Speaker that it is a money bill. This is one of the special powers of the Speaker.