System of Government Accounts

MCHRD

20st August 2014

V Bhaskar

Chairman APERC

Introduction

- **As a Sub Collector , why should I be interested in Government accounts?**
- **Is it not best handled by my Office Superintendent?**

Extraordinary Powers

- **129**
- **27**

Other Reasons

- **Exams – Assistant versus Sub Collector**

- **Pay your Bills**

Expenditure Heads of Account operated by Sub Collector's office

- 2053 - **District Administration**
- 2015 - **Elections**
- 2029 - **Land Revenue**
- 2245 - **Relief on account of Natural calamities.**

Receipt Heads of Account operated by Sub Collector's office

- **0029 : Land Revenue**
- **0035: Taxes on Immovable Property other than Agricultural land**
- **0070: Other Administrative Services**
- **0506: Land Reforms**
- **1456: Civil Supplies**

Head of Account Structure

- **Major Head 2053- District Administration**
- **Sub Major 00**
- **Minor Head 094 - Other Establishment**
- **Sub Head 12- Mandal Administration**

Non-Budgetary Items

010 : Salaries

017 : Medical Reimbursement

018 : Encashment of Earned Leave

019 : Leave Travel Concession

Budget Allocation and Expenditure for 2014-15

as on 30th May 2014

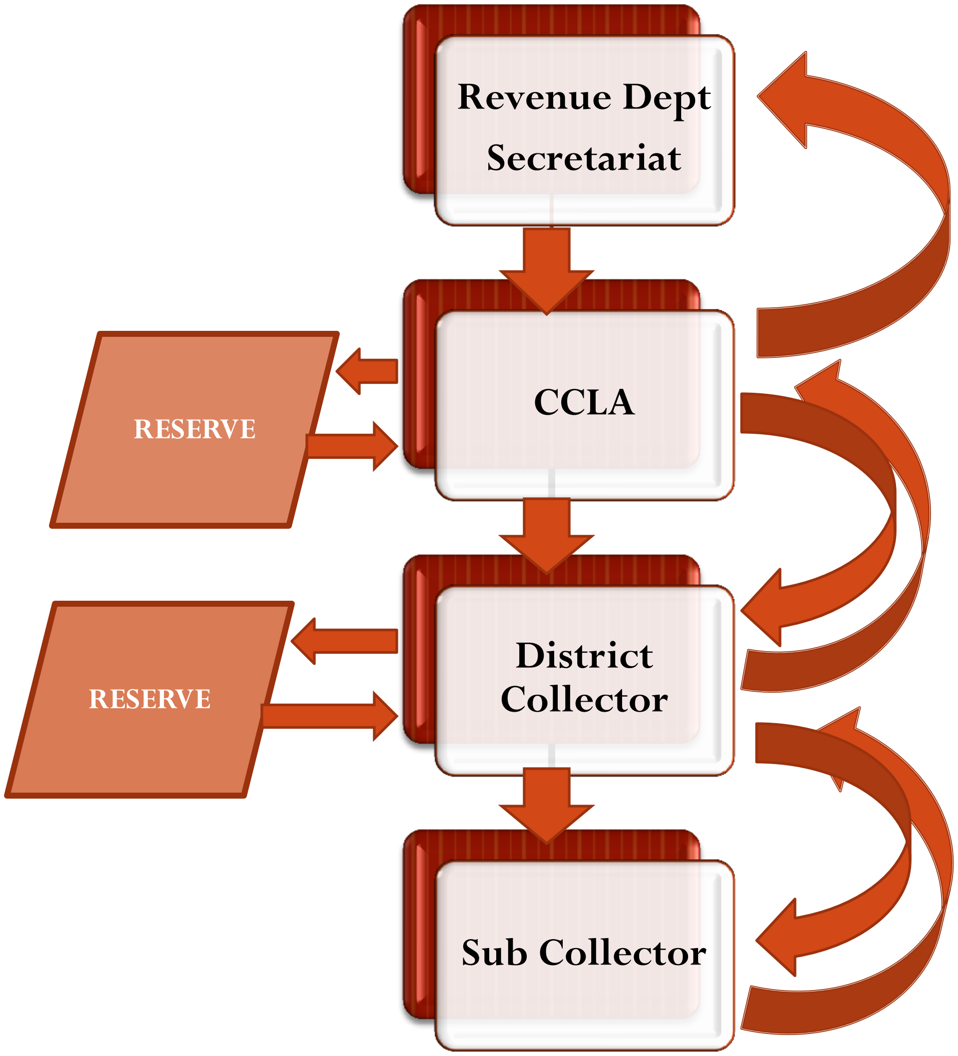
- Sub Collector's office Madanapalle

2053-00-094-00-12				
Object and Sub-Detailed Heads	Description	Allocations up to First two quarters	Expenditure incurred	Balance
020	Wages	0	0	0
110-111	Travelling Allowance (TA)	13,000	10750	2250
130-131	Service Postage Telegram and Telephone charges (SPTTC)	41000	15454	24,546
130-132	Other Office Expenditure (OOE)	30,000	30000	0
130-133	Water and Electricity Charges (W & EC)	46,000	46000	0
140-000	Rents Rates and Taxes	2,820	0	2,820
240	Petrol ,oil and Lubricants (POL)	72000	72000	0
280-284	Pleader and Professional Services (PPS)	0	0	0
500-503	Other Charges (OC)	0	0	0
510-511	Maintenance of Motor Vehicles (MMV)	8,000	8000	0

EXPENDITURE PARTICULARS FOR THE FINANCIAL YEAR FROM 02-06-2014 TO TILL DATE

NO	DDOCODE	DDO DESIGNATIO	HEAD OF ACCOUNT	UTHORIS	PENDITU	ALANC
			20530009400121101 11NVN	20500	0	20500
			20530009400121301 31NVN	20250	0	20250
			20530009400121301 32NVN	20250	0	20250
1	03012302010	R D O KAKINADA	20530009400121301 33NVN	30000	0	30000
			20530009400121101 11NVN	15000	0	15000
2	08052302004	R D O KAVALI	20530009400121301 31NVN	23000	0	23000
			20530009400121301 32NVN	21000	0	21000
			20530009400121301 33NVN	20000	0	20000
			20530009400121600 00NVN	500	0	500
			20530009400122000 00NVN	500	0	500
			20530009400122400 00NVN	52200	0	52200
3	08052302004	R D O KAVALI	20530009400125105 11NVN	7000	0	7000

Budget Flow Chart



Payments under Special authorization T.R 27

T.R 27:

- **A Collector may, in Circumstances of urgency, by an order in writing authorize and require a Treasury Officer to make a payment, not being a payment of pension, without complying with the provisions of these rules. In any such case, the Collector shall at once forward a copy of his order and a statement of the circumstances requiring it, and the Treasury Officer shall at once report the payment, to the Accountant-General.**
- **Note: The need for exercising the special power under this rule should not arise at all in normal conditions. The power should be exercised only in real cases of urgency, e.g., floods, earth quakes and like and withdrawals of money under this rule should, as far as possible, exclude all personal claims of government servants.**
- **In all other cases where this provision is invoked by the Collector for any other purposes, the Treasury officer should at once seek orders of the Government in the Finance Department before complying with the orders of the Collector and before the bills in question are honoured.**

(Memo. No. 19169/A-32/Accts/70-5,Dt.7-4-71)

Instructions under T.R 27

- **When the Collector is absent on tour from Headquarters or is incapacitated, the Headquarters Sub-Collector or the Divisional Officer or any other Gazetted Officer performing the duties of the Collector may exercise the power specified in Treasury Rule 27, when money is urgently required for expenditure connected with defence or other emergent purpose. If no such officer is on the spot, the Treasury Officer himself may make such payment.**

System of Government Accounts

Scope of the Presentation

- Six Questions
- Overview of Budget documents
- Government accounting
- Plan non plan distinction
- Role of CAG
- Answering the Six Questions

??? Six Questions ???

1. Are we drowning in budgetary data ?
2. Are Budgets Pragmatic?
3. Should Accrual Accounting be adopted for Government Accounts in India ?
4. Should the CAG audit policy ?
5. Should the proposed new accounting classification scheme be adopted ?
6. Should the Distinction between Plan and Non Plan be Removed?

Union(State) Budget

- Parliament 112-117;118-122
- State Legislature 202-207: 208-212
- 112-AFS: presented on last working day of February by the Finance Minister of India in Parliament.
- States - ??
- The budget needs to be passed by the House before it can come into effect on April 1, the start of the financial year. Does this happen?

Vote on Account

- In Parliament, the general discussion on the Budget begins on a day fixed by Speaker after budget presentation.
- Since Parliament is not able to vote the entire budget before the commencement of the new financial year, the necessity to keep enough finance at the disposal of Government to run the government remains.
- A "Vote on Account" by which Government obtains the Vote of Parliament for a sum sufficient to incur expenditure on various items for a part of the year is therefore passed immediately after general discussion.
- Normally, the Vote on Account is taken for two months only. But in some special cases the period may exceed two months.
- BAC- for demands for grants

Budget Documents

The Budget documents presented to Parliament comprise, besides the Finance Minister's Budget Speech, the following:

1. **Key to Budget documents**
2. **Annual Financial Statement (AFS)**
3. **Demands for Grants (DG)**
   a) Expenditure Budget Volume-1
   b) Expenditure Budget Volume-2
4. **Appropriation Bill**
5. **Finance Bill**
6. **Explanatory Memorandum**

Budget Documents(cont..)

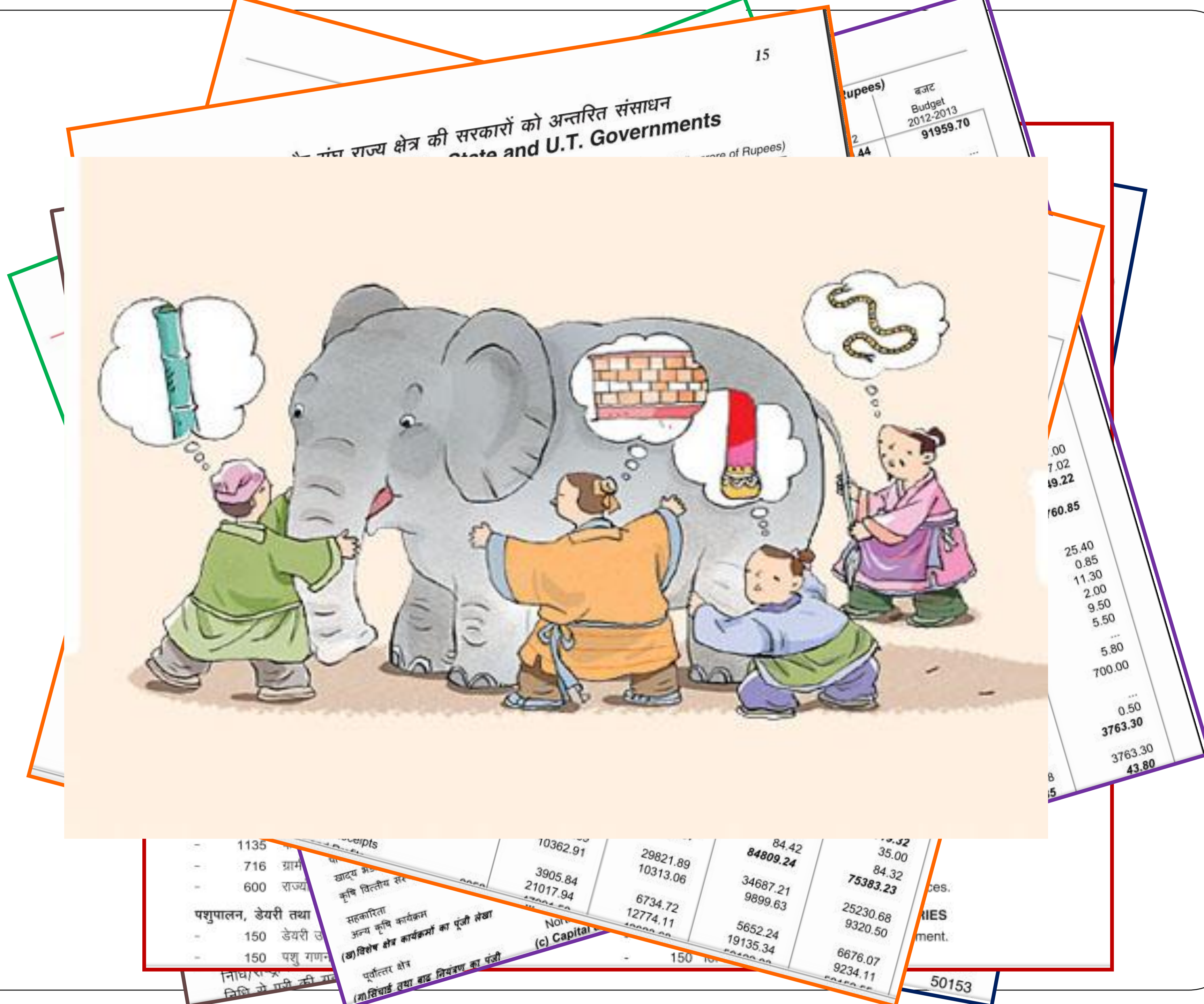
7. Receipts Budget
8. Budget at a glance
9. Highlights of Budget
10. Action taken on Budget Announcements
11. FRBM Statements
    a) Macro-Economic framework for Year Y+1
    b) Fiscal policy strategy for the Year Y+1
    c) Medium term fiscal policy Statement for Years Y+3
    d) Medium Term Expenditure Framework Statement Y+3
12. Detailed Demand for Grants (of respective ministries)

FRBM Statements

- **Macroeconomic Framework Statement** :This report shows the underlying assessment of growth prospects, and the underlying assumptions. It defines the macroeconomic backdrop under which the fiscal policies and projections are being made.
- **Medium-term Fiscal Policy Statement** : This report specifies three-year rolling targets for prescribed fiscal indicators, and the underlying assumptions.
- **Fiscal Policy Strategy Statement** : This report specifies the policy measures pertaining to taxation, expenditure, subsidies, administered prices and borrowing.
- The FRBM Act requires that the Finance Minister conduct quarterly reviews of receipts and expenditure, and place the outcome of these reviews before Parliament.
- F.M is required to make a statement in Parliament explaining the reasons for deviations from the FRBM Act obligations, and remedial measures that are proposed to be taken in order to overcome these.

Colour Code

- **Green** : **Constitutionally mandated**
- Black : **Supporting Documents for Transparency**
- **Blue** : **Legally mandated**


15
संघ राज्य क्षेत्र की सरकारों को अन्तरित संसाधन
State and U.T. Governments
(Crore of Rupees)
बजट
Budget
2012-2013
91959.70
50153

Question No: 1

- Is this mere number crunching?
- Are we drowning in budgetary data ?
- How should Budgets be made more understandable ?

Budgets and Realities

Variation in Major Items : 2011-12 Accounts over BE & RE

	UNION GOVERNMENT (In Rs Crs)				VARIATION	
Sl.no	Item	2011-12			Accounts Vs BE	Accounts Vs RE
		BE	RE	Accounts	(%)	(%)
1	Revenue Receipts	7,89,892	7,66,989	7,51,437	-4.9	-2.0
2	Revenue Expenditure	10,97,162	11,61,940	11,45,785	4.4	-1.4
3	Capital Expenditure	1,60,567	1,56,780	1,58,580	-1.2	1.1

Source :http://indiabudget.nic.in/budget2011-2012/rec.asp

Budgets and Realities

Variation in Major Items : 2011-12 Accounts over BE & RE

	UNION GOVERNMENT (In Rs Crs)				VARIATION	
Sl.no	Item	2011-12			Accounts Vs BE	Accounts Vs RE
		BE	RE	Accounts	(%)	(%)
1	Total Capital Receipts	4,47,837	5,76,395	5,68,918	27.0	-1.3
2	Non-Debt Capital Receipts	55,020	29,751	36,938	-32.9	24.2

Source :http://indiabudget.nic.in/budget2011-2012/rec.asp

Budgets and Realities..

Variation in Major Items : 2010-11 Accounts over BE & RE

	ALL STATES (In Rs Million)				VARIATION	
Sl.no	Item	2010-11			Accounts Vs BE (%)	Accounts Vs RE (%)
		BE	RE	Accounts		
1	Revenue Receipts	91,30,381	96,80,696	93,53,472	2.4	-3.4
2	Revenue Expenditure	93,74,080	99,32,497	93,22,966	-0.5	-6.1
3	Capital Disbursements Excluding Public Account	23,71,762	24,31,019	22,64,332	-4.5	-6.9

Source :State Finances : A Study of Budgets of 2011-12 Chapter iv

Budgets and Realities..

Variation in Major Items : 2010-11 Accounts over BE & RE

	ALL STATES (In Rs Million)				VARIATION	
Sl.no	Item	2010-11			Accounts Vs BE	Accounts Vs RE
		BE	RE	Accounts	(%)	(%)
1	Total Capital Receipts	2,05,99,077	2,54,04,676	3,99,16,194	93.8	57.1
2	Capital Receipts without Suspence & Miscellaneous and Remittances	61,85,791	60,96,468	66,60,392	7.7	9.3

Source :State Finances : A Study of Budgets of 2011-12 Chapter iv

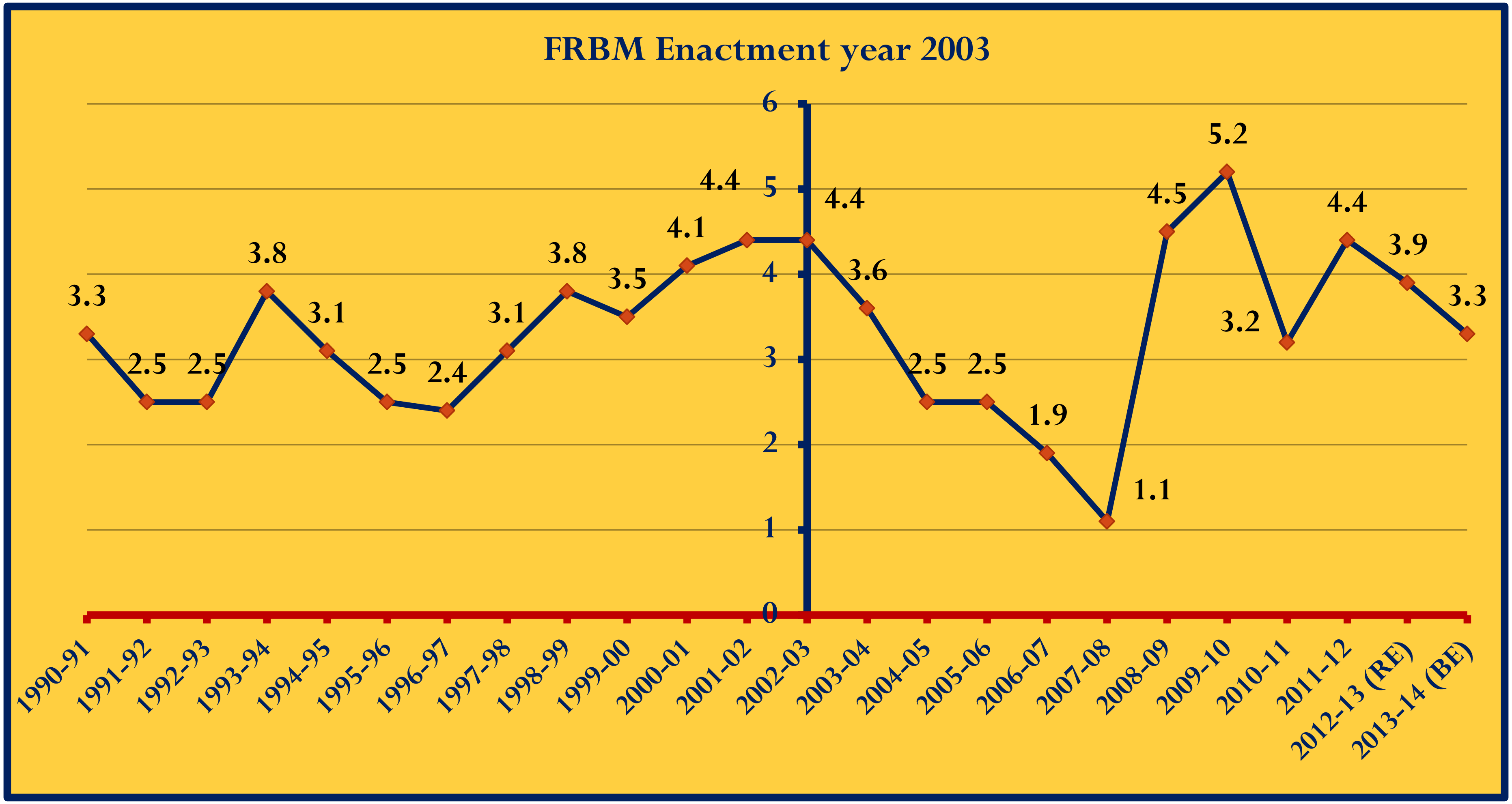
FISCAL CONSOLIDATION ROAD MAP FOR UNION GOVERNMENT FISCAL DEFICIT AS % of GDP

Financial Year	Recommendations by	F.D
2012-13	13th Finance Commission	4.2
	Kelkar Committee	5.2
	Finance Minister's Statement on October 29, 2012	5.3
	As per Revised Estimate	5.2
2013-14	13th Finance Commission	3.0
	Kelkar Committee	4.6
	Finance Minister's Statement on October 29, 2012	4.8
	As per Budget Estimate	4.8
2014-15	13th Finance Commission	3.0
	Kelkar Committee	3.9
	Finance Minister's Statement on October 29, 2012	4.2

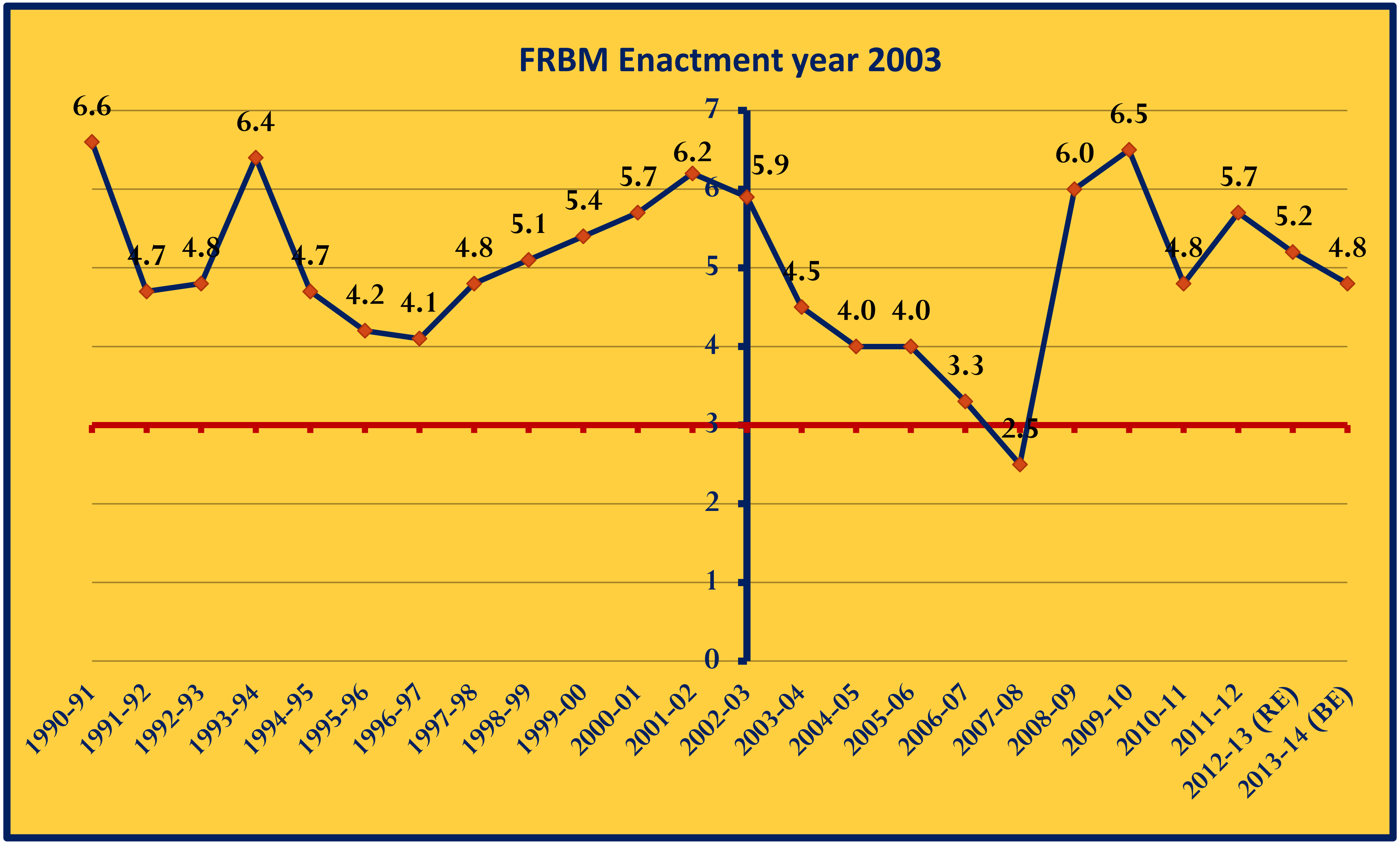
FISCAL CONSOLIDATION ROAD MAP FOR UNION GOVERNMENT (as % of GDP)

ITEM	2012-13			2013-14			2014-15	
	13th FC	K.C	RE	13th FC	K.C	BE	13th FC	K.C
Revenue Deficit	1.2	3.7	3.9	0.0	2.8	3.3	-0.5	2.0
Debt Stock	50.5	46.1	68.1	47.5	44.9	67.6	44.8	42.9
Nominal Growth rate	13.5	13.5	11.7	13.5	14.5	-	13.5	15.0

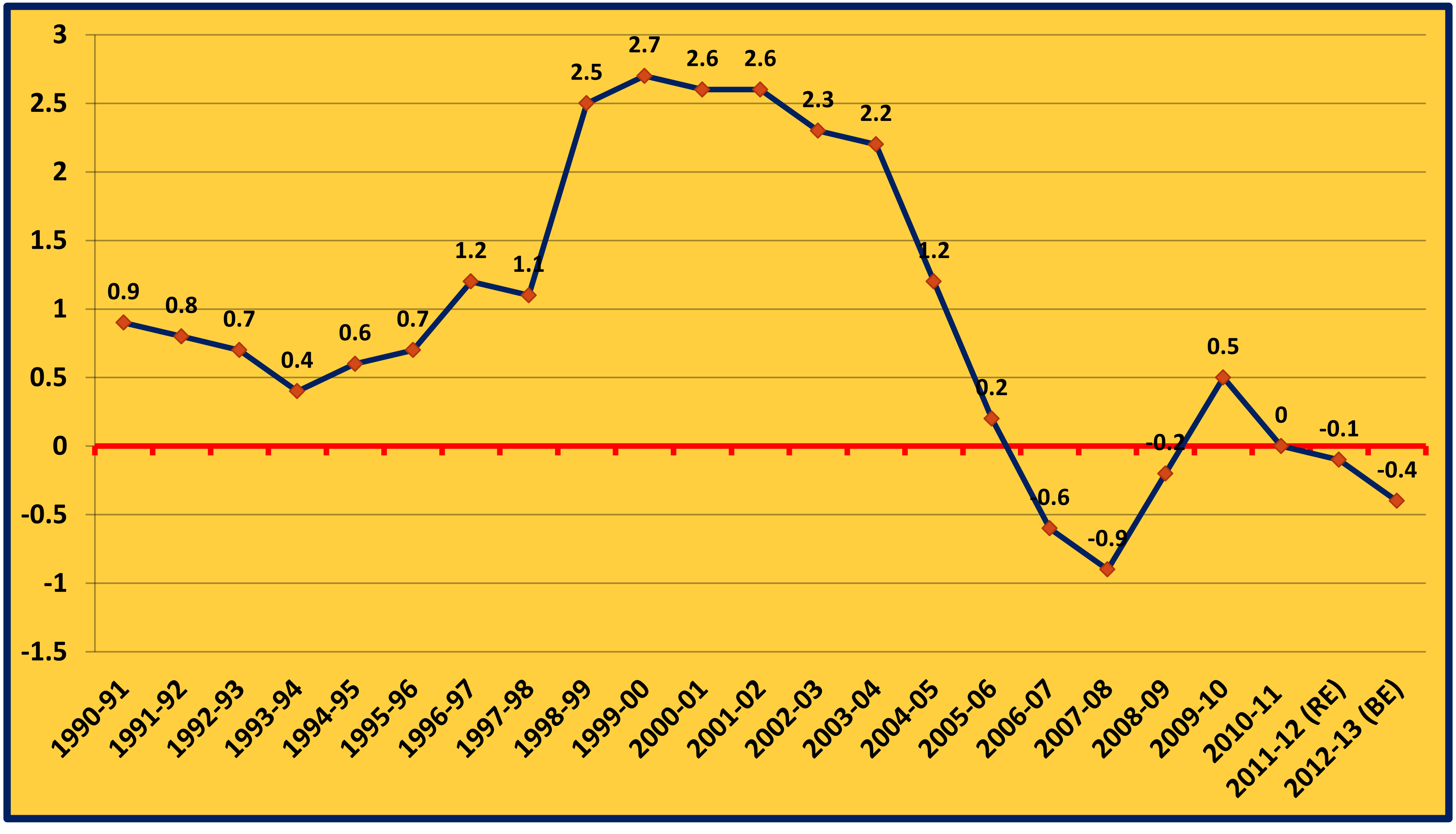
GoI Revenue Deficits (as % of GDP)



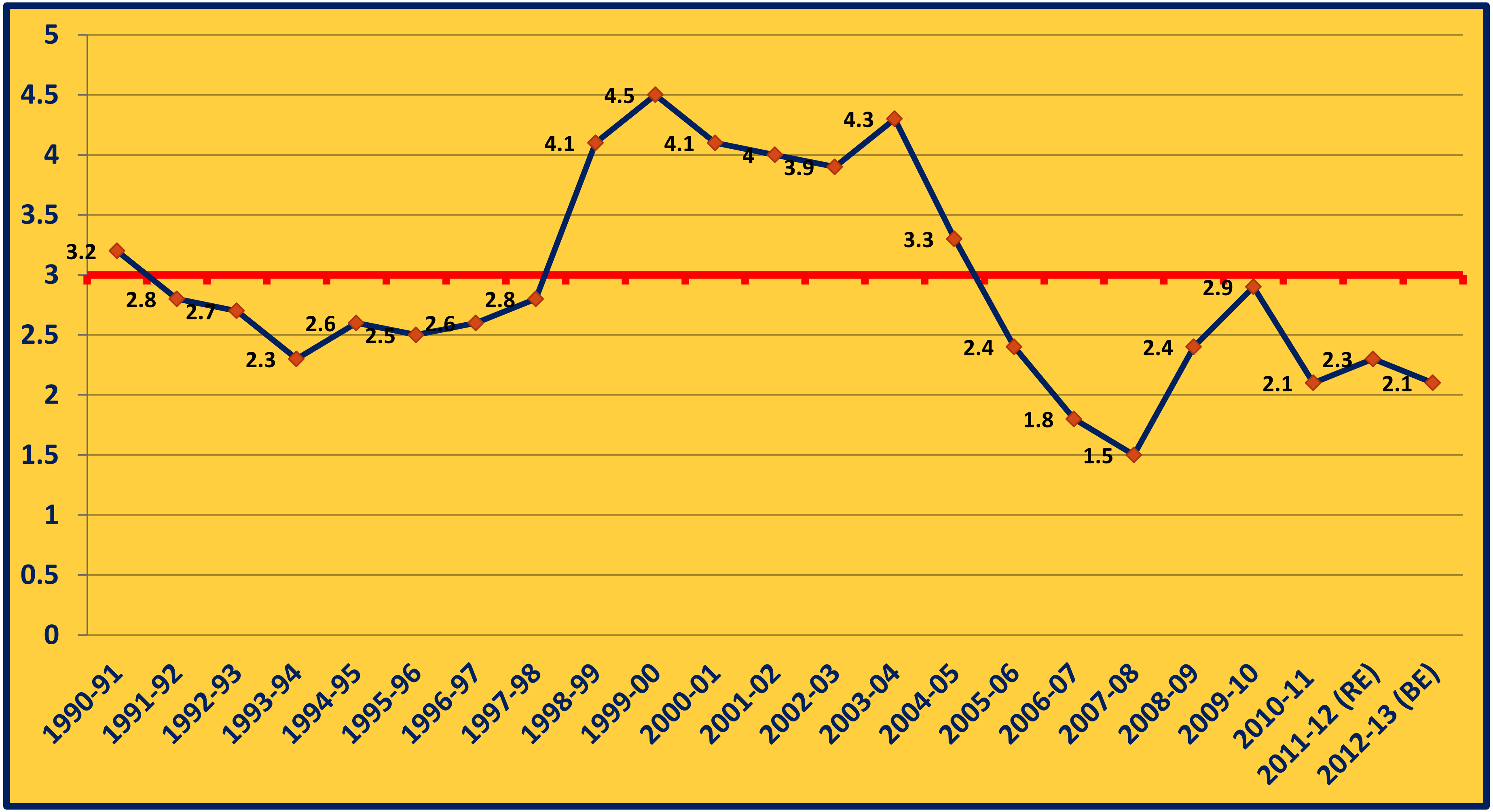
GoI Fiscal Deficits (as % of GDP)



Revenue Deficits of States (as % of GDP)



Fiscal Deficits of all States (as % of GDP)



Question No: 2

Are Budgets Pragmatic?

Are they based upon realistic estimates ?

ACCOUNTING APPROACHES

Cash based Accounting

- Transactions where no cash is paid or received are not recorded, even if value has been received or a liability contracted.
- Past transactions relating to assets and liabilities cannot be captured automatically.
- It is difficult to keep an accurate track of assets and it understate liabilities.
- Government departments that offer commercial goods and services face the risk of not knowing their full cost as the current system does not automatically record and provide this information.
- These deficiencies result in weak stewardship, lack of transparency and an impaired ability to accurately predict the future cost of a current financial commitment.

Accrual based Accounting

- It correctly reflecting surplus/deficit as all expenses whether paid or not and all incomes whether received or not are duly accounted for.
- It gives information on whether income streams are adequate to meet short and long term liabilities.
- It provides comprehensive information on expenses which helps in knowing the cost consequences of policies and enables comparison with alternative policies.
- information about calculation of subsidy can be extracted from the accounts, which helps in its rationalisation.
- This ensures the adoption of best policy, which in turn assures optimal use of scarce resources.
- It also helps in ascertaining the future sustainability of programmes.
- Liquidity position of the government can be better assessed

- You are Commissioner Commercial taxes
  - You are asked to adopt Accrual Accounting.
  - Should you agree?

- You are Engineer in Chief of Irrigation Department
  - You are asked to adopt Accrual Accounting.
  - Should you agree?

Question No: 3

Will Accrual Accounting help in ascertaining the true financial picture ?

Should Accrual Accounting be adopted for Government Accounts in India ?

Role of Supreme Audit Institution(SAI)

- In the Indian governance system, policies are set by the Parliament and the State legislatures.
- These policies are translated into programs and then implemented by various departments of the Government.
- For this, Parliament sanctions the budget detailing the mode of collection, amount of collection and also for the purpose for it is to be spent .
- The Government departments are accountable for the quantity and quality of their expenditure to the parliament.
- SAI acts as an instrument for ensuring accountability.
- The constitution of India has mandated SAI to function as Auditors to the nation.
- SAI has Comptroller and Audit General and the Indian Audit & Account Department as its constituents.

The DPC Act 1971.

- The SAI of India audits both central and state government and also maintains the accounts of state governments.
- The constitution enables the independent and unbiased nature of audit by the CAG by providing :
  - Appointed by the president of India.
  - Special procedure for removal (like a supreme court judge)
  - Salary and Expenses are charged (not voted)
  - Can't hold any other government office after his term expires.
- DPC (Duties, power and Conditions of services) Act is a detailed legislation enacted by parliament in 1971.
- This Act lays down the service conditions to secure the autonomous nature of the CAG.
- It also mandate and puts almost every spending, revenue collecting or aid/grant receiving unit of government under CAG's audit domain.

CAG DPC Act – what are duties ?

- The statutory duties of the CAG include audit of:
  - Receipts and expenditure of the Union and the State Governments accounted for in the respective Consolidated Funds.
  - Transactions relating to the Contingency Funds (created for use in emergency circumstances) and the Public Accounts (used mainly for loans, deposits and remittances).
  - Trading, manufacturing, profit and loss accounts and balance sheets and other subsidiary accounts kept in any Government Department.

CAG DPC Act – what are duties ?

- Accounts of stores and stock kept in Government organisations, Government companies and Government corporations whose statutes provide for audit by the CAG.
- Authorities and bodies substantially financed from the Consolidated Funds of the Union and the States.
- Any body or authority even though not substantially financed from the Consolidated Fund at the request of the President or the Governor.
- Accounts of bodies and authorities receiving loans and grants from the Government for specific purposes.

DISASTER IN UTTARAKHAND

September 2011 and had not been renewed (August 2012).

- In Rajasthan, High Band Frequency (HBF) wireless sets were supplied (September 2009) to Superintendent of Police (SP), Barmer and Jalore districts for easy and early communications in case of any disaster. We noted instances of wireless sets lying uninstalled (May 2012) in these districts. The SP, Barmer stated (May 2012) that uninstalled wireless sets were lying in sub store, Barmer and process of their distribution would be started soon.

- An Expert Committee in ANI resolved (January 2010), to strengthen the communication network between the islands by means of Satellite Communication System. Directorate of Disaster Management (DDM) found (July 2010) that only five satellite phones were available in the Islands and thus a proposal was mooted to purchase 13 satellite phones for different locations. The satellite phones were yet to be supplied as of May 2012.

6.3.3 Other issues of concern

- In West Bengal, we noted that warning to the public was given through public address systems, radio, television, etc. Apart from this, no independent communication network for disaster management existed at the state level. The department accepted that the system in place was not fully reliable. We could not ascertain the delays in dissemination of warning as data was not maintained indicating the message in and out times.

- In Uttarakhand, no risk management plan was prepared for early warning. Requisite tools and mechanism for providing early warning indicators in regard to disaster were also not in place. Reliable communication system was inadequate as the sharing of disaster information was delayed by more than three hours in 50 to 86 *per cent* cases.

Recommendations:

- ***DOS should ensure that National Database for Emergency Management (NEDM) is operationalised at the earliest.***
- ***Digital, thematic and cartographic data base is required for hazard zonation and risk assessment for development of close contour information of ground. ISRO and NRSA should ensure timely completion of this activity.***
- ***ISRO should fully operationalise the satellite based DMS Communication Network and Doppler Weather Radars at the earliest.***
- ***NDMA should ensure implementation of NDCN and NDMIS projects.***

Andhra Pradesh

THE HINDU Business Line

08th Jul 2013

13 killed, 15 injured in Secunderabad hotel collapse

OUR BUREAU

The decades old four-storeyed City Light Hotel that colapsed at R. P. Road in Secunderabad (in Hyderabad) on Monday killing several hotel workers under it's debris. Photo: P V Sivakumar

Business Line

updated since 2007. (Para no. 9.6.7.1)

Maharastra
Odisha

a. SDMA, constituted in 2010, had not met since its inception. Further, SRC did not take any initiative to convene the meeting of SDMA.

b. SDMP was not prepared even after lapse of more than six years of the DM Act. NDMA had also released ₹ 10.63 lakh to the state in January 2010 for this purpose. Despite the availability of sufficient funds, the state could not formulate its DMP as yet.

c. State Disaster Management Policy formulated in March 2005 did not include man-made disasters. The Policy also lacked the following aspects of (i) adoption of safe construction practices, (ii) retrofitting of life line buildings, (iii) owner driven reconstruction practices, and, (iv) provision to generate temporary lively hood option for the affected community.

d. The State Crisis Management Committee for dam safety under chairmanship of Chief Secretary had not been formed in the state.

e. We noticed irregularities in the management of State Disaster Response Fund. These included inadmissible expenditure (₹ 53.83 crore), non investment of the unspent funds resulting in loss of interest amounting to ₹ 25.16 crore during the year 2008-09

to 2011-12 and non-submission of utilisation certificates for ₹ 526.42 crore by the agencies, departments, OSDMA etc. for the period ranging from one to five years (March 2012). (Para nos. 5.1.2, 5.1.3 and 5.1.5)

f. SEOC and DEOCs were established but these had not been provided with exclusive manpower for their smooth operation.

g. Risk Management Plan having early warning indicators had not been prepared by the state. Out of 220 Automated Weather Communication Systems (AWCS) planned, only 37 AWCS were set up. Of these, seven AWCS were not functioning properly.

h. 15 Very High Frequency (VHF) sets placed at the District Emergency Operations Centre and blocks were not working.

i. Government of India released grant of ₹ 66.91 lakh in March 2011 for strengthening of State Emergency Operation Centre and District Emergency Operations Centre. We noted that ₹ 43 lakh had been utilized for providing the required equipment and human resource support for state and district EOCs. Another ₹ 10 lakh had been provisioned for Video Conferencing facility. Stand-by SEOC could not be set up due to administrative delays.

j. Odisha Disaster Rapid Action Force was not a composite unit including police, engineering and medical staff. It consisted only of personnel from the State Armed Force.

"The question is which is a greater disaster- the one flowing below us or the ones flying above us?"

Oil Min asks RIL to provide records for CAG audit

By PTI | 6 Aug, 2013, 05.10PM IST | 4 comments | Post a Comment

READ MORE ON » Reliance Industries | Oil ministry | CAG

Oil Min asks RIL to provide records for CAG audit

NEW DELHI: With CAG alleging that Reliance Industries BSE -4.62 % was delaying furnishing of records for audit, the Oil Ministry has ordered the Mukesh Ambani-run firm to provide records "as early as possible".

"The Ministry has taken seriously the issue raised by Comptroller & Auditor General of India (CAG) in audit of KG-D6 block... Office of CAG has informed the Ministry that out of 96 audit requisition issued by them, reply of 28 are either not received or are partially

SPOTLIGHT

Experts Speak

Reliance Industries Ltd.

- Should the Primary aim of Production and Sharing Contracts be

  - Profit sharing?

    or

  - Providing Energy Security?

Performance Audit Report
on the
Issue of Licences and Allocation of 2G Spectrum

(xi) Presumptive loss of spectrum allocated to 122 new UAS licensees and 35 Dual Technology licenses in 2007-08

Mi … ogy

The presumptive loss as per the methods adopted would be as given in the table below:

Category	Criteria for working out potential loss to exchequer (value ₹ in crores)			
	S Tel rate	Rates on the basis of 3G auction	Sale of equity by the new licensees	
			Unitech	Swan
New Licences	38950	102498	40442	33230
Dual Technology	14573	37154	15132	12433
Beyond contracted quantity of 6.2 MHz	13841	36993	14052	12003
Total	**67364**	**176645**	**69626**	**57666**

Comptroller and Auditor General
of India
for the year ended March 2010

THE HINDU
Business Line

No loss to Govt from 2G spectrum allocation: Sibal

OUR BUREAU

The Minister for Communication and IT, Mr Kapil Sibal, with the Secretary, DoT, Mr R. Chandrashekhar, addressing a press conference on 2G spectrum, in the Capital, on Friday. - Ramesh Sharma

Opposition on Monday vociferously raised in the Rajya Sabha the issue of crucial files of Coal Ministry going missing, alleging that it was a conspiracy to save the Prime Minister in the multi-crore coal block allocation scam being probed by the CBI.

Related: 13 crucial files on coal block allocations missing, search on

The opposition sought to corner the government by demanding a statement from Prime Minister or Coal Minister on the issue.

Responding to the demand, Minister of State for Parliamentary Affairs Rajeev Shukla assured the House that Coal Minister Sriprakash Jaiswal will make a statement on the issue but gave no time frame.

Raising the issue during Zero Hour, Dharmendra Pradhan (BJP) said such an incident has never happened earlier and the government needs to reply.

"This is a very serious issue...Nothing can be more condemnable. This is a conspiracy...It is an attempt to save the Prime Minister," said Pradhan, wondering if the coal department had a hand in missing of files to brush under the carpet irregularities by Prime Minister Manmohan Singh, who earlier held the Coal portfolio.

Leader of Opposition Arun Jaitley said, "There are three powerful targets of investigation and suddenly the files are missing...the government must respond to this...Otherwise you eliminate the evidence and then say no crime is committed."

Has the CAG become a regulator?

- CAG in his report ,has attempted to quantify losses to Govt. from coal allocation and also supposed gains made by the private companies.
- Gains made by a private company does not necessarily equal to a loss for the exchequer.
- Govt. has called upon Pvt. Companies to invest in these Infrastructure sectors to augment capacity and fill in where the Govt. was unable to spend enough, and Pvt companies will inevitably seek a profit.
- It is the job of a regulator, not an auditor to track implementation and checks cases of excessive profit making that may come at the cost of the consumer.

Validity of CAG reports

- Have the loss computations been done in an simplistic manner ?
- All the Calculations of CAG are based on the average cost price of coal production by Coal India Ltd (CIL) and Price of Pvt. Captive coal makers was compared with this price.
- Also as CIL continues to have a monopoly in India's coal sector with all blocks given to it by Govt. free of cost and CIL has made huge money over last few decades and is now sitting on cash reserves. CIL has an exaggeratedly low cost of production.
- The cost of production for the Pvt. companies tends to be high as they buy new equipment, borrow heavily and spend on R&R. Besides that Pvt. Companies can mine only for captive use and they can't sell in the open market.

CAG Wants More Powers

- The Government is examining a draft Bill to replace the CAG Act of 1971 submitted by CAG.
- The CAG of India sought changes in its mandate to primarily address three issues.
    1. Inadequacy of the provisions in DPC Act to enable audit of certain agencies primarily spending public money in delivering public programmes. (Panchayat Raj Institutions, Urban Local Bodies, Non-Govt. organisations/Special Societies, PPPs/Joint Ventures)
    2. Parity with Right to Information Act in obtaining information. (it seeks powers to impose penalty for failure to provide records, information and replies within reasonable time.)
    3. Time limit for placing audit reports in Parliament/State Legislatures. (The amendment seek to ensure that the reports are invariably placed in the Parliament/Legislatures within 7 days of the first sitting in the next session.)

Question No: 4

Is the C&AG overstepping his mandate ?

Should the CAG audit policy ?

Is audit activism desirable ?

List of
Major and Minor
Head of Accounts
(LMMHA)

BASIC STRUCTURE OF THE FORM OF ACCOUNTS

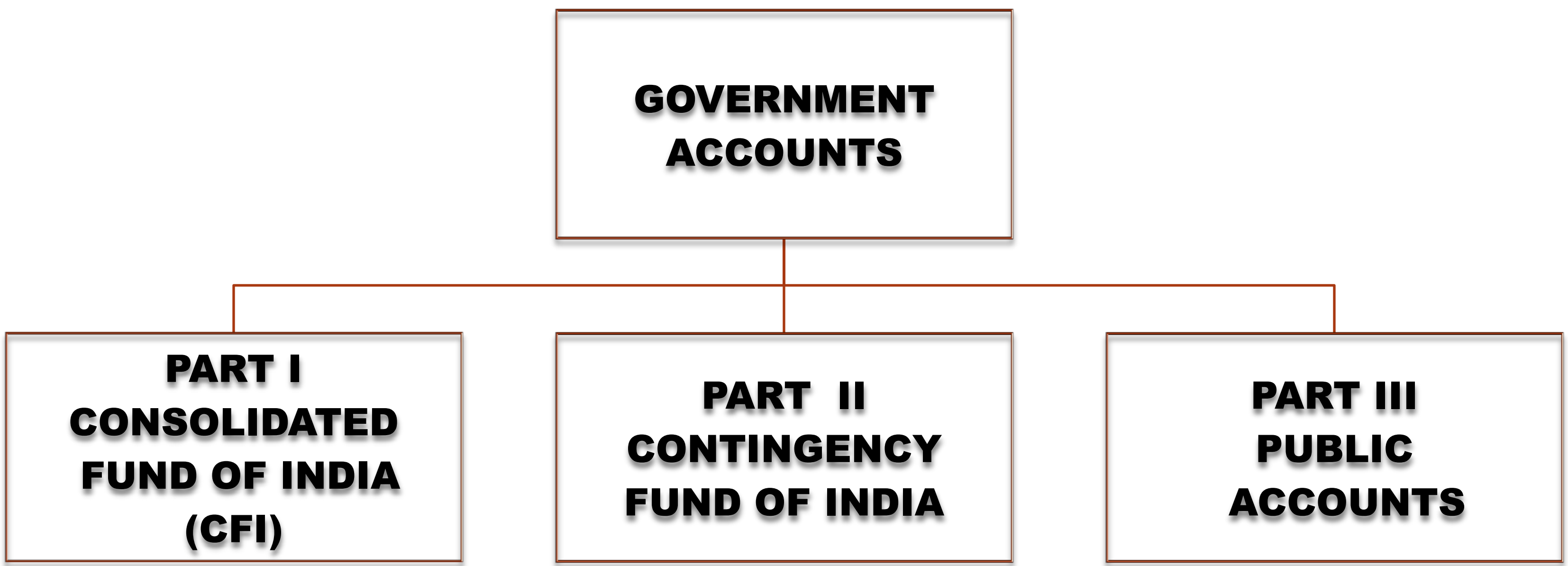
- Article 150 of the constitution of India provides that the Accounts of the Union Government shall be kept in such form as the president may, on the advice of comptroller & auditor general of India, prescribe.

Chart of Accounts

- Grouping of transactions into homogeneous classes for generating meaningful information.
- Chart of Accounts provides the framework for Financial Reporting to identify, aggregate, and report financial transactions for
  - Planning,
  - Resource allocation,
  - Management control,
  - Accounting,
  - Statistical and Evaluation purposes.

Main Divisions of Accounts

- As per Articles 266 and 267 of Constitution of India



Sector Classification

- For the purpose of bifurcation of expenditure in terms of functions, programmes, and schemes, it is classified into the following broad categories (Sectors):

  i. Administrative (General).

  ii. Social.

  iii. Economic.

Further Classification

- Below each of the above Sectors, expenditure is divided in terms of
  i. functions,
  ii. programmes, and
  iii. schemes.
- Large functions are divided into sub functions.
- Schemes are implemented by incurring:
  i. Staff related expenditure, like Salary.
  ii. expenditure on purchase of material.
  iii. expenditure on Construction, maintenance , service and
  iv. consultancy contracts.
  v. fuel, power, etc.

Accounting Classification System

For the purpose of Accounting and Budgeting

- Sector/Sub-sectors – represent Services
- Functions are represented by Major Heads.
- Sub functions are represented by Sub major Heads.
- Programmes are represented by Minor Heads,
- Schemes are represented by Sub Heads.
- Sub Schemes are represented by Detailed Heads
- Economic Nature /Object are represented by Object Head

- This whole system is called Accounting Classification System.

Coding Pattern

- Codification Starts At 'Major Head' Level.
- It Ends With The 'Object' Level.
- Range of Major Heads Denotes Sector/Sub-sector.
- There Is Scope For Expansion At All Levels.
- Ministry of Finance Allot The Codes.

Coding Structure

Sector/Sub-sectors	-Letters of Alphabet.
Major Heads	- 4 Digits
Sub-major Head	- 2 Digits
Minor Head	- 3 Digits
Sub-head	- 2 Digits
Detailed Head	- 2 Digits
Object Head	- 2 Digits
TOTAL	**- 15 Digit**

Coding Structure adopted by A.P

• Major Heads	- 4 Digits	(Function)
• Sub-major Head	- 2 Digits	(Sub function)
• Minor Head	- 3 Digits	(Programme)
• Sub-head	- 2 Digits	(Scheme)
• Object Head	- 3 Digits	(Object)
• Sub-Detailed Head	- 3 Digits	
• **TOTAL**	**-17 Digits**	

Major Head

The First Digit Indicates the following :

- ‘0’ or ‘1’ - Revenue Receipts
- ‘2’ or ‘3’ - Revenue Expenditure
- ‘4000’ - Capital Receipts
- ‘4’ or ‘5’ - Capital Expenditure
- ‘6’ or ‘7’ - Loan Heads
- ‘8000’ - Contingency Fund
- ‘8’ - Public Account

Sub-Major Head

- In cases where sub-functions are identified under any Major Head -they are classified as Sub Major Heads.

- These Heads are of two digits.

  - ‘01’ - Starting Code Under Each Major Head.

  - ‘00’ - Where No Sub-major Head Exists.

  - ‘80’ - For The Standard Nomenclature ‘General’.

Minor Head

- Some Codes are Reserved as Standard Code.
- These Codes are In ‘001-100’ & ‘750-900’ Series.
  Examples :

  - ‘001’ - Direction and Administration.
  - ‘004’ - Research/Research Development.
  - ‘052’ - Machinery and Equipment.
  - ‘798’ - International Cooperation.
  - ‘799’ - Suspense.
  - ‘800’ - Other Receipts/Deposits/Loans/Exp.
  - ‘900’ - For Deduct Receipt or Exp.

Minor Head

- Pattern of Non-standard Heads
  - From ‘101’ - Revenue Expenditure Series.
  - From ‘201’ - Capital and Loan Series.
  - Same Code For Same Description In Revenue, Capital & Loan

Coding Structure adopted by A.P – an Example

- Major Head : 2415 **(Agricultural Research and Education)**
- Sub Major Head : 01 **(Crop Husbandry)**
- Minor Head : 120 **(Assistance to other Institutions)**
- Sub Head : 04 **(Assistance to A. P. Agricultural University)**
- Object Head : 310 **(Grants-in-Aid)**
- Sub-Detailed Head: 311 **(G.I.A towards Salaries)**

Coding Structure- Thumb Rule

There is a Thumb Rule which is as follows

- Major Head 4000 =Capital Receipts
- Major Head 8000 =Contingency Fund
  - Now if we deduct 2000 from the Revenue Expenditure MH the corresponding Revenue Receipt MH may be obtained ;
  - If we add 2000 to the code number of the Revenue Expenditure MH we get the corresponding Capital Expenditure MH
  - If we add 4000 to the revenue expenditure MH we get the code no. for corresponding Loans and advances MH

Economic and Functional Classification

- Apart from the Accounting Classification System, the Budget documents also indicate the Economic Classification
    1. **General Services (1),**
    2. **Social Services (2),**
    3. **Economic Services (3), and**
    4. **Un-allocable (4),i.e. those which cannot be related to specific purposes.**
- The figures (1,2,3 and 4) indicated against each category are prefixed to the concerned Major Heads under the Accounting Classification system to provide for an easy co-relation between the two systems of classification.
- An economic classification of Budget is necessary to make it useful for economic analysis and to determine how these transactions influence the behaviour of other sectors of the economy.
- For this purpose, Government transactions (both receipts and expenditure) are arranged under significant economic categories so that these can be related to important categories of transactions influencing the behaviour of other sectors of economy.

Finance Vs Appropriation Accounts

FINANCE ACCOUNTS

- The Finance Accounts is an audited (C&AG Audit) presentation of the general accounts of the Government to Parliament.
- It comprises of the accounts of receipts and outflows of the Central Government for the year together with the financial results disclosed by different accounts and other data coming under examination.
- The Finance Accounts comprises of two parts- Part I and Part II.
- Part I presents the summarized statements in respect of Revenue, Capital, Debt, Deposit, Suspense and Remittances transactions and Contingency Fund.

APPROP. ACCOUNTS

- These are accounts of the expenditure, voted and charged, of the Government for each financial year compared with the amounts of the voted grants and appropriations charged for different purposes as specified in the schedules appended to the Appropriation Acts.
- These accounts are complementary to the Finance accounts of the annual receipts and disbursements of Government.
- The Appropriation Accounts of the Union Government are submitted to Parliament under the provisions of Article151 of the Constitution.

Finance Vs Appropriation (cont.)

FINANCE ACCOUNTS

- While Part II has detailed statements in respect of these transactions, along with other related statements.
- Part II of the Finance Accounts is further subdivided into two sections 'A' & 'B'.
- While Section 'A' comprises of detailed accounts and statements relating to Receipts and Expenditure on Revenue and Capital accounts.
- Section "B' has detailed accounts and statements relating to Debt, Deposit, Suspense & Remittances transactions and Contingency Fund.

APPROP. ACCOUNTS

- These Accounts are intended to disclose

(a) That the expenditure conforms to the authority governing it (exceptions are listed); and

(b) The effects of re-appropriations ordered by the Ministry/Department.

- If any expenditure in a financial year is incurred in excess of the amounts of voted grants or charged appropriations, the circumstances leading to it will be disclosed through these accounts.
- The regularization of excess expenditure for the year is made through 'Excess Grants' submitted to Parliament under Article 115 of the Constitution after receiving the recommendations of the Public Accounts Committee.

Advantages of the Existing System

- It is simple and easy to use
- The distinction between Revenue /Capital / Loan/Public account can be very easily made from the starting digit of the Major Head.
- Coding for Scheme and Sub scheme are being given by the State Government at their discretion.

Proposed New System

• Office	- 5 Digits
• Function	- 4 Digits
• Sub Function	- 2 Digits
• Programme cum Scheme segment	- 5 digits
• Sub Scheme	- 2 Digits
• Recipient	- 5 Digits
• Target	- 3 Digits
• Geographical Segment	- 2 Digits
• Economic	- 2 Digits
TOTAL	**30 DIGITS**

Benefits Perceived from the New System

- It would allow capturing of almost the entire spectrum of data attributes on public financial operations.
- It would facilitate financial reporting in a variety of ways for meeting information requirements of different stakeholders.
- It would greatly simplify classification and presentation of budget.
- It would be computer friendly and open the accounting database to complete slicing and dicing.
- The retrieval of information from the system will be easier and reporting will be more flexible.
- Maintenance of the Code directory would be far more easier.

Question No: 5

Should this new accounting classification scheme be adopted ?

Report of the
High Level Expert Committee on

Efficient Management of Public Expenditure

PLAN /NON PLAN DISTINCTION

Plan / Non Plan Terminology

- **Economic and Social Planning:** Item No 20 in the Concurrent List
- **AFS:** Article 112: "*.. AFS shall distinguish expenditure on revenue account from other expenditure.*"
- **Plan Non Plan:** Terms not mentioned in the Constitution
- **Development / Non development exp :**

Plan / Non Plan Expenditure

- **Plan Revenue Expenditure** : Incremental expenditure under heads of account which are considered to be development heads in the revenue budget and which figure as sectors in the plan
- Base level expenditure even under such development heads is non plan expenditure.
- All the committed liabilities get shifted to the Non-Plan at the end of a plan period .
- **Non-Plan Expenditure**: All expenditure under non development heads , base level and incremental is non plan expenditure.

Recommendations of the Report

- Plan and Non-Plan distinction in the budget is neither able to provide a satisfactory classification of developmental and non-developmental dimensions of Government expenditure nor an appropriate budgetary framework.
- The distinction, has therefore, become dysfunctional.
- Hence ,Plan and Non-Plan distinction in the budget should be removed.
- This will facilitate linking expenditure to outcomes and better public expenditure management.

Question No: 6

Should this Distinction between Plan and Non Plan be Removed?

Financial Accountability

- The responsibility to give an explanation of one's action is accountability and the responsibility towards public money is called Financial Accountability.
- The responsibility of the Government officer, who is entrusted with duties of dealing with public money is greater than his responsibility towards private money.
- This activity has different stages right from planning, budgeting, drawal, disbursing, accounting, reconciliation, getting the accounts audited and replying to PAC.
- Besides this cycle of finances, the money spent creates assets. Hence, asset management also forms part of Financial Accountability.

Financial Accountability

- It is a generally accepted principle that those responsible for the conduct of public activity and the handling of public money should be held fully accountable for:

  a) ensuring that public money is safeguarded and properly accounted for
  b) Conducting activity in accordance with the law and standards
  c) delivering services in an economic, efficient and effective manner and strengthening service delivery performance, by establishing and seeking to achieve targets and meet community expectations of outcomes.

Source: Handbook on Financial Accountability Prepared & Published by C.G.G. Govt. of A.P

Codes and Manuals

- The Constitution of India is the premier source of financial management and accountability provisions.
- A.P Business Rules were issued by the Governor of A.P exercising the powers conferred by the Constitution.
- The Business rules confer powers and responsibilities on the Finance Department for development of more detailed rules and procedures, which guide the budget process and financial management of the State.
- Accordingly, Finance Department has developed four generic Codes and Manuals i.e.
    - Andhra Pradesh Budget Manual,
    - Andhra Pradesh Treasury Code,
    - Andhra Pradesh Financial Code and
    - Andhra Pradesh Accounts Code.

Codes and Manuals (cont..)

- **A.P Budget Manual** : It outlines the process for formulation of the budget, changes to the Budget Estimates in Budget execution during the year. In particular, it outlines the accountabilities of line departments in the budget process.
- **A.P Treasury Code** : It is primary reference source to the Treasury officials. It contains control systems, procedures for withdrawal, payment, custody of monies, responsibilities of officers and forms to be used for discharge of those responsibilities. It also contains detailed instructions to the Drawing & Disbursing Officers in handling of Government monies.
- **A.P Financial Code :** It is for departmental use, particularly to guide the work of Drawing & Disbursing Officers in line Departments. It has procedures in all areas of departmental financial management and also contains delegation of financial powers.

Codes and Manuals (cont..)

- **A.P Accounts Code :** It sets out how all financial transactions are to be accounted for. The A.P Accounts Code comprises the Comptroller and Auditor General's (CAG) rules together with local rulings relating to local A.P variations in accounts procedure.
- The code sets out the general principles, methods of accounts, forms and the directions of CAG relating to initial accounts to be kept and rendered by Treasuries, Public Works and Forest Departments.

Source: Handbook on Financial Accountability Prepared & Published by C.G.G. Govt. of A.P

What is Accounting?

- Accounting is the systematic recording, reporting, and analysis of financial transactions of a business/ organisation.
- Accounts help us to understand the organisation's **financial performance,**
  - its capability to **survive and expand**, and
  - to meet its **objectives and targets.**
- Accounting also brings **transparency** in the organisation's activities and helps the management to **monitor and improve its performance.**

Types of Government Accounts

- Every Govt. whether Central or State prepares the following types of Accounts:
    - Monthly Accounts .
    - Annual Finance Accounts.
    - Annual Appropriation Accounts.

Purpose

- 1. To record transactions relating to receipts and disbursements into & from the following funds maintained by the Govt:
- i) Consolidated fund of India
- ii) Contingency fund of India
- iii) Public Accounts
- 2. To show the position of Govt. debt (borrowings), loans & advances (made out to State Govts. & others) and investments.

Purpose (cont..)

- To depict Govt. expenditure and receipts in terms of Government functions, programmes and schemes to meet the following broad objectives:
- i) Administrative
- ii) Social.
- iii) Economic.
- To present a comparative position of budgetary allocations & actual expenditure.
- Central Govt. and State Govts. separately maintain all the three funds, Consolidated Fund, the Contingency fund, and the Public Accounts.

Procedure for Accounting Expenditure

- After writing the cheque, the PAO writes the details of the transaction in the daily Cash Book using the 'Double Entry' System of Accounting.
- The transaction is written using Major- Minor head classification up to 'detailed head'.
- From cash book, the PAO posts 'Ledger Accounts'
- At the end of the month compiles ' Monthly Accounts'.
- At the end of the year PAO compiles ' Information for annual accounts' of the Ministry/ Department , and for incorporation in the Central Govt.'s ' Annual Finance Accounts'

Procedure for Accounting Receipt

- Cheques/ bank drafts/cash forming Govt receipts can be received by a DDO or a PAO.

- It can also be directly paid in bank along with a 'challan' giving details of the Govt receipts & their accounting heads.

- The DDO/ PAO receiving Govt. revenues are required to immediately deposit the cheque/ bank draft/ cash with the 'accredited bank' along with 'Challan'

- If DDO has received Govt revenues, he will send a copy of the challan to PAO for writing the books of accounts.

- From details given in the challan, the PAO shall post the daily 'Cash Book' using the 'Double Entry' system.

- Then, as in the case of expenditure, he will post ledger accounts and also follow the rest of the procedure for compilation of accounts.

Departmental Accounts

- From the cash book, each department would compile, the following 'abstracts':
- i) Monthly abstract (Statement) of receipts:
  - this Abstract (Statement) shows departmental receipts under the 3 Funds. The receipts are further divided into Revenue & Capital receipts, and
  - then , in terms of the Accounting Classification System, up to detailed/ object head level.
- ii) Monthly abstract (Statement) of expenditure/ disbursements:
  - This Abstract shows expenditure under the 3 Funds . The expenditure is further divided into Revenue & Capital Exp, and then , in terms of the Accounting Classification System, up to detailed/ object head level.

Departmental Accounts (cont.)

- The amounts will be shown ‘ for the month’ and cumulatively ‘to- end of the month’.
- From the monthly abstracts (statements), the ‘Annual Abstract/ statement’ is compiled by each Department.
- The departmental accounts -monthly and annual- are consolidated into the Ministry’s accounts.
- And then finally into Govt. of India’s ‘Annual Finance Accounts’

Possible Approaches to Questions

Question No: 1

Is this mere number crunching?

Are we drowning in budgetary data ?

How should Budgets be made more Understandable ?

Line Item Budget

- It is a budget initiated by government entities in which budgeted financial statement elements are grouped by administrative entities and object.
- These budget item groups are usually presented in an incremental fashion that is in comparison to previous time periods.
- Line item budgets are also used in private industry for comparison and budgeting of selected object groups and their previous and future expenditure levels within an organization.

Disadvantages

- **Lack of Analysis**
  - It has no capacity to show policy makers what policies and programs public money was being spent for ,and was never mean to.
  - It creates only a superficial analysis of expenditures. Budget preparers may simply accept the status quo, using the thought process that since this budgeting method worked well in previous fiscal years, it should continue to be effective for the coming year.
  - It eliminate the opportunity to take an in-depth look at each line item to determine if the proposed expenditure is truly necessary or if funds could be allocated more efficiently.
- **Spending Rush**
  - A line-item budget may result unnecessarily spending unused funds near the end of the fiscal year. Employing the concept of "use it or lose it“.

Performance Budget

- A budget that reflects the input of resources and the output of services for each unit of an organization. This type of budget is commonly used to show the link between the funds provided to the public and the outcome of these services.
- In other words, allocation of funds and resources are based on their potential results.
- Performance budgets place priority on employees' commitment to produce positive results, particularly in the public sector.

Budget by Objectives

- Due to the difficulty in implementing other budget models, the Budget by Objectives moel emerged.
- In Budget of Objectives, funds are allocated according to the objectives of each governmental entity where each ministry defines its objectives and funds required to realize them. Then each department defines its objectives and funds required to realize them .
- The total of these objectives forms the budget of the ministry or the governmental entity.
- Funds are adjusted based on the ability to apply these objectives in practical reality .

Zero based budget (ZBB)

- In traditional incremental budgeting, Govt. Departments justify only increases over the previous year budget and what has been already spent is automatically sanctioned. No reference is made to the previous level of expenditure.
- By contrast, in zero- based budgeting, every Department function is reviewed comprehensively and all expenditures must be approved, rather than only increases.
- ZBB starts from a "zero base" and every function within an organization is analyzed for its needs and costs.
- Budgets are then built around what is needed for the upcoming period, regardless of whether the budget is higher or lower than the previous one.

Target-Based Budgeting (TBB)

- TBB is a derivative of ZBB.
- TBB makes no attempt to comprehensively re-examine base spending. Rather, each decision unit (e.g., program, department, division) is given a target spending amount and is asked to submit a budget for that amount.
- In addition, the unit may submit requests above the target amount ("decision packages").
- A significant difference from ZBB is that there are no decision packages for cutback spending levels (i.e., the target spending amount) – rather, scrutiny is focused on the single target budget and decision packages are only formed for additional spending.
- The decision packages are ranked, according to alignment with goals and objectives, by the unit that is submitting the package as well as the central budget authority.

Target-Based Budgeting (TBB) (cont.)

- Based on the rankings, some decision packages may be added to the target amount and submitted to the board as a complete proposed budget.
- TBB places a higher premium on revenue projections than ZBB because available revenues are used to determine the target budgets as well as the amount available to fund decision packages (the difference between the target budget and the revenue projection is the amount available to spend on decision packages).
- TBB also provides better and earlier direction to managers in the decision units on how to design their budget requests. Managers have a clear target budget and are told the priorities that decision packages should be aligned with.

Outcome Budget

- The statement, "Government must be responsible for its actions and accountable for results," has been voiced repeatedly by politicians, citizens, the press, and numerous watch dogs of Government.
- One way to address these problems has been to base public budgeting, including other key decisions, on outcomes instead of inputs.
- Outcome budgeting has been characterized as a potential major budgetary reform of the 21st century.
- The efforts by some government agencies to implement this budgeting system signal the emergence of an important paradigm of an effective governmental management and accountability tool.

Outcome Budget (cont.)

- An outcome budget measures the development outcomes of all government programmes.
- In other words it is a means to develop a linkage between the money spent by a government and the results which follow.
- In India, the central government has been putting up the Outcome Budget, which consists all the information about spending by ministries , in the public domain.
- so that all stake holders, including the people's representatives, civil society and the intended beneficiaries of the schemes and projects can scrutinise how well a project has been implemented. This will ensure value for money for government expenditure.

Parliamentary Committees to Review Budgetary Performance

- Estimates Committee
- COPU
- PAC
- Dept Related Standing Committees(1993)
- Railway Convention Committee

Estimates Committee

- **Constitution :**
  - The Estimates Committee, constituted for the first time in 1950, is a Parliamentary Committee consisting of 30 Members, elected every year by the Lok Sabha from amongst its Members.
  - The Chairman of the Committee is appointed by the Speaker from amongst its members.
  - A Minister cannot be elected as a member of the Committee.
- **Term of Office**
  - The term of office of the Committee is one year.
- **Functions**

  a) to report what economies, improvements in organisation, efficiency or administrative reform, consistent with the policy underlying the estimates may be effected;

Estimates Committee (cont.)

b) to suggest alternative policies in order to bring about efficiency and economy in administration;

c) to examine whether the money is well laid out within the limits of the policy implied in the estimates; and

d) to suggest the form in which the estimates shall be presented to Parliament.

- The Committee does not exercise its functions in relation to such Public Undertakings as are allotted to the Committee on Public Undertakings by the Rules of Procedure of Lok Sabha or by the Speaker.
- **Achievements**

b) Since its inception in April, 1950, the Committee has presented 922 Reports covering almost all the Ministries/ Departments of the Government of India. (Out of these 480 are the Original Reports and 442 are A.T.Rs on earlier E.C Reports)

Public Accounts Committee (PAC)

- The Committee on Public Accounts is constituted by Parliament each year for examination of
  - accounts showing the appropriation of sums granted by Parliament for expenditure of Government of India,
  - the annual Finance Accounts of Government of India,
  - and such other Accounts laid before Parliament as the Committee may deem fit.
- Constitution of the Committee:
  - The Committee consists of not more than 22 members comprising 15 members elected by Lok Sabha and not more than 7 members of Rajya Sabha .
  - The Chairman is appointed by the Speaker from amongst its members of Lok Sabha.

Functions of PAC

- In scrutinising the Appropriation Accounts and the Reports of the Comptroller and Auditor-General thereon, it is the duty of the Committee to satisfy itself:
  a) that 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;
  b) that the expenditure conforms to the authority which governs it; and
  c) that every re-appropriation has been made in accordance with the provisions made in this behalf under rules framed by competent authority.
- One of the duties of the Committee is to ascertain that money granted by Parliament has been spent by Government within the scope of the demand.

Functions of PAC (cont.)

- It considers the justification for spending more or less than the amount originally sanctioned.
- If any money has been spent on a service in excess of the amount granted by the House for the purpose, the Committee examines with reference to the facts of each case, the circumstances leading to such an excess and makes such recommendations as it may deem fit.
- The functions of the Committee extend however, "beyond, the formality of expenditure to its wisdom, faithfulness and economy".
- The Committee thus examines cases involving losses, nugatory expenditure and financial irregularities.

Appropriation Accounts

- The purpose of Govt. Accounts is not only to show details of transactions major, minor, subhead and detailed head wise, but also to compare the exp. with budget allocations.
- The Appropriation Accounts are compiled for this purpose. (Art. 151)
- When Govt. compiles budget estimates , it presents exp. In the form of ‘ demands for grants’ to the parliament.
- A ‘demand for grant’ represents all exp. under one or more major heads.
- Demand for grant is just another name given to a type of Govt. exp.

Appropriation Accounts (cont.)

- Under each demand for grant, the expenditure is divided major head wise and than minor and subhead wise.
- Total exp. at subhead level is compared with budget allotment and reasons for variations are explained.
- Based on those explanations, parliament approves the variations.
- Both Excess & shortages have to be explained.
- This whole exercise must be taken up very seriously and more debate should happen on these accounts in both houses of Parliament/Assembly.
- This will bring sanctity to the Budgets and make budgets more Understandable and Meaningful.

Outlays versus Outcomes

- Getting Development from Development Expenditure.
- Outlays do not necessarily mean Outcomes.
- Nation is concerned with outcomes.
- For this to happen :
  - Outcomes to be specifically defined in measurable and monitorable terms.
  - intermediate outputs should also be defined wherever required.
  - Standardising unit cost of delivery.
  - Benchmarking the standards/quality of outcomes and services.
  - Capacity building for requisite efficiency at all levels, in terms of equipment, technology, knowledge and skills.
  - Ensuring flow of right amount of money at the right time to the right level, with neither delay nor “parking” of funds.
  - Effective monitoring and evaluation systems.
  - Involvement of the community/target groups/recipients of the service, with easy access and feedback systems.

Question No: 2

Are Budgets Pragmatic?

Are they based upon realistic estimates ?

Are bureaucrats budget Maximisers ?

Niskanen's Budget Maximizing Bureaucrat model.

- Budget-maximizing model is an influential new stream of public choice theory and rational choice analysis in public administration inaugurated by William Niskanen.
- It argued that rational bureaucrats will always and everywhere seek to increase their budgets in order to increase their own power, thereby contributing strongly to state growth and potentially reducing social efficiency.
- The more services the department supplies, the higher will its budget be. Therefore, the bureaucrat's objective will be to maximize the quantity of services supplied, subject to a social welfare break-even constraint.
- In other words, a utility maximizing model would anticipate that the department would expand services (and budgets) to the point that the marginal cost and marginal benefits are equated.
- In Niskanen's model, he would predict that average costs and benefits would be equated instead of the marginals.

Adopt other budget models?

- In conjunction ?

- Outcome based budget
  - To be dovetailed into the line item budget
- TBB model
  - Plan could be target based

Threshold

- The Inflation rate in a given year, could be the Threshold for all the variations between BE and Actuals for any estimate in the Budget for that year.
- Any variation beyond that should be reasonably justified by the concerned line Department.
- Traditional incremental budgeting, where in departments justify only variances versus past years, based on the assumption that the “baseline" is automatically approved, must be discontinued with.
- The budget requests be re-evaluated thoroughly, starting from the zero-base.
- This process should be independent on whether the total budget or specific line items are increasing or decreasing.
- This process will surely ensure the budget Estimates to be more pragmatic.

Question No: 3

Will Accrual Accounting help in ascertaining the true financial picture ?

Should Accrual Accounting be adopted for Government Accounts in India ?

Cash vs. Accrual

- The cash and accrual deficits are based on the same underlying activities, but the differences arise due to the timing of when the costs of certain activities are recognized.
- For some program areas, the timing difference is small. For others, such as employees pensions, and gratuity compensation, the timing differences will be substantial.
- These differences can cause the cash and accrual deficits to send different signals about the potential costs of individual programs, whether the federal government is in surplus or deficit, and the direction in which the government's financial condition is heading.

What purpose does each measure serve?

- Cash and accrual measures serve different purposes.
- The cash deficit closely approximates the central government's short-term borrowing needs and is a widely used and accepted measure of the government's effect on current financial markets.
- Accrual measures are useful for understanding the government's annual operating cost, including costs incurred today but not payable for years to come.
- Accrual measures also add a longer-term focus to the central government's financial picture by providing more information on longer-term consequences of today's policy decisions, operations, and events. However, they do not include information about the timing of payments and receipts, which can be important.

Purpose (cont.)

- On the liabilities side Accrual Accounting method captures all potential long term liabilities and helps in planning and making provisions to meet those challenges ahead.
- On the Assets side Cash accounting method captures the realistic picture of Financial health, without the distortions of accrued cash flows, those may or may not materialize.
- Therefore, the cash and accrual present complementary information and can be used together to provide a more comprehensive picture of the Government's financial condition today and over time.

Question No: 4

Is the C&AG overstepping his mandate ?

Should the CAG audit policy ?

Is audit activism desirable ?

Types of Audit undertaken by CAG

- **Depending on the objective of Audit, audits are classified as follows**
  - **Compliance Audit**
  - **Financial Attest Audit**
  - **Performance Audit**

- **Besides this there are other audits as well on Information technology and Environmental issues.**

- **Compliance Audit : It is a transaction Audit in which some selected transactions of an entity for a particular financial year is chosen for examination.(for e.g. a purchase made by a medical officer, a contract made by the public works division for building a road)**

- **Financial Attest Audit : It's a "supplementary audit" with the primary auditor usually being a chartered Accountant. It is used to certify how far the accounts are true and fair (i.e. whether the financial statements are properly prepared, complete in all respects and are presented with adequate disclosures.)**

Types of Audit (cont.)

- **The Performance Audit:** It seeks to establish at what cost and to what degree the policies, programme and projects are working. In addition to all the financial audit checks it assess whether a scheme or activity deploys sound means to achieve its intended socio economic objectives.

- **IT Audit :** It takes up audit of computerized systems and e-governance initiatives.

- **Environmental Audit :** It is a performance audit on various environmental issues and then to conduct research on environmental issue and sustainable development

- **Social Audit :** The objective of this Audit is to muster the local knowledge and competence of various civil society organizations for a better reach of the formal audit process and to evaluate the performance of government Scheme. Its being carried out for social sector schemes such as health, education, rural employment and water.

CAG and Audit Activism

- CAG is the highest institution for enforcing the financial accountability of the Central and State governments, other public authorities, institutions receiving substantial funds from the Government.
- Close in the line of judicial activism that has held the country in good stead, the "Supreme Audit Institution of India", the Comptroller and Auditor General of India (CAG) has been at the forefront of the latest fad – 'audit activism'.

The Debate

- CAG has overstepped its mandate.
- The role of the CAG is to merely assess if a policy has been executed in the most optimal manner, and not whether the policy itself is equitable and just in the first place.
- Does it have the power to audit policy?
- The supreme auditing body has the mandate to ensure that government policies are optimally implemented.
- The CAG, as the guardian of the public purse, he has every right to point out that there would have been more receipt into the Consolidated Fund if the policy was different.
- Pranab Mukherji has said so!

CAG's Constructive Role - An example

- Project : Construction of a Multipurpose Auditorium in the campus of a premier technological University of A.P
  - Original Estimation: Rs 4.50Crs.
  - Contract awarded to a Company in : June 2005
  - Stipulated time to complete: 9 months (by March 2006)
- Present position
  - Not yet been completed as of July 2012.
  - Unproductive Expenditure incurred: Rs 1.87Crs.
  - Revised Estimate to complete the project: Rs. 5.82Crs.
- Reasons
  - Delay in providing drawings and designs by the University College
  - Change in designs mid-way .
- Time over Run : 6 years
- Cost over Run : Rs 3.19Crs

Dividing Line

- Various reports of CAG of India have played an important role in exposing the weak governance and corruption in the country.
- The constitutional responsibility of CAG is to provide the citizens, independent assurance on the way in which the government has used and accounted for funds voted by Parliament.
- Financial reporting and analysis on the use of resources, which concerns CAG, is an integral part along with mobilization and allocation of resources according to various priorities, and administration and control.
- Also policies and administration or implementation cannot be de-linked from each other.
- The standard excuse that policy was “good”, but implementation was not, lacks merit.

Dividing Line (cont.)

- A policy should take current and prospective institutional and organizational capacities into account. Without it, policy objectives would be difficult to achieve.
- While it is indeed the prerogative of the executive branch of government to design and implement policies, CAG’s role in analyzing both the transactional integrity and the extent to which the programme achieve better outputs and outcomes with given outlay of budgetary expenditure should also be recognised.
- Indeed, the VFM (value-for-money) audit should become a standard practice for CAG.

Dividing Line (cont.)

- Also CAG, with its Knowledge of budget implementation through performance reviews and scrutiny of Financial Accounts , can contribute some positive and practical steps such as
  - Monitoring the compliance of Center and State with their respective FRBM legislation
  - Advance Audit Authority for New Initiatives.
  - Accounting Support for the National Informational Utilities.

CAG should do Pre Audit

- CAG should be given a role such that it makes sure that laid down systems and procedures have been followed and most advantageous terms have been secured for the Government.
- It should be made mandatory for Government to obtain CAG's clearance for all Major deals, say above 500 Crs.
- To ensure more reasonableness and sanctity to the Audit and at the same time to put in place a checks and balance mechanism the CAG may be made a multi-member Institution akin to Election Commission

Question No: 5

Should this new accounting classification scheme be adopted ?

Limitations of Existing System

- Opaqueness in data on transfers to States.
  - The State wise details of transfers, information on releases to States under various functional heads are not captured.
- Lack of standardization of scheme classification.
  - Plan schemes are not captured uniformly at one level.
- Major Heads do not reflect true functional character of expenditure
  - Also do not correspond to Heads of development used in the planning and resource allocation process.
- Breakup of central Transfers into constituent flows such as F.C grants, N.C.A, A.C.A etc. are not captured.
- Emerging special requirements such as Gender budgeting, SC/ST, North East Region Budgeting .

Comments on the Proposed system

- In the existing system of classification ,the distinction between the Revenue, capital and loans can very clearly identified with the four digit code of Major Head.
- In the proposed system there is no such distinction between Receipts and Expenditure(Revenue , Capital and Loans) as every Major Head records both Receipts and Expenditure under separate Minor Heads.
- As the Proposed system is of 30 digits ,unless the entire budgeting process is fully computerized, implementation of this new system would be very cumbersome.
- Also ,in the existing system the coding for scheme and sub scheme are being given by the State Govts at their discretion.

Comments (cont..)

- In the proposed system ,that discretion to the State Govts has been withdrawn.
- This will pose a problem, since there are so many schemes that are being implemented only by the State Govt. and not in existence either at Centre or in any other State.
- Also for classifying expenditure under EAP, RIDF,AIBP and ACA schemes, separate coding pattern is being followed in the State Govt. Accounts, But in the proposed structure it has been suggested that all these schemes may be classified under Central assistance for State Plan Schemes .

Comments (cont..)

- Rangarajan committee has recommended doing away with the present distinction of Plan and Non Plan expenditure.
- But in the proposed structure separate Programme Minor Head have been suggested for Plan and Non Plan.
- Hence States may be allowed to continue with the existing system till the revised system taking care of all the above observations is built up and simultaneously the States' Finance departments are fully computerised, and in place to implement the revised system.

Expert Committee on "Efficient Management of Public Expenditure" - Recommendations on Classification

- The various problems/issues in the current budget and accounting classification in presenting comprehensive view of central transfer to States may be addressed.
- The proposed classification should provide uniform codes for central programmes, sub programmes and schemes being implemented in the States.
- The Central Plan Scheme Monitoring System (CPSMS) should be extended to enable tracking of expenditure for all central schemes using both treasury route and society route.
- This may require interface of CPSMS with core banking solution of banks and Systems of State Treasuries and AG offices.
- The citizen can also be empowered with information on flow of resources and utilization through a portal thereby promoting transparency and accountability.

Question No: 6

Should this Distinction between Plan and **No**n Plan be Removed?

Plan Size – the game

APPROVED OUTLAY ANNUAL PLAN (Rs. In Crs)											
Sl. No.	Financial Year	ANDHRA PRADESH		GUJARAT		KARNATAKA		MAHARASHTRA		TAMIL NADU	
		Approved Layout	% increase over Previous year	Approved Layout	% increase over Previous year	Approved Layout	% increase over Previous year	Approved Layout	% increase over Previous year	Approved Layout	% increase over Previous year
1	2007-08	30,500		16,000		17,783		20,200		14,000	
2	2008-09	44,000	44.3	21,000	31.3	26,189	47.3	25,000	23.8	16,000	14.3
3	2009-10	33,497	-23.9	23,500	11.9	29,500	12.6	35,959	43.8	17,500	9.4
4	2010-11	36,800	9.9	30,000	27.7	31,050	5.3	37,916	5.4	20,068	14.7
5	2011-12	43,000	16.8	38,000	26.7	38,070	22.6	42,000	10.8	23,535	17.3
6	2012-13	48,935	13.8	51,000	34.2	42,030	10.4	45,000	7.1	28,000	19.0
7	2013-14*	52,955	8.2	58,500	14.7	47,000	11.8	46,938	4.3	37,000	32.1

* Proposed Annual Plan layouts by the respective State governments to the Plg Commn.

Plan Outlay of Gen Category State Governments (₹ billion)						
State	**2011-12 (Revised Outlay)**	**2011-12 total Exp**	**2012-13 (Revised Outlay)**	**2012-13 RE total Expendit**	**2013-14 (Approved Outlay)**	**2013-14 BE total Expenditure**
General Category States						
1. Andhra Pradesh	430.0	**419.0**	449.6	499.0	530.0	593.0
2. Bihar	213.9	229.1	252.0	397.1	340.0	390.5
3. Chhattisgarh	167.1	**153.0**	234.8	**210.1**	252.5	**246.5**
4. Goa	33.2	**23.0**	47.0	**34.8**	47.2	**44.5**
5. Gujarat	380.0	**301.8**	510.0	**420.6**	590.0	**483.6**
6. Haryana	203.3	**125.1**	264.9	**163.3**	270.7	**203.5**
7. Jharkhand	122.3	**109.4**	163.0	188.0	168.0	189.7
8. Karnataka	380.7	**352.2**	421.0	425.2	470.0	508.2
9. Kerala	120.1	**91.5**	140.1	**123.4**	170.0	**145.2**
10. Madhya Pradesh	230.0	262.7	280.0	335.4	355.0	376.1
11. Maharashtra	420.0	**375.1**	450.0	**449.4**	805.0	**525.3**
12. Odisha	123.0	144.1	152.0	181.6	215.0	223.4
13. Punjab	115.2	420.6	140.0	974.3	161.3	1,007.5
14. Rajasthan	275.0	**205.6**	363.6	**295.8**	405.0	**315.2**
15. Tamil Nadu	235.4	341.3	280.0	441.9	371.3	489.0
16. Uttar Pradesh	424.0	437.6	483.0	567.8	692.0	**670.2**
17. West Bengal	222.1	**172.3**	259.1	273.2	303.1	325.7
Total General Category	4,095.3	4,163.4	4,890.1	5,980.9	6,146.1	6,736.9

Plan Outlay of Special Category State Governments (₹ billion)

State	2011-12 (Revised Outlay)	2011-12 total Exp	2012-13 (Revised Outlay)	2012-13 RE total Expendit	2013-14 (Approved Outlay)	2013-14 BE total Expenditure
Special Category States						
1. Arunachal Pradesh	32.0	35.0	35.4	49.3	37.0	48.6
2. Assam	90.0	**89.3**	105.0	170.0	125.0	173.4
3. Himachal Pradesh	33.1	39.4	37.2	43.8	41.0	42.9
4. Jammu and Kashmir	66.0	67.2	73.0	81.5	73.0	87.5
5. Manipur	27.5	27.6	35.0	**34.1**	36.5	43.6
6. Meghalaya	27.3	28.4	34.8	44.1	41.5	56.4
7. Mizoram	16.2	18.1	23.0	30.1	25.0	**23.0**
8. Nagaland	16.7	20.7	17.4	31.0	20.0	27.9
9. Sikkim	14.0	14.1	18.8	25.7	20.6	25.5
10. Tripura	16.4	24.1	22.5	35.8	25.0	38.1
11. Uttarakhand	78.0	**46.3**	82.0	**81.8**	85.0	87.1
Total II	417.2	410.2	484.1	627.2	529.6	653.9

Available Resources and Plan Performance Gap in Select States

(IN RS CRS)

Sl.No	STATE	Revenue Surplus(+)/ Deficit(-)		Available Debt while maintaining 3% F.D		Shortfall in Expenditure Annual Plan Outlay and Actual Exp.	
		2009-10	2010-11	2009-10	2010-11	2009-10	2010-11
1	Assam	*1,348.00*	*-53.00*	*1550.74*	*1288.65*	*976.91*	*761.90*
2	Bihar	*2,943.00*	*6,316.00*	*0.00*	*1415.00*	*1,816.49*	*1,282.42*
3	Jharkhand	*-10.00*	*836.00*	*414.00*	*2107.00*	*1,671.12*	*972.41*
4	Madhya Pradesh	*5,498.00*	*6,843.00*	*466.00*	*691.00*	*1,564.16*	*-1,156.84*
5	Maharashtra	*-8,006.00*	*-590.00*	*5562.79*	*7443.76*	*8,228.35*	*5,339.22*
6	Meghalaya	*302.00*	*248.00*	*77.36*	*57.39*	*682.13*	*120.80*
7	Odisha	*1,139.00*	*3,908.00*	*2371.00*	*3237.00*	*1,772.25*	*894.33*
8	Punjab	*-6,048.00*	*-5,289.00*	*570.71*	*NA*	*3,626.22*	*825.63*
9	Rajasthan	*-4,747.00*	*1,055.00*	*87.00*	*528.00*	*-700.68*	*2,459.72*
10	Uttar Pradesh	*7,047.00*	*3,508.00*	*0.00*	*0.00*	*1,788.48*	*699.30*
11	UttaraKhand	*-1,171.00*	*-13.00*	*NA*	*0.00*	*2,286.72*	*2,324.90*

Plan Financing

- **RR – NPRE = BCR**

  If RR less than NPRE then Article 275 grant such that

  BCR = 0

- **PRR= BCR + ARM + CA**

  If BCR =0

  PRR= ARM + CA

- **BCR becomes negative**
- **greater than ARM: CA diverted to non plan rev exp**

Plan / Non Plan

- **Plan Expenditure** : is GOOD ??

- **Non-Plan Expenditure**: is BAD ??

Plan Size – the game

- Plan period /FC period not synchronous
- PC should review BCR before every plan. Check provisions for maintenance, DA arrears, transfer of schemes from plan to non plan
- PC as perverse incentives to allow increase in plan size to states ??
- "Discovered " sources of revenue :
  - more efficient collection of state revenues
  - economies in non plan expenditure
- Gadgil formula limitations

Expert Committee on "Efficient Management of Public Expenditure" - on Plan Non-Plan Distinction.

- Due to the complex nature of Government, the policy regarding what should get classified as plan expenditure and what should get classified as Non-Plan expenditure has been losing clarity.
- Besides, a notion has widely gained ground among the policy makers and officials across all levels that plan expenditure is good and Non- Plan is bad.
- This bias in favour of Plan expenditure and against Non-Plan expenditure has led to a situation in which essential Non-Plan expenditure like maintenance of assets is neglected.
- This has also led to a motivation for showing higher plan expenditure and higher plan sizes both at Central and State levels.

Expert Committee on "Efficient Management of Public Expenditure" - on Plan Non-Plan Distinction (cont.)

- Further, several factors such as shift of plan focus from capital to revenue expenditure and the process of transferring expenditure of old schemes to Non-Plan at the end of each Five Year Plan mean that correspondence cannot be drawn between plan and development expenditure.
- The Plan/Non-Plan bifurcation of expenditure has contributed to a fragmented view of resource allocation to various programmes/ schemes.
- With fragmented view, it is difficult not only to ascertain cost of delivering a service but also to link outlays to outcomes.
- Outcomes and outputs of programmes depend on total expenditure, Plan and Non-Plan put together and not merely on Plan expenditure which constitutes about 30% of the total expenditure only.

THANKYOU

v.bhaskar@nic.in