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CONTROL OF PUBLIC EXPENDITURE IN INDIA

A HISTORICAL AND ANALYTICAL ACCOUNT OF THE ADMINISTRATIVE, AUDIT AND PARLIAMENTARY PROCESSES

A. PREMCHAND



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To

FATHER

who is no more

and to

MOTHER

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My greatest debt, however, is to my wife, who has been a source of constant encouragement and sympathetic understanding and to my children—Lakshmi and Padma—who put up with sweet grace all the troubles and worries involved in the preparation of the book.

I should, however, like to make it clear that the opinions expressed in the book are my personal views and do not in

any way represent the views of the institution where I am employed and I alone am responsible for any omissions and mistakes.

New Delhi, A.P.
5 January, 1963

PREFACE TO SECOND EDITION

THE opportunity of bringing out the second edition has been utilised to revise the contents of some of the Chapters with a view to incorporating the developments that have taken place during and after 1963. A new Chapter on Separation of Audit from Accounts has been added. This chapter is based on my article published earlier in the *Commerce*. My grateful thanks are to the Editor for permitting reproduction of parts of the article.

As earlier, no attempt has been made to deal with the control on Public Enterprises. It is for this reason that no review of the working of the Committee on Public Undertakings is included in Part III of the book.

Once again I am indebted to Mrs. A. Chaya Devi for preparing the index.

New Delhi, A.P.
June, 1966

PREFACE TO FIRST EDITION

THE consistent growth in the public expenditure both at the Centre and in the States, particularly during the last decade, raises a few questions to every tax payer. Though the magnitude, level and direction of these expenditures can and have in fact been justified on the basis of the social, political and economic objectives of the nation as represented through the Five Year Plans, the tax-payer is entitled to know whether any machinery is in existence to ensure that the services rendered to him are rendered economically and efficiently. This book seeks to provide a detailed answer to such a question.

This is a study of the Control of Public Expenditure in India and is intended to examine the working of the administrative machinery established for the purpose of ensuring control and the techniques adopted by that machinery to achieve its objectives and purposes. The machinery established for the purpose, as is generally known, is the Ministry of Finance. The control exercised by this Ministry has undergone various changes during the century that the Ministry/Department has been in existence. Also the control which in the early periods after 1859 was the exclusive responsibility of the Finance Department has come to be decentralised and is now more a responsibility of the administrative ministry concerned. Since the 'control' now exercised is a sort of a joint effort of the administrative ministries and the Finance Ministry, the term 'Treasury Control' which was hitherto used to indicate the control of the Finance Department/Ministry is replaced in the following analysis by the term 'administrative control'.

Essentially, the overall process of control of expenditure is a three-fold one—each stage representing a distinct set of duties and responsibilities. The three-fold process of control is (*a*) Administrative Control, (*b*) Audit Control and (*c*) Parliamen-

tary Control. The three parts of the study are devoted respectively to a discussion of the related problems and procedures encountered and followed by these three authorities in their own spheres. These three agencies are responsible for ensuring the accountability of the Governmental funds, whether spent by the Central Government directly or spent through other agencies such as the States and autonomous agencies, etc. on behalf of the Government.

Part I is devoted to a study of Administrative Control. The chapters, each one of them, are intended to answer typical questions on the subject, such as: what was the system of control during the British rule? What are the techniques of control and what are the associated problems? What improvements have been made in the institutional framework of control during the post-independence period? How are developmental expenditures planned and controlled? What are the relations between the Centre and the States in spheres other than those laid down in the Constitution? and how are the Central grants to States and other corporate bodies envisaged, planned and utilised? How are they controlled? and what has been the expenditure control policy during the last century? Each chapter provides a perceptive historical summary, throws light on the operational aspects, and seeks to discuss the problems of the day. The treatment of the subject has a certain amount of budgetary slant, but this is inevitable as the process of planning expenditures is basically a budgetary process in itself.

Part II is devoted to a study of the Audit. This part analyses the nature of audit, types of audit, functions of the Comptroller and Auditor-General and the relations between the administration and audit. An appendix is also added on 'Exchequer Control', which notwithstanding the clear imperatives of the Constitution has yet to become a reality.

Part III deals with Parliamentary Control. The books available on financial administration generally, and Parliament in particular contain elaborate chapters on parliamentary control and the financial committees. This present attempt, however, goes a step further, in that it seeks to analyse the recent developments, and the points of weakness and strength of parliamentary control as

well. This part also includes two detailed chapters on the working of the financial committees.

Each part of this study deals with an independent sphere of activity where each one has its own short-term objectives, techniques, weakness and strong points. But the overall ulterior objective is common to all, viz., to give the maximum at the minimum cost to the tax-payer. It is the combined working of all these factors that can make the control effective and real. In a planned economy where the magnitude of expenditure is of a very high order the need for the combined working of such a system hardly requires any emphasis.

New Delhi, A.P.
5 January, 1963

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PART I
ADMINISTRATIVE CONTROL

Chapter One

THE SYSTEM OF FINANCIAL CONTROL DURING THE BRITISH RULE

It may be that the Public mind of India may expand under our system till it has outgrown that system; that by good government we may educate our subjects into a capacity for better government; that, having become instructed in European knowledge they may in some future age demand European institutions. Whether such a day will ever come I know not. But whenever it comes it will be the proudest day in English History.

T. B. MACAULAY, 1833

I

MORE than two decades after the above statement was made, a tremendous change had taken place in the course and direction of English history. In 1859, immediately after the Sepoy Mutiny, the British Crown assumed responsibility to the governance of India, and became responsible for the administration of the country, as also for the debts, liabilities, contracts and covenants and other commitments entered into by the East India Company. In the process of evolving an administrative machinery, to facilitate the rule by the Crown, it had become inevitable to transplant some of the European (especially British) institutions on the Indian soil. These institutions had come to be established in India, not so much as due to "having become instructed in European knowledge" the 'Nation' demanded such an establishment, as much as it was due to an inherent necessity of the situation. In the processes of this transplantation of the British institutions, some of them were modified, changed, amended and adapted to the requirements of the administration of a colony. Besides, the 'institutions' that were adapted were necessarily to be of such a nature that they could easily fit into the constitu-

tional framework which revolved mainly round the British Parliament and the Secretary of State on the one hand, and the Secretary of State and the Governor-General on the other. One of these institutions which had to be modified and adapted was the institution of Financial Control.

In the UK, the term 'Financial Control' was synonymous with the 'Treasury' which embodied and discharged all the functions in this respect. This institution was brought and planted in India too, though with certain changes. These changes were necessitated, as indicated earlier, partly due to the constitutional factors and partly due to the system of division of powers and responsibilities between the Secretary of State, and the Governor-General, etc.

Scope

A study of the history of the 'financial control' that has come to be so transplanted, is the content of this chapter. The scope of this study does not go beyond a narration of the historical events that helped the establishment of a 'Finance Department' and to a survey of the various factors that contributed to the growth of financial control. This study as we shall presently see would reveal that the 'control' at the Centre was not confined to the Central Government alone, but also included the provincial activities in its purview. The responsibility of the Central Government included during the early years the management and control of the provincial finances too. The study, therefore, also includes an account of the relations between the Secretary of State, the Governor-General and the Governor, who together represented the three-tier centralised bureaucratic system of these years. Before we proceed ahead with the study of such a system, a few limitations of this chapter may be mentioned. The control as exercised by these three different authorities included matters relating to taxes, borrowing, and distribution of sources of revenue between the Centre and the provinces. The scope of the study in this chapter does not take into consideration these aspects, and is exclusively concerned with the pattern of financial control in so far as it related to the control of expenditures.

The entire period of British Rule may be divided for the

purposes of this study into three phases—each one of which had witnessed and had undergone important changes in the content and form of the organisation. These changes were partly the result of the constitutional changes undertaken at different times and partly the result of an awareness on the part of the government of the need for an improvement in the system. The constitutional changes were responsible for the varying relations between the Secretary of State, the Governor-General and the Governor of province, while the other changes referred to were mostly improvements made in the field of central financial control brought about by the introduction of different techniques of control by persons who had an enormous amount of enthusiasm for reorganisation stemming out of a keen recognition of the need for reform.

The three phases are: (*i*) 1858 to 1919, (*ii*) constitutional reforms of 1919 and the period up to 1935, and (*iii*) 1935 to 1947. It is with a narrative of the events that took place in these three periods that we will be concerned in this chapter.

The First Phase—1858-1919

The powers of the Government of India in regard to expenditure were derived from the 1858 Act. Under this Act the revenues and expenditures of the country were treated as one unit in themselves, and the powers of the Government of India were uniformly applicable throughout the length and the breadth of British India. All revenues went to the government and all but a trifling expenditure had to be defrayed on its orders. The system represented a highly centralised organisation. The centralised system was a legacy of the past, arising out of the continuance of the commercial principles practised by the East India Company whose main feature was to have a firm grip on revenue and expenditure.

The essential mechanisms of the control of expenditures, immediately after the transfer of power to the Crown, were operated at three levels: (*i*) The Secretary of State; (*ii*) The Finance Member and the Governor-General; and (*iii*) the provincial agencies. We may now briefly survey the responsibilities and powers of control at these three levels.

The Secretary of State

With the transfer of power from the Company to the Crown, the Secretary of State became the fountain of authority in so far as Indian affairs were concerned. The 1858 Act itself provided that all the powers of the Company and the Board of Control should be exercised by the Secretary of State in concert, in certain cases, with a council. Under such an omnibus provision, naturally enough, the expenditures out of the revenues of India also came under the control of the Secretary of State and no grant or appropriation could be made without his consent. The Secretary of State, in his turn, was responsible to the British Parliament, to whom, it was required by law, that the Secretary should submit an annual statement of the Indian finances.

Though the entire responsibility for the financial administration of the country was the responsibility of the Secretary of State, yet, considering the distance between him and the Governor-General, it was physically impossible for the Secretary of State to 'administer' every activity. Also, apart from the physical impossibility, such a step would have deprived the Governor-General and the growing administrative machinery, of any work. Having this difficulty in view, the Secretary of State delegated to the Government of India large but strictly defined financial powers enabling the Governor-General to create new offices of minor importance and incur fresh expenditure. The powers delegated by the Secretary of State were many and varied and, from time to time, have undergone considerable changes.

The Secretary of State's control over the Governor-General, and through him, on the expenditures of the Government of India, was two-fold: (*i*) acceptance of the Budget and (*ii*) regulation and control of expenditures through codes, and numerous executive orders.

The Budget proposals of the Government of India (the emphasis of which was mainly on the taxation) were to be referred to the Secretary of State in the first instance and were to be approved by him. The Budget, *inter alia* included the expenditure programmes (which were limited) of the government. After approval of the Budget by the Secretary of State a resolution was issued indicating the limits of expenditure within which

the Governor-General could incur expenditure without previous reference to the Secretary of State. In cases of emergency, however, the Government of India was allowed to spend any amounts it considered fit and, in respect of cases where reference to the Secretary of State would cause delay and, therefore, be injurious to the 'public interest', there was practically no limit to the financial powers of the government.

The second medium through which the Secretary of State exercised control was through the voluminous 'Codes and Regulations'. Numerous codes indicating the powers of the Governor-General and the provincial agencies were drawn up. These codes specified the limits of expenditure practically in all fields of governmental expenditure; for example, the powers of the Secretary of State in respect of establishment matters were contained in the fundamental rules; and the rules governing the preparation of the estimates and accounts, and the expenditure of money by public accountants were contained in the Civil, Public Works and Military Accounts Codes. The responsibility for ensuring that these codes were strictly followed and adhered to was entrusted within the executive government to the Finance Department, and to the Audit, which was then not yet an independent body.

Through these two methods the Secretary of State exercised considerable control, though not in a positive way, on the expenditures of the Government of India. The control covered all the fields, and allowed little or no freedom to the Governor-General. Consequently the system received bitter criticism from the succesive Governors-General. As Lord Minto observed in a private letter: "I used to imagine that the Secretary of State aimed only at directing great principles of Indian policy and that the administration of the country rested within the Government of India, but there has been interference in everything. It only results in intense worry to the Viceroy, for, do what he will, the Secretary of State cannot administer India."[1] Though in theory the authority of the British Parliament, to whom the Secretary of State was answerable, was supreme, yet in practice, everything depended on the Secretary of State and the Govern-

[1] Sir Malcolm Seton, *The India Office*, p. 81.

ment of India was merely an agent of the Secretary of State. Added to this framework, which itself represented considerable concentration of powers was the strong determination of the successive Secretaries of State to exercise firm control on the Government of India. In due course, either because of the system or because of the strong determination or because of both, the supremacy of the Secretary of State was acknowledged on all hands, and very few could dare to go against the wishes of the 'India office' for such a risk could be undertaken only at the expense of their job.[2]

The Governor-General and the Finance Member

The Governor-General was the authority who was responsible to the Secretary of State for the administration of the Government of India. He was assisted in this task by a Council of Members which consisted of the Commander-in-Chief, a Military Member, a Home Member, a Public Works Member, a Finance Member and a Legal Member. Though the Governor-General was the authority responsible for the overall administration of the country, his responsibility in respect of financial matters was discharged by the Finance Member, subject to the approval of the Governor-General and the Council. The Finance Member was responsible for the fiscal management of the government. He was charged with the duties of the preparation of the Budget, raising the revenues, expending the resources, borrowing, and the management of currency, etc. Technically the Finance Member of the Viceroy's Council was nearly as good as the Chancellor of the Exchequer of England. But in practice there were quite a number of differences between the two offices which occasionally gave rise to a feeling that they were poles apart. In England, as the Royal Commission on Expenditure pointed out at a later stage, the Treasury which was presided over by the Prime Minister wielded great and considerable influence on the government as a whole. The experience gained over years and the conventions set up in the process added weight to the advice tendered by it. In India, however, the Finance Member, who

[2] Lord Curzon was one of those who were sacrificed at this altar. For a detailed discussion of the historical development of these relations, see, P. J. Thomas, *Federal Finance in India*, pp. 90-3.

did not inherit any such great traditions had to depend on the Viceroy for support. The power wielded by the Finance Member depended to a large extent on his relations with the Viceroy and on his relations with his colleagues in the Council. These differences between the UK and India made the Royal Commission observe "that the Finance Department in India cannot hold a position similar to that of the Treasury in England".

The Finance Member in his turn was assisted by the Finance Department of the Government of India. The duties of the Finance Member, discharged by him and by his subordinates in the Finance Department, consisted in ensuring, on behalf of the Secretary of State, that the restrictions imposed by him in various matters were not exceeded, and that the rules and regulations laid out in the relevant codes were duly observed.[3] He, together with the department, was also charged with the responsibility, besides being duty bound to ensure obedience to the orders issued by the Secretary of State, of being the custodians of the interests of economy and general financial propriety. These functions formed the basis for its activities and responsibilities. (The Finance Department that has come to be established thus has continued to function in like manner.) The opportunities for fulfilling these responsibilities arose in two ways: (*i*) the budget system, and (*ii*) through the references made to it by other departments before incurring expenditures for obtaining its sanction.

One of the important achievements of Sir James Wilson, the first Finance Member, was the introduction of the Budget System. The process of formulation and presentation of the Budget presented an opportunity to the Finance Department (*a*) to review the income and expenditure of the next year beforehand; (*b*) to ensure scrutiny of expenditure proposed to be incurred by government; and (*c*) to the formulation of certain uniform budgetary standards. At the time of Budget formulation, the various proposals of the departments, submitted for inclusion in the Budget, were considered from the points of view of efficiency and adequacy. It meant that only such of those

[3] See the Memorandum submitted by the Finance Department to the Committee on Division of Functions (31 December 1918).

expenditures which withstood these tests were included in the Budget. It also meant that they were included after a detailed scrutiny. This scrutiny was supplemented by the extensive and detailed examination carried out at a later stage in which the Finance Department considered the proposals of the departments for the purpose of issuing expenditure sanctions. The inclusion of an item in the Budget did not mean that the department concerned was free to spend on it. It had again to approach the Finance Department for its specific concurrence for the issue of an expenditure sanction. The Rules of Executive Business of the Viceroy provided that no proposal involving expenditure could be given effect to except with the concurrence of the Finance Department.[4] The effect of this was that the Finance Department got an opportunity of critically commenting on all new expenditure of any importance, and also of inviting the departments of government which had interest in the purpose of expenditure to examine these expenditure proposals in their administrative aspects also. The Finance Department was empowered to challenge the necessity for expenditure and could bring to notice obvious objections on extravagances. It was empowered to call for facts in regard to matters which, it considered, were not given sufficient weight and justification in support of a proposal. But it was not empowered to overrule or reject any proposal of a department. The opinion and the approach of the administrative department was to be given due weight; and if the Finance Department still found a certain proposal objectionable all that it could do was not to reject it but to demand a reference to the Council of the Viceroy, where the matters were finally decided. The efficacy of the financial advice given by the Finance Department thus depended a good deal on the support received by the Member for Finance from the Viceroy. Another significant aspect of the Finance Department's working was its responsibility in regard to establishment matters (conditions of service of government employees) where it sought to achieve a certain degree of uniformity. This uniformity was achieved through the codes, such as the Civil Service Regulations Funda-

[4] This rule was carried through in 1919 and 1935 Reforms also. It forms part of the procedure now in force. See Chapter II.

mental Rules, etc. devised for the purpose by the Finance Department. Thus the Finance Department carried a load of onerous responsibilities in this respect as a part of the overall fiscal management of the government and used the twin instruments of Budget and Codes as its means for achieving the objectives.

Control over Provinces

Until 1858, the system of administration was a highly centralised one. The centralised administrative system was to some extent a by-product of the different courses that Indian history had taken. As the Simon Commission observed: "There is another influence deeply rooted in the traditions of Indian life which has profoundly affected the course taken by the system of Public Finance. It is the long tradition of centralised administration whose origins can be traced back to the earlier invasions and conquests." The Mughal financial system included a control that was imposed by decrees by a distant and remote authority and applied in every district by the agents of all-powerful Central Government. This system continued with variations even during the Company rule. After the enactment of the Regulating Act in 1733, the Presidency of Bengal was given a certain amount of supremacy and power of superintending and controlling the governments of the other two Presidencies at Madras and Bombay. This supremacy was allowed to continue and was carried through the 1784 and 1793 Acts also. Under this system there was practically no freedom for the Governor of a province. For example, Section 59 of the Chapter Act of 1833 provided that "No Governor or Governor in Council shall have the power of creating any new office, or granting any salary, gratuity or allowance, without the previous sanction of the Governor-General of India in Council". The powers of the Governors were virtually nil. They were merely a 'subordinate agency' to the Governor-General. It was an era which witnessed an excessive dependence of the provinces on the Centre.

This system which was prevalent on the eve of the transfer of power to the Crown in 1858, was allowed to continue for a decade without any change and interruption. As the Simon Commission observed: "The reorganisation which followed the

transfer to Crown in 1859 was not at once accompanied by any change in the very highly centralised system of government under which the Governor-General retained complete control over financial resources as well as expenditure." Thus the control of the Central Finance Department continued to be exercised on the provincial expenditures also. Such a control on provincial expenditures was exercised mainly through the codes and through the consideration of 'Provincial Budget Proposals'. As the 1919 Report on Indian Constitutional Reforms stated: "A powerful instrument by means of which the Government of India exercises control over expenditure in the provinces is the series of codes of instructions, such as Civil Service regulations, the Civil Account Code, the Public Works Code and the like. These deal with the mechanism of finance, such as the maintenance of uniform system of audit and accounting, the custody of public money, remittances, economy and such matters, but they also impose definite restraints upon the powers of the provincial governments." The financial powers given to the provinces were few and most of the powers were still retained at the Centre. The reform in these matters was taken up after more than a decade after the transfer of power (the story of Devolution of Powers is traced in the following pages). Meanwhile the provincial dependence continued as earlier, for the provinces were not yet empowered or allowed any discretion for sanctioning fresh charges. And no one, least of all the Finance Member himself, was happy with such a situation. Sir James Wilson contemplated a change in the system.[5] But before he could make any headway, his career came to a sudden and tragic end, and with that the 'reform' movement received a temporary setback.

The preceding paragraphs give the salient features of the financial system that was evolved immediately after the transfer of power to the Crown. The system owed its existence to the skill and ingenuity of Sir James Wilson who moulded it in such a manner that it could effectively discharge its functions. Sir James Wilson, who was a pioneer in the field, should be regarded

[5] P. J. Thomas, *Federal Finance in India*, p. 153.

as the founder of the Indian Financial System; the System, however, had certain limitations and drawbacks.

Limitations

The limitations of a type of control described above may be analysed in two groups: (*i*) those relating to financial control at the Centre, and (*ii*) those in respect of matters which fall within the purview of its control on provincial expenditures.

The primary limitation in the exercise of this financial control was the relationship between the Finance Member and the Viceroy. The unpleasant duty of the Finance Member to cut down some proposals for expenditure was not always supported by the Viceroy, and such a lack of support was more apparent in the case of military expenditure. Sir Auckland Colvin stated before the Royal Commission on Expenditure that, after 1885, when military considerations gained the upper hand, the powers of the Finance Member came to be undermined. These views, although not shared by many of the ex-Viceroys like Northbrook and Ripon, who also gave evidence, the Commission itself felt that "there can be no question that the opinion of the Viceroy is a most potent factor in Indian Administration.... It must not be forgotten that questions in the Executive Council are settled by a vote of majority." In regard to the complaint, that in the consideration of military expenditures the financial considerations were not always given due weight,[6] the Commission stated, "when questions of national defence have gained the public ear, financial considerations lose weight, not only in India, but elsewhere also, and to that extent it is inherent in the situation itself." But the Commission hastened to add: "So far as regulations can establish a sound financial control the system in India is theoretically complete." Notwithstanding this satisfaction

[6] Sir David Barbour had the following answer to the Royal Commission on Expenditure (1896) when he was asked (Q. No. 2227): "And therefore, supposing the Viceroy is inclined to some military operation and the Military Member of the Council is not actively opposed to the Commander-in-Chief would there at once be a large majority against the Finance Member?" He answered, "Oh yes, of course." It is important to note that the attempts of the Finance Member, during this period, were mainly directed to reduce the military expenditure, so that the heavy budget deficits could be reduced.

expressed by the Commission, the fact remained that the control in practice was fluctuating with a rise and fall of military expenditure. This was the most important limitation that came in the way of an efficient working of 'financial control'. But the attitude of the Governor-General, and his more generous support to the Military Member, than to the Finance Member, was perhaps inevitable in the contemporary situation when rising military expenditures were also inevitable.

In the field of provincial expenditures, the control proved to be abortive—not because of an inadequacy of control but because of an excess of it. The excessive concentration of financial powers in the Centre allowed little or no freedom to the provinces. In its anxiety to prevent extravagance in the provinces, the Central Government imposed rules of such stringency that no financial authority remained except its own. It was said that if "it became necessary to spend £ 20 on a road between two local markets or to rebuild a stable that had tumbled down or entertain a menial servant on wages of 10 sh. a month, the matter had to be formally reported for the orders of Government of India".[7] The result was a display of false economy, absence of 'real' financial control and incessant wrangling between the Centre and the provinces. The Oliver Twistian approach (Sir, I want some more) of the provinces was not always met with a realistic assessment of the needs of the provinces, but was settled in an *ad hoc* way which pleased neither. As Sir John Strachey wrote, "The distribution of the Public income degenerated into something like a scramble, in which the most violent had the advantage, the stimulus to avoid waste was reduced to a minimum, and so no local growth of the income led to local means of improvement, the interest in developing the public revenues was also brought down to the lowest level."[8] The scramble continued till Lord Mayo's time when a reform was attempted.

Contemporary Techniques

It is in order at this stage to examine a few of 'the innovations'

[7] Sir John Strachey, *India—Its Administration and Progress*, p. 113.
[8] *Ibid.*, p. 114.

introduced by Sir James Wilson during his short career in India, in the techniques of controlling expenditures.

When Sir James assumed office as the Finance Member, the financial situation was by no means heartening. The Mutiny brought about a grave crisis, and, as Sir James pointed out, the condition of Indian Finance was one of chronic deficit. The choice before government was either to increase taxation or reduce spending. The government however chose a judicious combination of both. Despite such a combination of policies and a two-pronged attack there was criticism that the overall national expenses were not subjected to adequate control.[9] (But the criticism was in a way due to a lack of proper appreciation of the activities of the government. Its activities, being what they were, there could never have been an *absolute* reduction in the total expenditures.) The military expenses were considered to be overwhelming and so were the civil expenditures, with the result that the thought of reducing them was never absent from the mind of the Finance Member for many years. Faced with a situation of this gravity, and charged with the responsibility of reducing expenditures, Sir James chose the technique of *ad hoc* commissions to enforce a better control and to ensure economies, instead of the routine departmental control which he was just then reorganising. He appointed a Military Finance Commission to bring about reductions in military expenditure, which otherwise threatened to become intolerable.[10] This Commission brought many a saving in military expenditure and after exercising "for full three years a decisive influence on the fortunes of Indian Finance" merged into the Military Finance Department. This Military Finance Department has been in existence ever since and is now called the Defence (Finance) Division. At a later date Sir James also induced the government to appoint a Civil Finance Commission for the purpose of examining all branches of civil expenditures. Though

[9] Temple observed: "Some who preach economy as a rule seem to think that a favourite project is to be the exception; the sense of its particular merits causes the general maxims to be forgotten." The consequence of such an attitude was the maintenance of the expenditures at the same level without any reduction. Sir Richard Temple, *India in 1882*, p. 449.

[10] Sir R. Temple, *Men and Events of My Time in India*, p. 176.

there was not much scope for greater reductions in civil expenditures yet, as a result of a comprehensive and minute survey, small savings were made in many different directions and the aggregate saving so achieved was considerable.

These two pioneering efforts by Sir James paved a new way, enabling a frequent utilisation of *ad hoc* commissions as a means of bringing about economies, and as a complementary agency to the control exercised by the Finance Department. The later Commissions like the Inchcape Committee on Retrenchment and the Economy Committee (1949) are but a few instances of this technique.

Later Developments

The controlling machinery, described above, continued to exist without any major changes in its field of activity at the Centre. There were, however, major changes in the field of control of the Centre over the provincial expenditures and in fact the financial history of the next sixty years is very largely a history of the growth of the financial authority of the provincial governments by a gradual process of devolution of powers from the Central Government.[11]

As already indicated the control of the Centre on the provinces revealed a highly centralised system. The strain of such a system soon began to be felt, and consequently reforms were launched to bring about a decentralisation of authority and responsibility. The strength and the momentum for such a reform came from two directions: (*a*) a point of view which was opposed to centralisation of power as a principle[12] and (*b*) a second viewpoint which supported decentralisation as a means of avoiding waste and ensuring economy. In support of the former argument it was stated that a concentration of power and centralisation of authority were often necessary and inevitable when the Empire was being gradually built up. "But now that it has been constituted on a firm and peaceful basis, decentralisation is an essential condition of progress." It was argued that such a decentralisation would increase, in a large measure,

[11] Simon Commission Report.

[12] Sir John Strachey, *India—Its Administration and Progress*, p. 116.

the political security of the government. The entire approach of this school of thought was based on the philosophy of localisation of errors; Sir Henry Maine succinctly stated the position thus: "Under a centralised government there is danger of generalising a local mistake. Localised, a mistake can be corrected with comparative ease; it becomes dangerous in proportion to the area of its diffusion."[13] On the other hand, the concentration of power in the hands of the Centre allowed the provinces to be not so very responsible to the management of its finances as would have been the case if they had been entrusted with that responsibility. The provinces never felt the burden of responsibility, with the consequence that a good deal of extravagance and waste was often witnessed. As Lord Mayo said, initiating the scheme of the distribution of financial authority: "I believe, as I have repeatedly said, that if we place administration of portions, both of our revenue and expenditure, in the hands of the local governments, it will lead to economy, to increased responsibility, to the avoidance of much administrative difficulty and above all it will enable the rulers of the country gradually to institute, in various parts of the Empire, something in the shape of local self-government and will eventually tend to associate more and more the natives of this country in the conduct of public affairs."[14]

As a result of this conscious movement and on the basis of the definite proposals made by Sir John Strachey for the reform of the system in 1867 a 'settlement' was arrived at with the provincial governments in 1870. The 'settlement' so arrived at, was based on the principle that each provincial government must be made responsible for the management of its own local finances. Under this system the provincial governments were made responsible for the administration of certain spending departments such as Police, Jails, Education, Medical Services, etc. To enable them to meet the expenditure in this regard, fixed sums were assigned by the Centre to the provinces, and, where the sums so allocated proved inadequate, the provincial governments were allowed to meet the balances by local taxation and by

[13] *Ibid.*, p. 117.

[14] For a full discussion of these aspects, see P. Banerjee, *Provincial Finance in India.*

retaining such of those receipts which accrued in the management of these departments. On the fields of activity, which were given away for management to the provincial governments, the Central Government still retained its supervisory function by the imposition of certain restrictions in matters of creation of posts (no class or grade of officers was to be created or abolished and the pay of no class or grade of officers was to be raised, and no grants of pensions, leave, promotions, etc., which were to be executed in accordance with the rules of the Central Government, sanctioned except with the concurrence of the Centre). In addition, the provincial governments were asked to submit the accounts and estimates to the Central Government in respect of these activities in such forms and at such times as prescribed by the latter.[15]

The scheme of devolution that was thus initiated had a few defects such as the inequality in the grants given to different provinces, and it also suffered from the additional handicap of the inherent inadequacy of financial resources. However, the scheme was in operation for a period of six years. (In 1877, when an opportunity arose to renew the life of the scheme, it was utilised to avoid these defects.) The reforms, all the same, proved useful in another direction. The working of these reforms indicated that since the provincial governments had economically administered the departments entrusted to them, they would make similar attempts to increase the productiveness of the revenues, if they were given a substantial share in such improvements. This experience proved extremely useful. In 1877, the scheme was revised and fresh settlements were made with the provincial governments. These 'settlements' assigned to the provincial governments gave them financial control over services connected with general administration, land revenue, law and justice, etc. It also gave them the revenues raised from law, justice and excise, etc. As a part of this scheme the responsibility for constructing public works for local and provincial purposes was also transferred to the provinces. With the transfer of these departments to the provinces the area of financial control exercised by the Centre began to get limited and simultaneously a

[15] Resolution, 14 December 1870.

provincial Finance Department began to emerge. This provincial department took over the charge of all these areas which were getting out of the Central Finance Department. But the Finance Department in the province as such had not received any substantial shape or form until 1919.

This revised scheme introduced by Lord Lytton was further revised and renewed in 1882, 1887 and 1897. All through these years, the earlier system of control, viz. acceptance of provincial Budget and control through Codes by the Centre, continued. In 1882 the principle of 'Divided Heads' of revenue and expenditure was introduced. This scheme was based on the twin principles relating to the existence of authorities: (*a*) a Central authority which must be supplied with adequate resources to meet the charges of the Services which it administered and (*b*) the provincial governments which were in complete or partial subordination to the Central authority but which also had certain categories of expenditure to be met by it. On this basis certain heads of revenue, and also the corresponding expenditure heads were divided between the Centre and the provinces; and there was a syphoning of resources from the province to the Centre on the one side and a distribution of resources through fixed grants on the other. The system was subjected to a good deal of criticism. It is, however, not within the scope of this study to analyse these criticisms. They come more appropriately under any study of the 'Federal Finance'. In each revision carried on subsequently, the scope of this 'Divided Heads' was increased, while the fixed grants diminished proportionately. In 1904, the contract was revised and a system of 'Quasi Permanent Settlements' were introduced. The important feature of this system was the assignment of definite sources of revenue not to be resumed by the Central Government. The income assigned to the provincial governments was in the form of a defined share of the revenue which they collected, rather than in the form of a grant as was the case earlier.

The semi-permanent system was reviewed by the Royal Decentralisation Commission in 1907 and, on the basis of its survey, the government made the financial settlements with the provinces permanent in 1911. In 1912, a comprehensive resolution was moved laying down the financial relations between the Cen-

tre and the provinces. The objective of all these reforms (leading to a steady devolution of authority, powers and responsibility) was to give the provincial governments a more independent position and a more substantial and enduring interest in the management of their resources than had been previously possible. The situation that grew out of this reform presented a contrast to the earlier conditions when the provincial governments hurried into ill considered proposals in order to raise their apparent standards of expenditure. The new system gave them a continuity of financial policy and allowed them to reap the benefits of their own economies.

The culmination of these reforms is to be found in the statement made by the Secretary of State on 20 August 1917 in the House of Commons, in which he declared that the "policy of His Majesty's Government with which the Government of India are in complete accord, is that of the increasing association of Indians in every branch of administration and the gradual development of self-governing institutions with a view to the progressive realisation of responsible government in India as an integral part of the British Empire". This statement and the subsequent attempts made in India as well as in England eventually resulted in the 1919 reforms.

During this phase the Central Finance Department which had hitherto been an important and a supreme agency, with its control spread throughout the length and the breadth of the Indian sub-continent, slowly sank in stature and in the extent of control with the progressive, though gradual, evolution of authority and decentralisation of responsibility. The 1919 reforms brought a new change in the course and tenor of financial control.

II

1919-1935

The introduction of the Montford reforms changed the entire complexion of the relations between the Centre and the provinces, for these reforms inaugurated a definite provincial responsibility in a number of fields. The reforms recognised that if provincial autonomy was to mean anything real, then the provinces must be independent of the Government of India in

respect of the means of provincial development. The realisation of this objective meant a thorough change in the functions of the provinces and in their relations with the Centre. The 1919 reforms, in so far as they are relevant to financial control, may be considered from the following angles: (*i*) the formation of provincial finance departments; (*ii*) the financial control at the Centre, both in regard to itself and in regard to the provincial matters; and (*iii*) the relations between the Secretary of State and the Government of India.

Formation of a Provincial Finance Department

The provincial Finance Department, whose beginnings have been traced earlier, before the reforms, was a microcosm of the Central Finance Organisation.[16] Generally its control was acknowledged only in theory and its effective functioning was to a very large extent circumscribed by the powers of the Central Government and its Finance Department on the one hand, and on the other, the support it received, which usually varied with the disposition of the government, from the Head of the province.

An added feature which contributed to the difficulties of the Finance Department of the province was the general nature of the departments, to budget for expenditures even when details were not available. A change in this structure was needed to fit the department into the dualistic structure of government recommended in the Montford reforms. The dualistic structure of Government and an almost independent provincial government envisaged in the reforms required a different financial system, whose principles were enunciated thus[17]: (*i*) the present external control over provincial finance must be withdrawn in the largest measure; (*ii*) within the province, each half of the Government ('Reserved subjects' under the members and the 'Transferred subjects' under the ministers) should be made responsible for raising the revenue to provide for the expenditure which it considered necessary; and (*iii*) during the period of training and advance in political experience, the people must be protected from unjustifiable financial burdens.

[16] Memorandum of the Finance Department submitted to the Committee on the Division of Functions (31 December 1918).

[17] *Ibid.*

The withdrawal of external control or the control by the Centre, however, implied the substitution of effective control within the province. This emphasised, naturally, the need for a strong Finance Deparment in the provinces. But then, what were to be the duties and responsibilities of such a Finance Department? The answer was arrived at on the basis of a Memorandum presented by the Finance Department at the Centre to the Committee that considered the implementation of the Montford reforms.[18] The general principles, recommended by the Central Finance Department for the formation of a Finance Department in the provinces were: (*a*) In its association with revenue departments it will exercise steady pressure for efficient assessment and collection. (*b*) It will examine all schemes of new expenditure for which it is proposed to make Budget provision; it was suggested that a rule should be laid down that no new item may be included in the Budget until it has been scrutinised and approved by the Finance Department. It would be the duty of that department to criticise the proposals and to advise on proper estimation. This was to be the preliminary step before inclusion in the Budget. (*c*) No proposal involving an abandonment of revenue or expenditure was to be taken up for implementation except with the concurrence of the Finance Department. (*d*) The department was to act as a safeguard against the influences which make for the lavish growth of public appointments. (*e*) The department was to check expenditure for which there was no budget provision, and (*f*) the department was required to have intimate relations with audit.

These objectives, essential as they were, were later on included in the 'Devolution Rules' of 1919. The Devolution Rules provided for the establishment of a Finance Department which was to be under the control of a member of the Council and he was to be assisted by the Financial Secretary. The 'Devolution Rules' also laid down the functions of the Finance Department and its relations with the 'Transferred' Departments, in which respect it was to act only in an advisory capacity. The functions according to these Rules, in addition to those already mentioned in the preceding paragraph, included: (*a*) It shall be in charge of the

[18] Memorandum of the Finance Department (31 December 1918).

accounts relating to the loans and shall advise on the financial aspect of all transactions relating to such loans. (*b*) It shall be responsible for the safety and maintenance of the famine insurance fund. (*c*) It shall be responsible for seeing that proper financial rules were framed for the guidance of other departments and to ensure that suitable accounts were maintained by the departments and the agencies subordinate to them. (*d*) It should prepare an estimate of the total receipts and disbursements of the province in each year and shall be responsible for watching the balances of the government, during the year. (*e*) In connection with the Budget and with the supplementary estimates it shall (*i*) prepare the statement of the estimated revenue and expenditure which was to be laid before the Legislative Council and any other supplementary estimates that were submitted at a later stage during the year,[19] (*ii*) for the purpose of such preparation it shall obtain from the departments concerned material on which the estimates were to be based and be responsible for the correctness of the material so included; and (*iii*) it shall examine and advise on all schemes of new expenditure for which provision in the estimates was sought and shall decline to provide in the estimates for any scheme which has not been so examined. (*f*) It shall ensure that sanctions are issued only in conformity with the rules and regulations governing that item of expenditure. (*g*) It shall lay the appropriation accounts and the audit report before the Public Accounts Committee and shall bring to the notice of the Committee all expenditure which has not been duly authorised and any financial irregularities. (*h*) It shall advise departments responsible for the collection of revenue regarding the progress of collection and the methods of collection employed. (*i*) After the voting of the grants by the legislature, it shall have the power to sanction any reappropriation within a grant from one major, minor or subordinate Head to another. A member or a minister in charge of a department may undertake such a reappropriation if it did not involve the undertaking of a recurring liability. (*j*) No office may be added to or withdrawn from

[19] The development of the convention of presenting the budget for the consideration of the Legislature is considered in detail in Part III.

the Public Service in the province, and the emoluments of no post may be varied except after consultation with the Finance Department. (*k*) No grant of land or assignment of land revenue shall be given without previous consultation with the Finance Department. (*l*) No proposal involving an abandonment of revenue or involving expenditure for which no provision was made in the Budget shall be submitted to the Legislature without a previous reference to the Finance Department. (*m*) Every report made by the Finance Department on any matter on which it is required to advise or report shall be forwarded to the department concerned and shall be submitted to the Governor, if the Finance Department requires such a submission. (*n*) Whenever previous consultation with the Finance Department is required under these rules, it shall be open to that department to prescribe, by general or special order, cases in which its assent may be presumed to have been given.

These rules enabled the laying of a firm foundation for the establishment of a Finance Department on sound lines. It may be added that most of these Devolution Rules continue to be in operation in the states today. The present day Rules of Business of the states are based on these Rules.

At the time of establishment of the department on these lines an important factor had to be taken into account. It was the form and the shape of the Finance Department in regard to Transferred subjects. As indicated earlier, the progressive realisation of self-government envisaged at this stage included a dyarchical form of government in which certain subjects were retained for administration by 'Members', and a few other subjects were transferred, to be administered by 'Ministers'. The existence of such a system necessitated a certain change in the dealings of the Finance Department with the Transferred Departments, each one of which was under the control of a minister.[20] The Finance Department itself was under a 'Member'. For the very reason that the Finance Department was under a member, it was precluded from exercising its functions in respect of

[20] The Simon Commission reported at a later date: "It was inevitable that under the dyarchical constitution, the Provincial Finance Department should occupy a peculiar and distinctive position in the administrative system."

the Transferred subjects, which were treated as independent for this purpose. To avoid the problems arising from such a division of functions, two suggestions were considered in this respect. One was a suggestion made by Sir Frederick Gauntlett, then Auditor General; and another was the suggestion of the Central Finance Department itself.

Sir Frederick suggested in a memorandum submitted to the Committee on Division of Functions, that the Finance Department may be placed under a sort of a Treasury Board consisting of one member of the Council and one minister. The suggestion was based on the British experience where nominally there was a Treasury Board with the Prime Minister as the First Lord of the Treasury and the Chancellor of the Exchequer. The latter was, however, solely responsible for the fiscal management of the country. The second suggestion was made by the Central Finance Department.[21] The Finance Department conceded in the Memorandum that the division of functions and responsibilities between the 'Reserved subjects' and the 'Transferred subjects' might necessitate the formulation of two Finance Departments to serve each group. The department suggested that this could be avoided by having a Joint Secretary in the Finance Department in addition to the regular Finance Secretary whose business it would be to act as Financial Adviser in respect of all cases coming from departments under the control of ministers. The Committee rejected the suggestion of Sir Frederick as impracticable as "it would lead to delays, divided decisions, and unnecessary opportunities for friction", and accepted the suggestion of the Finance Department, but the suggestion itself was not implemented by any province. The suggestions, however, are significant from two points of view: (*a*) they indicate a systematic attempt to build up the Indian system on the model of the UK and (*b*) the idea of the Financial Adviser, which was suggested at this stage, and whose practical implications were not fully realised—for it was never experimented—marked the beginning of a new system which was used, as we shall presently see, during the Second World War and after Independence. The later schemes however were considerable improvements over the suggestions

[21] Memorandum of the Finance Department (31 December 1918).

made in 1919, but then it has to be conceded that the suggestion explored an altogether different region.

The Finance Department as it emerged out of the 1919 reform was a unified department administered by a member of the Council, but dealing with two different authorities. Its functions were largely advisory but it remained to be the guardian of financial regularity.[22] It was to watch and advise on financial provisions that were necessary to give effect to policies, rather than control the administration. If the advice given by the Finance Department was not acceptable to a Transferred Department, the Finance Department was free to demand a reference to the Governor, and in such a manner it tried to exercise its control.

Finance Department at the Centre

With the formation of a Finance Department in each province, the field of activity of the Central Finance Department became narrower. Its functions, so far as provincial finances were concerned, were now confined only to indirect controls. The Finance Department at the centre continued to exercise its earlier powers in respect of Reserved subjects, but there were a few major changes in respect of Transferred subjects. The Budgets of provincial governments were not required now, as in the past, to be submitted to the Central Finance Department. All the same the Finance Department at the Centre ensured solvency of the provinces through its indirect control on the borrowing powers of the provinces. Under the prevailing procedure no loan was to be raised by the provinces without the permission of the Central Government, and the fields where such loans could be raised were strictly laid down in the Codes. The powers of the Governor-General in Council or the Central Government in respect of 'Transferred subjects' of the province were also considerably reduced.[23] Thus the control was not regular

[22] The Memorandum of the Government of India on the Role of the Finance Department under the Reforms, submitted to the Indian Statutory Commission, Vol. IV, pp. 14-15, 20. See the Commission's *Report*, Vol. I, para. 430.

[23] These limited powers were to be exercised only when the purposes were (1) to safeguard the administration of Central subjects, (2) to decide

or even excessive, except in certain matters where the Centre had a stake. The restriction of its functions, which was only too natural in the context of a decentralisation of authority, allowed the Central Finance Department to devote its attention to its own matters—particularly to its own reorganisation with a view to ensure an effective control over expenditure. As a result of these efforts changes were introduced in about 1924 which cannot, however, be treated as a part of the 1919 reforms. These developments are discussed at a later stage in this chapter.

Control by the Secretary of State

The powers of the Secretary of State remained more or less the same, even after the enactment of 1919 Act. The Act stated thus: "In particular the Secretary of State may, subject to the provisions of this Act, *or rules made thereunder* [the italicised portion was the only addition made to the previous law] superintend, direct and control all acts, operations and concerns which relate to the government or revenues of India, and all grants of salaries, gratuities and allowances and all other payments and changes out of or on the revenues of India." It also provided: "*Subject to the rules of this Act and rules made thereunder* [this again was the only addition to the already existing law] the expenditure of the revenue of India, both in British India and elsewhere, shall be subject to the control of the Secretary of State in Council, and no grant or appropriation of any part of these revenues, or of any other property coming into the possession of the Secretary of State in Control by virtue of the Government of India Act 1858, or this Act shall be made without the concurrence of a majority of votes at a meeting of the Council of India". Thus, the enactment of the 1919 Act did not mean any material difference in the role of the Secretary of State. But the provision included in the Act, viz. "subject to the provisions of this Act and rules made thereunder", enabled the formulation of a new framework of relations and delegation of powers from the Secretary of State to the Provincial and Central

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questions of disagreement between provinces, and (3) to safeguard the functions and duties of the Governor-General himself.

governments. One of the measures taken under this proviso was the establishment of a new controlling authority over expenditure, viz. submission of the Budget grants to the vote of the Assembly.[24] There were two other factors which necessitated a relaxation in the control in so far as provincial finance was concerned. These factors were: (*i*) the existence of the Transferred subjects and (*ii*) the introduction of the new procedure under which Budget grants were submitted to the vote of the Assembly, which rendered it necessary to delegate larger powers to the governments in India. The Secretary of State accordingly delegated a major part of his powers and intervened in matters relating to the Transferred subjects only for the following purposes: (*a*) to safeguard the administration of central subjects, (*b*) to decide questions arising between provinces, (*c*) to safeguard imperial interests, and (*d*) to determine the position of the governments in India in relation to the other parts of the British Empire. These purposes indicate that the control of the Secretary of State was limited in respect of the Transferred subjects. The second direction in which some relaxation was made was in the delegation of financial powers; while there was also an increase in the delegation of powers, in comparison to what they were, yet the Secretary of State continued to retain the powers in regard to the creation and abolition of posts in the All India Services, purchase of stores, and imports, etc.[25]

Added to these controls was the conventional control in respect of provincial borrowings. It would thus appear that there has been some relaxation in the control exercised by the Secre-

[24] *The Indian Statutory Commission Report*, Vol. IV, p. 91.

[25] Under rule 27 and Schedule III of the Devolution Rules, the consent of the Secretary of State was required: (1) to the creation of any new or the abolition of an existing post in the All India Services; (2) to the creation of a post on a pay of Rs. 1,200 p.m.; (3) to a creation of a temporary post exceeding Rs. 4,000 p.m.; (4) to any expenditure on the purchase of imported stores. These rules were further relaxed in 1932.

In so far as Reserved subjects were concerned the principal items requiring the prior concurrence of the Secretary of State were: (1) Sanction of Pay and Allowances of All India Services, (2) Expenditure of Governors, and (3) Revision of Establishments involving an expenditure over a certain limit (specified for the purpose), and Public works estimated at more than Rs. 50 lakhs.

tary of State, but the relaxation itself was not a part of the statute and depended very largely on the attitude of the Secretary of State.[26] This pattern of control even though limited in comparison with the past was criticised as standing in the way of the development of a sense of financial responsibility in the provinces.

The control of the Secretary of State in regard to the Centre had also undergone some change and relaxation.[27] Large powers of expenditure were delegated to the Government of India, with exceptions in a few specified types of cases where, as in the case of the provincial departments, the previous consent of the Secretary of State was necessary. Such a prior consent was considered necessary to enable the Secretary of State to discharge his responsibilities to the British Parliament, to whom he was answerable for all expenditures from Indian public funds. He had of necessity to enforce a better control on the finances than in other matters. As the Simon Commission reported at a later stage, "Over the financial administration of the Central Government, the Secretary of State still maintains a control more rigid than over any other sphere of administration, except perhaps defence and foreign relations".[28]

Though the objectives of the 1919 Reform Scheme appeared progressive and laudable, yet in the practical, day-to-day working of the system, it received many jolts and criticisms from the ministers of the Transferred Departments.[29] It was alleged that the Finance Department was acting as a 'spy' on the Transferred Departments. This and many other similar charges levelled against the Finance Department reduced the value and utility of its control. What was more, the system worked in such a manner that it came in the way of financial decentralisation which was the objective of the Scheme. It was perhaps inherent in the system in as much as the Finance Department was headed by a 'Member' while the Transferred departments were headed by 'Ministers'. Though the scheme contemplated a Financial

[26] Banerjee, *Provincial Finance in India*, p. 247.

[27] Simon Commission Report, para. 431.

[28] *Ibid.*

[29] See the Memorandum of Shri C. Y. Chintamani and K. V. Reddy to the Muddiman Enquiry Committee.

Adviser for the Transferred Departments, the non-implementation of that recommendation made the Finance Department responsible to both the 'Reserved' and 'Transferred' departments. The assumption of this role by the Finance Department was not liked by the 'Ministers', who considered every 'move' of the Finance Department as an 'unauthorised' encroachment on their jurisdiction. What followed was an atmosphere of suspicion and distrust. The lack of joint responsibility in the Cabinet,[30] and the absence of a clear demarcation between the Reserved[31] and the Transferred subjects added to the confusion.

The Finance Department, whose duty it was to watch and advise, exceeded its limits and began to veto and reject proposals. Added to this was the difficulty in matters of reappropriation from one head to another which required consultation with the Finance Department—the procedure regarding which was so very strict that it did not allow any freedom to the ministers; on the contrary it made them lean heavily on the Finance Department. These defects of the reforms scheme were brought out clearly before the Muddiman Committee (Reforms Enquiry Committee) by the witnesses who gave evidence before it in 1924. Surprisingly enough, it came to the notice of the Committee that the resentment to financial control was not from the Transferred departments alone but was echoed equally well by the Reserved departments. The Report of the Committee, which included a majority and a minority report, considered the various difficulties in matters of reappropriation in the scrutiny of estimates by the Finance Department and concluded that a financial control as in the UK, which the committee considered as wholesome, was necessary. The Report stated: "We are agreed that a control of the nature provided in the Devolution Rules is necessary and we do not consider that any substantial modification of these provisions can be made." But the dangers of a dyarchical form of government were much too obvious, and the Minority Report of the Committee considered that the solution was in the replacement of the dyarchical by a unitary and

[30] In Bengal the Legislature refused to accept the joint responsibility of the Cabinet. Simon Commission Report, p. 212.

[31] See the Memorandum of K. V. Reddy (Appendix 5 of the Muddiman Report).

responsible provincial government. As for the problems of financial control, the majority report thought that the utilisation of a Financial Adviser, as originally envisaged, might mitigate the seriousness of the situation. The Minority Report, however, held that the Financial Adviser might prove to be a source of administrative difficulties and friction. No definite solution was either recommended or considered by the Government and therefore the system continued, despite its faults, until 1935, when major constitutional changes were introduced.

Developments in the Field of Financial Control

If the period from 1920 onwards indicated the futility of the working of the dyarchical system in the provinces, it was also the period which witnessed important and significant reforms in the field of financial control at the Centre. During these years considerable attention was paid to the expenditure control and for evolving suitable methods for that purpose. The need for reforms in this direction was continuously spotlighted by the Public Accounts Committee in its reports during these years.

The need for a vigorous expenditure control arose out of the frequent and almost regular occurrence of the excesses over the grants approved by the Legislature. Such an excess of expenditure was (and is) considered to be a negation of Parliamentary control. Therefore the Public Accounts Committee took upon itself on behalf of the Legislature the task of ensuring that the Budget irregularities were not due to any procedural lapses in the system. The Committee frequently commented adversely on the lapses and excesses and suggested that the Government "should take steps to study thoroughly the question of devising adequate checks against such irregularities in the future".[32] The result of such a constant prodding by the Committee was the initiation of a series of measures intended to ensure an adequate control of expenditure. It may be added here that these discussions for improvement in the techniques of control of expenditure were taking place at a time, when the reorganisation of British Financial control was initiated and was being implemented by Sir Warren Fisher. Sir Warren, who complained against

[32] *Epitome*, Vol. I, p. 14.

the omniscience developed by the British Treasury, was determined to make that 'state of affairs' a 'memory', and expressed the hope that it may be "finally relegated to the limbo apropriate to Shibboleths". Sir Warren Fisher's scheme included the delegation of financial responsibility to the Heads of Departments by appointing them as Accounting Officers responsible for the financial administration of their own departments. Though this scheme as such was not introduced in India, yet a variant of it which could be fitted into the constitutional framework of the day, was introduced at the Centre.

The measures taken by the Finance Department during this period to introduce a more effective control of expenditure were mainly three-fold: (*i*) Since the control of expenditure consisted essentially in approximating the actual expenditure to the maximum extent possible to the original estimates, it was considered necessary and imperative to frame the Budget estimates in such a way that it would realistically represent the spending capacities of the departments. The contemporary situation, however, was one wherein the spending departments were prone to overestimate their requirements and underspend the grants, leaving a wide margin between the estimates and the final achievement. The initial scrutiny of Budget estimate was not adequate for the purpose of ensuring a better control, and required efforts even during the execution stage. The efforts of the government had necessarily to be in many directions. In one such direction the government took up, with the support of the Public Accounts Committee[33] the system of making lumpsum cuts, in addition to the detailed cuts in respect of each estimate, in the demands for grants as a whole to allow for probable underspending. (This system of making lumpsum cuts is still in vogue); (*ii*) the second and more important aspect was the change in the system of control itself. Taking a clue from the British experience referred to earlier the Head of each department was made responsible for the 'control of expenditure' under his department. It was his duty to exercise the control over expenditure against the Budget grants, and for this purpose, the 'grant' was divided and assigned to the various

[33] *Epitome*, Vol. I, p. 76.

controlling officers of the departments. The controlling officers were expected to observe the normal canons of financial propriety and to ensure that each expenditure was properly provided for in the Budget and that it was expended in accordance with the rules.[34] With a view to ensuring that the amounts spent had a close relation to the budgeted amounts, the officer was expected to carefully examine the accounts, get them verified and reconciled with the accounts maintained in the Accountant-General's office to ascertain the available balances. It was essential for the controlling officer to keep himself informed not only of actual expenditure against grants, but also of the liabilities that have been incurred and were to be met ultimately from these grants. These reforms paved the way for a better control of expenditure within the administrative departments.

The overall responsibility for financial operations of the Central government rested on the Governor-General for he alone was responsible to the Secretary of State who in his turn was answerable to the British Parliament. The duties of the Governor-General in his turn were carried out by the Finance Department on his behalf. The existence of this three-tier hierarchy of responsibility prevented the Head of an administrative department from being made an Accounting Officer as was done in the UK. In the UK system, as reorganised by Fisher, the accounts were to be maintained departmentally and the Accounting Officer was himself responsible for the regularity and economy in the expenditure of his department. In India, however, the accounts were not departmentalised, and on the contrary the accounting and auditing functions were discharged together by the Auditor-General. Realising that this would be an obstacle in the evolution of a sound system of financial control the Central Finance Department under the leadership of J. C. E. Jukes proposed separation of accounts from audit. His attempts and the details of his scheme cannot be considered in greater detail here, but it is sufficient to realise at this stage, that the separation of Accounts and the establishment of separate Pay and Accounts Officers for each administrative department was intended eventually to pave the way for making the Head

[34] *Ibid.*, pp. 40-4.

of the administrative department the Accounting Officer responsible for the 'economy' and 'regularity' aspects of expenditures. As a part of these reforms, and also as a result of other considerations, the Railway Finances were separated and began to be administered by a Financial Commissioner on behalf of the Finance Department, and the Railways were given a certain amount of autonomy in the management of their revenues. Simultaneously, the Finance Department attached a full-fledged representative to the Posts and Telegraphs Department also for the management of the Postal Finances. These steps indicate that a different treatment was given to commercial departments and to major spenders. The Finance Department at this stage consisted of a Secretary who was coordinating the work of the representatives attached to Railways, P. & T and Defence, and a Deputy Secretary who controlled the civil expenditure of all civil departments and also dealt with the interpretation of rules and regulations.[35] As a result of the increasing emphasis paid to budget scrutiny, as indicated earlier, a post of a Budget officer was created in 1928 charged with the responsibility of all the work relating to the Budget.[36] (*iii*) Another procedure that was introduced as a part of these reforms was the one relating to the periodical collection and compilation of data in regard to the progressive actuals of expenditure incurred.[37] The introduction of such a procedure enabled the Secretariat Departments to keep themselves abreast of the progress of expenditure incurred by its subordinate agencies. The data helped them in matters of budgetary forecasts, and in course of time this procedure became a valuable instrument in the control of expenditure to the administrative departments.

These developments have laid a firm foundation for a better financial system. The system that emerged from these reforms was in every respect better than what it was before. The same system, with occasional improvements here and there, has continued ever since. These developments that took place between 1920-1925 may be appropriately considered as the structures raised on the foundations laid by Sir James Wilson.

[35] Memorandum to the Standing Finance Committee, 31 August 1928.
[36] *Ibid.*
[37] *Epitome*, Vol. I, p. 14.

III

1935-1947

The dyarchical system introduced in 1919 was abandoned with the enactment of the 1935 Act. The 1935 Act is significant from two aspects: (*i*) it represented a significant departure from the previous system of the control, for the powers that were hitherto vested in the Secretary of State disappeared with the onset of responsible government through the 1935 Act; and (*ii*) it firmly established provincial autonomy and made the provincial governments, except in certain matters, independent of the Central Government in the field of raising revenues as also in expending them.

The relations between the Secretary of State and the Governor-General and the Governors, under the 1935 Act, were confined to a few fields only. The powers and relations under the Act may be stated as under: (*i*) The Secretary of State gave away all the powers to the Governor-General, under the Act. He, however, retained full control over the Services, and continued to possess the powers of superintendence and direction over the Governor-General and the Governors. (*ii*) As a direct result of his powers of superintendence and direction, he maintained control over matters relating to Defence, Ecclesiastical and Political Departments. Since the expenditures on these three departments accounted for more than half of the Central expenditure, the control of the Secretary of State was considerable though his powers were reduced statutorily. (*iii*) With the introduction of provincial autonomy, he was deprived of his powers over borrowing in the provinces, except in so far as the borrowings were in sterling, in which case his prior consent was to be taken. Thus the control of the Secretary of State was reduced and with the introduction of provincial autonomy, the provincial Finance Departments also ceased to be under the control of the Central Finance Department. They began to stand on their own feet as independent entities.

Central Finance Department under the 1935 Act

Though the dyarchical system was by and large condemned by all, and was sought to be replaced by the 1935 Act, yet one

peculiar feature of that Act was the retention of a dyarchical system in the Central government. This consisted in the control exercised by the Governor-General in respect of the Departments of Defence, Foreign and Ecclesiastical affairs, where he could exercise powers at his discretion. The existence of such a 'reserved' treatment for certain subjects meant an exception to the joint responsibility among his Ministers and counsellors and considerably weakened the control of the Finance Member and the Finance Department; for, as in the earlier years, the control of the Finance Department depended upon the support it received from the council as a whole, and in particular from the Governor-General in whom the discretionary powers were vested. The importance of the Finance Member, therefore, depended upon the conventions established to honour his advice and on the Rules of Business of the government. Though in the final analysis, the efficacy of the control of the Finance Department depended upon the support it received from the Governor-General, yet the department itself was accorded a superior place in the regular management of governmental affairs. The Rules of Business continued to lay down that the finance department was to be consulted in all matters of financial import before their submission to the Executive Council—a procedure which meant that the opinion of the Finance Department should be given due weight. But, for the reasons mentioned earlier, its control on Defence, foreign and other expenditures was weak, for they were the recipients of a favourable treatment by the Governor-General. This situation was not different from the one examined by the Royal Commission on Expenditure in 1896, mentioned earlier.

The institutional framework of the Finance Department continued, as in the earlier years, but it began to pay a consistently growing attention to the formulation of Budget. The increase in Parliamentary control, consequent on the 1935 Act, over Budget implied that more care was to be given to the preparation of the Budget and the scrutiny of financial estimates included therein.[38] With the introduction of the new system, the existing codes in respect of financial matters had come to be revised so as

[38] See Part III.

to include the changes in the system brought about by the new constitution. The Finance Department accordingly utilised the opportunity to bring about a set of "General Financial Rules", a "Book of Financial Powers", etc.[39] These codes which contained elaborate rules and regulations, in respect of each activity, enabled the growth of financial knowledge which was so very essential for efficient management of the finances. But for these little changes, the content of the control of the Finance Department remained the same as it was in 1924.

Later Developments

The preceding paragraphs give an account of the constitutional background against which the Finance Departments of this period were working. Along with these changes, there were also other changes taking place in the nature, trend and composition of public expenditures. The steady growth of public expenditure[40] and the increasing complexity of the administration of these expenditures presented new issues regarding the technical competence of the personnel in the administrative departments entrusted with huge spending programmes. The absence of an adequate knowledge of the financial principles and procedures in the administrative departments often resulted in considerable delays, financial irregularities, etc. To overcome this difficulty the government constituted in 1939 the 'Commerce and Finance Pool' to man the posts in the field of economic administration. The cadre which was administered by the Finance Department consisted of officers drawn from the various services such as ICS, IA & AS, etc. who were given intensive training in all fields of financial activity, and were later appointed in different spheres in the 'economic' Ministries. Though the formation of such a 'pool' helped the immediate objective of the government, yet it was generally criticised on the count that it gave no chance to the administrative departments to develop a 'financial consciousness' and instead made itself (the Finance Department) a repository of all financial competence and knowledge. To an extent this was true, for the

[39] See Chapter III for a detailed account of the growth of Financial codes, etc.

[40] See Chapter VIII.

formation of a cadre of this nature made the normal financial work the specialised *forte* of a few.

The formation of the 'pool', however, came in handy with the onset of the war, which came hardly within one year after the constitution of the 'pool' and after a little over two years after the establishment of popular government in the provinces. The course of the war, which witnessed an unprecedented diversion of all resources to war purposes, presented new problems in the field of the control of expenditures. The practical imperatives of the situation required a provisional dispensation of the conventional rules and procedures and at the same time required a system which could ensure the best utilisation of resources in the existing circumstances. Further, the process of concluding contracts (which were a legion) with private agencies for the supply of war materials also presented new difficulties, for every contract had to be entered into only in consultation with the Finance Department. To overcome these difficulties, a new system of 'Financial Advice'—on the lines of the Financial Adviser—Defence, Financial Adviser, P & T and Financial Commissioner Railways was introduced.

Under this system[41] a Supply Finance Division was established to work in close association with the Department of Industries and Supplies. This Division was headed by a Financial Adviser who for all intents and purposes represented the Finance Department and he considered the proposals of the administrative department on behalf of the Finance Secretary. He was to consult the Finance Secretary only on important cases involving significant deviations from the normal procedures. The close association of the Supply Finance Division with the Supplies Department that emerged as a result of this system enabled the Finance Department to get acquainted with the proposals even when they were in an embryonic stage and therefore to examine them later in a proper perspective. At the same time it enabled a quicker disposal of matters. The supply Finance Department had also a small Cost Accounting Organisation which rendered a technical examination of the contracts possible.

[41] *Epitome*, Vol. I, pp. 451-4.

This experiment, which proved to be extremely useful, was abandoned immediately at the close of the war and the Finance Department reverted to its earlier type of control. Such a reversion to its earlier form caused a mild flutter and resentment. The flutter was not without its impact; what followed this flutter is the subject matter of Chapter IV.

Meanwhile, further changes were taking place in the content and the course of public expenditures—one major change being the emergence of developmental expenditures. The growth of these expenditures and the problems of financial control it brought in its wake, are considered in Chapter V, where a historical account of the growth of developmental expenditures is also given.

This then was the system of financial control on the eve of independence; with the advent of independence and the popular government, the offices of the Secretary of State and the Governor-General were abolished and replaced by popular and elected Ministries both at the Centre and in the States. With the disappearance of the Secretary of State, etc. the control hitherto exercised by them also vanished, and the control in the financial matters came to be vested and exercised by the Finance Department (Minister) at the Centre in respect of the Central Government, and by the Finance Department (Minister) of the State in the States, each having its own sphere of activity, and its own responsibility for the financial management of its jurisdiction.

Chapter Two

THE NATURE AND TECHNIQUES OF FINANCIAL CONTROL

THE objective of financial control is to ensure an effective and economical utilisation of the available resources. If the problem of economics is to study the relationships between competing demands and limited resources which have alternative uses, the problem of financial control is no different from that. It is essentially a process where the demands are selected with reference to a set pattern of priorities and other circumstances so that the limited and scarce resources could be put to better use in the circumstances. The process in which such choice is made and the alternatives eliminated from the competition zone is essentially administrative in nature. The stages that are involved in such an administrative process are: (*i*) Determination of policy and objectives, (*ii*) Selection of Programmes from among the different and competing alternatives, (*iii*) Formulation of a Budget, (*iv*) Execution of the Budget, and (*v*) Review of the Budget achievement and performance. Financial control is an administrative means which comes in handy in all these stages and, in fact pervades through all the stages and in each and every sphere of activity, and is therefore of utmost importance as a major tool of fiscal management.

Though the financial control was traditionally confined to the Ministry of Finance (The British equivalent is the Treasury) only, owing to the changes that have taken place since 1920 onwards, the administrative departments have also come to be entrusted with certain responsibilities of financial control. Thus, financial control as a system owes its success or failure to the combined efforts of both the Ministry of Finance and the administrative department. The respective roles of each are analysed in the following paragraphs.

'Financial control' as normally used has a large connotation and an equally wide application. It comprises the various aspects of assessment of resources, coordination of economic policies—including international trade and investment of the Public Funds and control of public expenditures. The term as used here is confined to financial control in respect of public expenditures only. The financial control in respect of public expenditures may broadly be divided into two categories—(*i*) control in respect of conventional expenditures (Revenue Budget), and (*ii*) control in respect of developmental expenditures (Capital Budget). The nature of control exercised in both the spheres is, by and large, the same. But there are certain differences between the two in the process of the exercise of control. This chapter is concerned exclusively with the former type of control, while the latter type of control is dealt with in Chapter V.

Traditionally, the function of control of expenditures has been vested in the Ministry of Finance. The centralisation of this function in the Ministry of Finance was not without reasons, nor was it the result of any historical accident. On the contrary, it was based on a carefully developed philosophy of division of functions. This philosophy is based on the following factors: (*i*) It is not desirable to entrust the responsibility of managing the financial resources to the spending departments. The responsibility of control and the need for economy in each transaction may be overlooked by the spending departments in their enthusiasm to move ahead with their programmes and policies. Such independent approaches on the part of every department might result in a financial quandary. To avoid these obstacles, an independent department with no direct spending of its own (excepting for the management of its own personnel) and charged with the responsibility of exercising control to enable a fulfilment of the objectives of government in regard to economy and efficiency was suggested. For example, the Royal Commission on Civil Service stated: "On the whole, experience seems to show that the tax-payer cannot be left to the spending departments, that those interests require the careful consideration of each item of public expenditure in its relation to other items and to the available resources of the State, as well as the vigilant supervision of some authority not directly concerned in the expenditure itself and

that such supervision can be most naturally and effectively exercised by the department which is raising the revenue required."[1] (*ii*) On the other hand, it is also necessary that the Finance Minister who is charged with the responsibility of raising revenues and filling up the financial reservoir should also know the depth and outflow from the reservoir. It has, therefore, come to be the function of the Ministry of Finance not only to raise revenues but also to control, authorise and advise in respect of the outflows from the reservoir. (*iii*) The Finance Ministry, in its working as an independent agency, acts as an extended arm of the Parliament and ensures that the Parliament's wishes are fulfilled by the executive. As Durell stated, "The Public and the Parliament should be satisfied that somewhere or other in the government there is a guarantee for financial order; that there is some authority which will watch the progress of expenditure, the obligations which the different departments are incurring and will give timely warning if that expenditure or those obligations are either out-running the revenue provided for the year or engaging the nation too deeply in future years."[2] (*iv*) Further, the existence of a separate central authority has certain advantages, important among which is the fact that, in its functions as an adviser, it brings to bear a detached point of view which is based on a system of cold reasoning and still colder facts unlike the administrative departments which are carried away in the enthusiasm of implementing their policies. In that role it acts as an outside Tribunal free from external and internal pressures. (*v*) Lastly, the existence of such an independent body helps in establishing a perfect administrative order. Durell[3] has stated that a centralised Finance Department helps in promoting a financial order, in securing uniformity of a system and is extremely valuable as an instrument which can exer-

[1] Referring to this as the first principle of good financial administration, Hilton Young stated that "all executive officers who have financial duties to perform need an independent officer to watch them, and it should be his responsibility to enforce economy. It cannot be left to those whose power and reputation depend upon spending. Hence the need for a division of functions and the establishment of an independent body in the role of an economiser. . . ." *The System of National Finance* (2nd edition).

[2] *Ibid.*, p. 242.

[3] *Ibid.*, p. 251.

cise considerable influence in advising the departments as to the organisational and other similar questions. It also compels a department to justify its proposals, and acts as an impartial critic on the proceedings of the department generally.

The Finance Ministry in India consists of three departments —Department of Revenue, Department of Economic Affairs and Department of Expenditure. There have been frequent changes in the departments. Recently the Departments of Revenue and Expenditure have been merged into a single one. The Department of Revenue is responsible for raising the revenues, the Department of Economic Affairs for the coordination of economic policy and the formulation of the Budget, and the Department of Expenditure for the control of public expenditures. This department is not an executive agency charged with the duties of implementing any scheme, but is an independent department without any significant spending of its own. In this and in other respects the department conforms to the principles enunciated in the preceding paragraph. It is directly responsible to the Finance Minister for the control of expenditures, and is in close contact with the Cabinet and with the general policies of the government. Though this department alone is responsible for determining the quantum of expenditures in a financial year, and for the ways in which they are to be spent, yet a part of the associated duties are also discharged, as we shall presently see, by the Budget Division of the Department of Economic Affairs.

Financial Control

The control exercised by the Department of Expenditure may be classified into the five stages, as mentioned earlier, and studied accordingly in the same pattern. While considering these aspects, the principles of control, as also the Indian practice, are studied in detail.

Control in respect of Policy

The pattern of expenditures and the quantum of expenditures of any government depends on the policies and objectives of the government. The policies and objectives in their turn are the results of the inter-relations between the social, economic,

and other objectives and are expected to reflect the needs and requirements of a community. In the process of choosing and formulating policies, it is the concern of the Department of Expenditure to ensure that the implementation of the policies so chosen will not result in a heavy drain on the resources of the country and that they are economically feasible and justifiable. The department has to know the financial implications of every policy, so that in the light of its findings, the total expenditure during a year could be determined.

All major policies are decided by the Cabinet. Before independence they were decided by the Viceroy's Executive Council. The Council included the Finance Member who was responsible for the deployment of all financial resources. But no policy can be decided upon just on the spur of the moment, and no Finance Member can be forced to give on-the-spot decisions in such matters since they require careful consideration. With a view to enable such a careful consideration, it was provided in the Rules of Business of the Council (in the past) that no subject of a case which concerns more than one department could be decided upon without the specific concurrence of those departments and failing such concurrence, the decision rested with the Council. Another rule provided that no proposal affecting any subject which belonged to the Ministry of Finance shall be brought before the Cabinet unless it had been referred to and considered by the Finance Ministry. Yet another rule provided that no order which involved (1) an abandonment of revenue or expenditure for which no provision has been made in the Appropriation Act, (2) any grant of land or assignment of revenue or concession, grant, lease or licence of mineral or forest rights or a right to water power or any easement and privilege in respect of such concession, (3) additions to the number of grade of posts or to the strength of a service or to the pay or allowances of government servants or to any other condition of their service having financial implications, or (4) financial matters whether there is actual expenditure or not, can be issued without getting the previous consent of the Finance Department. As already stated in the first chapter, these conditions secured an unrivalled place for the Finance Department in the adminis-

trative organisation. This procedure has continued after the independence.[4]

Thus every proposal that is submitted to the Cabinet and having financial implications has to be seen and scrutinised by the Ministry of Finance. It is, however, difficult to define what is a policy and what is not, and in practice the procedure of determining what a Policy is depends on the initiative and primary responsibility of the administrative department in whose sphere of activity the particular question is included.

The scrutiny exercised by the Finance Ministry is very broad in nature at this stage, and is more concerned with the overall financial implications of the proposal and its impact on the expenditures. Not all proposals that are submitted to the Cabinet may be comprehensive and exhaustive in respect of the financial calculations of the policy and to that extent the examination of the Finance Department also becomes handicapped. The results of its examination are communicated to the administrative department by the Finance Ministry. The comments of the Finance Ministry are then included in the 'Summary' submitted to the Cabinet by the administrative ministry.[5] The Cabinet attaches considerable weight to the opinion of the Finance Ministry. The comments of the Finance Department (which would have already been approved by the Finance Minister) receive proper hearing and personal representation through the Finance Minister. The Cabinet as a body may not agree with the view-point of the Finance Minister, but it deliberates with utmost caution and care whenever it is felt necessary to reject the plea of the Finance Minister.

Limitations

This broad pattern of control has certain limitations and they

[4] Shri C. D. Deshmukh, referring to these Rules stated in 1954: "I might add that there has been a preliminary consideration of *what form the new rules should take* and a conclusion has been reached that the financial control to be provided will be of the same kind as exists under the current rules of Business." See Lok Sabha Debates dated 17 April 1954. These new rules were framed only recently, but are treated as 'confidential'.

[5] Every proposal or policy is submitted to the Cabinet in the form of a 'Summary'.

may be considered here. To enable the Finance Department and the Cabinet to appreciate the proposal of the administrative department in its proper perspective and to consider it more objectively, it is essential that the financial estimates are worked out more carefully and in greater detail.[5] This is all the more necessary and significant in the context of a planned economy where adherence to the original estimates of costs and finances is an absolute imperative. Subsequent variations in expenditures from the original figures submitted by the administrative departments result in a negation of the purpose of control at this stage. The large number of variations in the final figures of expenditure in respect of some schemes (Hindustan Steels, Dandakaranya Scheme, etc.—see Chapter V) as compared to the initial estimates would appear to indicate that either the initial planning was defective and faulty or that there have been some sudden changes in the price level, or some other economic factors necessitating changes in the expenditure levels. Where the changes are due to the latter cause, there can be little scope for comment or criticism. But where the variations are due to the former, it is an indication that control at the policy stage is not effective or that the figures given at that stage were not adequate for a detailed examination.[6] It is not possible to state with precision, either the number of cases in which such variations occur or the type of examination devoted to these proposals at this stage, for the papers submitted to the Cabinet are treated as 'Secret' and are not open to the public.[1] Another important limitation of the type of control exercised at this stage is in respect of the *review* of policies which had already been approved by the Finance Department and the Cabinet, and which have since been implemented and continued. As the initiative in policy matters rests with the administrative Ministry, the review of the effectiveness and the financial implications of the policy also rest with that agency. The implications of a continuation of a given policy are, however, considered by the Ministry of Finance only when it is presented with the Budget estimates,

[1] In the UK, the Committee on Estimates (6th Report, 1957-58) suggested that a specific enquiry may be made into this aspect (see p. xi). Later on, a committee with Lord Plowden as Chairman was appointed to study the 'Control of Expenditure'.

and no active role is taken to examine the existing policies or critically assess them. It has been recently[7] suggested by the Estimates Committee in the UK, that it is important not only to scrutinise new policies, but also to review the current policies, as it is uneconomical for a good new policy to be rejected or cut while a less worthy policy is allowed to carry on without modifications. It, therefore, recommended that "the Treasury should ensure that established policies involving expenditures in the civil field are more systematically reviewed in order to satisfy themselves that they should not be modified or even abandoned". This recommendation is of equal interest in the Indian context. The implementation of this suggestion of the Committee is, however, likely to encounter criticism from the administrative ministries as they might consider such a step equivalent to taking away the wind from their sails. It can also be argued that such a control on the part of the Finance Ministry will trench on the administrative sphere. While the validity of these arguments cannot be denied, it is to be realised that there must be an effective follow-up of the policies implemented by government. Whether such a review is to be done by the administrative ministry or the Finance Ministry, or by the former in consultation with the latter, is an organisational detail and need not, therefore, detain us here.

Another factor which limits the control exercised by the Finance Ministry and in fact shifts the emphasis of its approach from policy to a matter of details, is the existence of a "Five Year Plan".[8] The control in respect of the policy of plan is suggested by the Planning Commission and decided by the National Development Council and the Cabinet. No doubt, the Finance Minister is represented in all these three bodies, but in practice, there is a difference between the control exercised in respect of a policy which is a normal one and a policy in respect of the Plan which emanates from the Commission and

[7] Report on 'Treasury Control of Expenditure', p. ix.

[8] The Indian Estimates Committee stated: "the role of the Finance Ministry is, however, largely influenced by the policies and decisions laid down by the Planning Commission in the Five Year and annual plans". 55th Report, p. 3.

to that extent it 'limits' the sphere of control of the Finance Ministry.

Notwithstanding these limitations, the control at the stage of policy provides an important opportunity to the Finance Ministry to make its presence felt and thereby exercise its influence in bringing about economy.

Review of Estimates

The second stage of financial control is at the stage of selection of schemes and formulation of the Budget. The combination of these two stages may be called the phase of 'review of estimates'.

If the concern of the Finance Ministry at the 'policy stage is to examine the effect of a policy on the total expenditure, its concern in the second stage is to obtain a "proper balance of expenditure between services, so that greater value could not be obtained for the total expenditure by reducing the money spent on one service and increasing expenditure on another",[9] and is also concerned with the determination of total expenditure on individual policies and services.

The problem of selection of schemes is first encountered by the administrative ministries on whom lies the initiative. In October of every year, the Ministry of Finance issues a circular to all the departments of the government to frame its Budget estimates for the next year. The preparation of Budget estimates in the departments starts long before the receipt of the circular from the Ministry of Finance, as they have got to estimate their own requirements, review the existing commitments and, after these two stages, arrive at realistic estimates for the next year. The estimates include the new projects that it proposes to take up and are computed with due regard to the expending capacity of the department. In framing the Budget estimates, the departments are required to show the utmost foresight, though an "exhortation to foresight is not an invitation to provide for additional items of expenditure without justification". In preparing these estimates, a preliminary exercise in the problem of choice is performed by the administrative departments. Assum-

[9] 6th Report, UK, p. viii.

ing that there is no financial ceiling at all, the administrative department would, when left to itself, perhaps include all the projects and schemes that it can think of, and those it could execute in a year. But the fact that the financial resources are limited, narrows the scope of activities, and the administrative department will thus have to choose and restrict the range of activities to a size that fits into the pattern of the utilisation of the available resources envisaged by the Ministry of Finance. The choices made by the administrative departments are to a very large extent based on the objectives of government policy and the priority pattern chosen for public expenditures.

The estimates, thus prepared by the administrative departments and intended to indicate the programmes of expenditures for the next year, are presented to the Department of Expenditure for its examination. The scrutiny and examination of all the items is not carried out by the Department of Expenditure. There is a division of functions, correlated to the classification of estimates between the Departments of Expenditure and the other departments in the matter of financial scrutiny.

The Budget estimates prepared by the administrative ministries are broadly divided into three categories: (*i*) Standing Charges; (*ii*) Continuing Schemes; and (*iii*) New Schemes. Technically, however, all the estimates are divided into two groups—Part I, Standing Charges—which are of a permanent character; and Part II, New Charges. The latter category includes the continuing charges also, until such time they are declared as permanent charges and are included in Part I. For scrutinising these estimates there are three agencies. The first agency is the Internal Financial Adviser. The phenomenon of the Internal Financial Adviser is comparatively of a recent origin and was introduced as a part of the arrangements which were introduced in 1958. The second agency is the Department of Expenditure, whose representatives, known as External Financial Advisers, are attached to different Ministries and scrutinise the Budget estimates of the Ministries. The third agency is the Budget Division of the Department of Economic Affairs, which is responsible for the consolidation and finalisation of the Budget.

Standing Charges

The Internal Financial Adviser, who is an officer of the administrative ministry, undertakes the first examination of all the estimates. In the process, he ensures that the estimates are properly framed and technically sound. The scrutiny exercised by him in respect of the standing charges is not of any significance, since the standing charges are generally treated as 'fixed' in nature and not subject to variations. However, these charges include some amounts for 'contingencies' also which are comparatively more flexible and subject to variation. To consider such variations, etc. a periodical review is conducted by the Ministry of Finance, and the Internal Financial Adviser, with a view to ensure that the 'permanent charges' are not included in the Budget as a matter of routine and that they are subjected to a detailed examination to explore the possibilities of further economies and only then they are included in the Budget.[10]

The Budget estimates so prepared by the administrative ministries are referred direct by the Internal Finance Advisers, after the completion of their examination, to the Budget Division of the Department of Economic Affairs. This arrangement which was in existence for a long time is based on the presumption that standing charges are not susceptible to great reductions and that the scope for economy is limited. In fact, the examination conducted by the Budget Division of these estimates is not of much utility as the 'cuts' or the 'reductions' in the proposals suggested by it are not the result of any intimate knowledge of the working of a ministry but are only the results of a desire and a tendency to make reductions for whatever they are worth. As a consequence the matter is once again taken up by the administrative ministry and the 'cuts' suggested in the first instance are restored later. With the recent introduction of the procedure of reviewing of the Standing charges as mentioned in the preceding paragraph, the opportunities for reductions at a later stage are minimised, and instead the opportunities for reduction and economies are fully explored even in the first stage of review.

[10] This is based on a suggestion of the Estimates Committee. See 55th Report, p. 5.

Continuing Charges and New Charges

The continuing charges are also subjected, in the first instance, to a detailed examination by the Internal Financial Adviser. The general tendency, however, is to review the continuing expenditures only when there have been considerable variations from the previous year's estimates or when there is a need for a supplementary grant or a reappropriation. The review is made only at the Budget stage and is not followed by any watch over the progress, etc. after the Budget is passed.[11] Even at this stage, however, there is one factor which should not be overlooked but is often overlooked. It is likely that the review may be concentrated on the examination of only those estimates which have increased and the "possibilities of economies in those which have decreased may be neglected". It is important to note that even a static estimate, which has not undergone any variation may still merit a close examination as much as a rising estimate for an expanding service, for even a static service may be susceptible of a reduction. These aspects only emphasise the magnitude of the task involved.

The continuing expenditure estimates are then examined by the Department of Expenditure (represented by its External Financial Adviser) with reference to the progress already made, the commitments entered into and the trends of the programmes of its work in the following year. On the basis of the assessment of all these factors, the estimates are then allowed to be included in the Budget.

The new schemes intended to be included in the Budget represent the new programmes proposed to be taken up for execution by the administrative department during the next year. The new schemes so proposed are required to be complete in all details and finally approved with reference to codal formalities. In submitting such proposals for new expenditure, administrative difficulties and delays in the sanctioning processes are

[11] One of the witnesses, in his evidence before the Estimates Committee, stated that there was hardly any review either by Finance or by the administrative ministries. He, however, pointed out that "when schemes had been approved in principle and were being executed, a critical review generally took place at the time of the annual Budget provision." Minutes of the 55th Report, p. 26.

always borne in mind, and nothing more than what is to be spent during the year is recommended for Budget provision. The Department of Expenditure considers these proposals from the points of view of the urgency and expediency of that expenditure —whether they are required to be expended in that year, whether the expenditure is of an obligatory nature and whether the expenditures are remunerative or not. After a consideration of the proposals from these broad principles, the Department of Expenditure then examines the technical soundness of the estimates, and after such an examination, if it considers fit, it includes them in the Budget.

However, it becomes necessary at times to include items without this detailed examination, thereby making the post-Budget work a complicated affair. As the Estimates Committee stated in a report on the Department of Expenditure: "Since often times schemes are included in the Budget without prior scrutiny it becomes necessary for the Ministry of Finance to undertake their examination after the Budget has been passed and before they are actually executed, so that unless and until expenditure sanctions are issued with the concurrence of the Ministry of Finance, no part of expenditure can be incurred." Delay is often the result of such a procedure.

The Budget estimates finalised as described above are once again examined in consultation with the Budget Division with regard to the availability of funds. It may be pointed out here that the examination of the estimates conducted up to this stage, is without a correct and precise understanding of the 'resource position' and is carried on against an assumed 'resource position'. By the time the estimates reach the last stages, a clearer and more precise picture of the resources becomes available. Such a picture, if different from the 'assumed picture', may necessitate some changes in the expenditure. On the basis of the new data, fresh cuts may be imposed (this happens rarely) in the total expenditures of each department, leaving the choice of reallocation between different sub-heads, to the administrative departments. The Budget thus finalised is submitted to the Parliament for its approval.

Nature of Control

We have seen in the preceding paragraphs how the Department of Expenditure examines the estimates of the Budget. The purpose of such an examination is nothing more than to bring economies in expenditure and to see that there is a 'balance' of expenditure between services and to determine the total expenditure on individual policies and services separately. As Prof. Hawtrey stated, the objective is "to secure a uniform standard in the measurement of the financial sacrifice involved in the activities of all departments."[12] This principle implies that every pound is spent for public good. While this principle operates in a greater measure in the field of individual finance where every individual would ensure that the marginal utility of every Paisa spent from his pocket brings him the same comfort and utility, its application in governmental finances is limited for the simple reason that government is a huge machinery involving various levels of decision-making which renders any comparison of utilities impracticable, if not impossible. However, the Department of Expenditure has got its own criteria against which it judges the essentiality of an expenditure proposed to be included in the Budget. The general criteria adopted in this context are as follows[13]: (*a*) Is the proposal a proper one, i.e. does it merit an expenditure from Public funds? (*b*) Has the ministry the authority to propose such an expenditure? (*c*) Is there enough of justification to show that the expenditure is necessary or desirable? (*d*) Have all parties substantially interested in it been consulted? (*e*) Are the costs of individual items excessive? and (*f*) Are the financial arrangements proposed the most desirable and economical having regard to the circumstances, or are alternative arrangements possible? It is on the answers given to these questions that the Department of Expenditure formulates its opinion. Its control essentially lies in making the departments justify the proposals. What Lord Goschen once said about the English practice holds equally good in the Indian context. He said: "The first object

[12] Prof. Hawtrey, *The Exchequer and the Control of Expenditure*, pp. 28-9.

[13] *Financial Control: Its Place in Management*, p. 10 (London, 1957).

of the Treasury (Department of Expenditure) must be to throw the departments on their defence and to compel them to give strong reasons for any increased expenditure and to explain how they have come to demand it. This control alone helps to make the departments careful in what they put forward."[14] Equipped with the answers to these questions, the Expenditure Department sets itself to examine the estimates. Its examination may reveal that the estimates are inflated or technically unsound; and in either case it suggests "reductions". The administrative departments, where they are convinced that the 'cuts' suggested by the Expenditure Department are likely to result in a distortion of their plan, may take up the matter again with the Department of Expenditure, convince them and have the 'cuts' restored to their original estimates. In the process the administrative departments and the Department of Expenditure come into intimate contact which affords them the opportunity for a better understanding of the issues. There is, however, one factor which comes in the way of fostering such an understanding. It is generally presumed by the administrative departments that whatever the merits and realism of their estimates, they would still be subjected to 'cuts' by the Department of Expenditure. This is based on the belief that the Department of Expenditure suggests 'cuts as a matter of routine, irrespective of the individual merits of the schemes. It also believes that a 'cut' to them is an end in itself and not a means to an end, and that they are generally unwilling even to concede the merits of an estimate which is technically correct. The prevalence of these beliefs leads to two dangers.[15] On the one hand it leads to a situation where the administrative ministries may generously inflate their estimates, so as to provide for cuts to be made by the Depart-

[14] *Financial Control: Its Place in Management*, p. 11 (London, 1957).

[15] The Estimates Committee in its 9th Report (p. 3, 1954), stated thus: "The administrative ministries' sole aim is to get their proposals through and the Finance Ministry's aim is to ensure that whatever money is being sanctioned is really spent on useful purpose. In this atmosphere and process, there are naturally departmental bickerings, recriminations, mild sensations, secretarial or ministerial crises and consequently delay, bad planning, wasteful or infructuous expenditure and public criticism at Government inability to proceed with the schemes according to schedule and efficiency."

ment of Expenditure.[16] Such inflated figures distort the very essence of a proper financial control at the Budget formulation stage. On the other hand the attitude of exercising 'cuts' for their own sake may result in false economy. It may lead to excesses of expenditure and supplementary grants at a later stage. The need for an avoidance of these defects hardly requires emphasis. In fact, the endeavours during the recent years have been in the direction of avoiding these pitfalls.

Limitations of Control

Though the Department of Expenditure exercises an effective control at the stage of reviewing the Budget estimates, yet there are certain limitations which circumscribe the exercise of such a control.

Such of those estimates whose policy and the general magnitude is already approved by the Cabinet and the Planning Commission generally provide little opportunity for the exercise of an effective control. The estimates relating to schemes of this type, which by that stage would already have been scrutinised by the Planning Commission, are likely to be near perfect, leaving hardly any scope at the Budget review stage. Another factor is the technical nature of expenditures. As for example, expenditures on Scientific Research in the Ministry of Defence and Ministry of Scientific Research and Cultural Affairs, and the purchase of antiques by the National Museum, etc. can hardly elicit a realistic appreciation from the Finance Ministry. The Finance Ministry consists of trained, non-specialist administrators, like any other civil department and their best guide in framing estimates is the past expenditure only. But, past expenditures can hardly be a good guide in assessing the future requirements in these matters, and to that extent there is a subtle difference between the control exercised in other fields and these technical matters. In matters of this type the Finance Ministry is more or less guided by the administrative ministry, but before it accepts the guidance from the latter it makes sure that the explanation given in support of the estimates is convincing enough to merit

[16] This point has been repeatedly emphasised by all those who delved deep into 'financial reform'. See Dean Appleby, Second Report. See also the Comptroller and Auditor-General's Audit Report (1955) Annex I.

inclusion in the Budget. The approach of the Finance Ministry is essentially a layman's approach, but before it agrees to provide for any amount in the Budget, it ensures that the 'layman' is convinced. A third limiting factor is that the Finance Ministry may be forced by the circumstances even where it is apparently uneconomical to provide for certain expenditures.[17] These factors limit the effectiveness of financial control. We may now move on to a study of the control exercised in the Budget execution process.

II

Control during the Execution of the Budget

After the preparation of the Budget it is submitted to the Parliament and after approval by Parliament the amounts voted under each Demand are placed at the disposal of the administrative ministries. The responsibility for control of expenditure [illegible]m thereon lies on the administrative ministry and each Head of the department, in the process of discharging his duties, is aided by an Internal Financial Adviser. The responsibility of the Finance Ministry however does not come to a stop after allotting the amounts, but its responsibility after the amounts are placed at the disposal of the administrative ministry is not the same as in the earlier stages. The relations in the Budget execution phase may be said to have two aspects: (*i*) on the part of the administrative ministry, there are still many matters which require frequent consultations with the Finance Ministry, and (*ii*) on the part of the Finance Ministry, its relations arise out of its

[17] Consider this example: A VIP visited a particular country as a guest. At the end of the trip he was presented with two horses by the host country. The host country promised to send the horses to the nearest port (at their expense), so that they could be shipped to India. The shipping companies insisted that the horses should be accompanied by attendants. So attendants had to be sent to that country to bring the horses and travel back on ship. The total expenditure involved was about Rs. 12,000. On the face of it, it appears uneconomical to spend that amount on two horses. But the protocol and diplomatic relations had to be given preference over the financial considerations. This case represents only a minor episode in a lighter vein. In circumstances of this nature it becomes necessary to approve expenditures in the face of obvious disadvantages.

endeavours to ensure that the amounts are spent properly and that the achievement is in accordance with the plan included in the Budget of the administrative ministries. The matters that require consultation with the Finance Ministry may broadly be classified into two groups: (*i*) matters which are related to the Budget and (*ii*) matters which arise out of the existing structure of financial powers.

Budgetary Matters

It has been stated earlier that some of the Budget estimates, though very few, are included in the Budget without a detailed scrutiny and subject to certain conditions. These items are included subject to the condition that no amount of the estimates so included in the Budget may be expended without the prior concurrence of the Finance Ministry. (It should be noted that the procedure of including estimates without a proper consideration of the details is as a matter of policy discouraged. The question considered here is only in respect of the exceptions to this practice[18]). In addition, according to the Delegation of Financial Powers all schemes whose total estimate is beyond Rs. 50 lakhs*, may be implemented only after the specific concurrence of the Ministry of Finance for (as technically called) the issue of 'expenditure sanction'. The overall financial powers may be classified, from the functional point of view, into three groups: (*i*) powers which can be exercised by the administrative ministries themselves; (*ii*) powers that can be exercised by the administrative ministries in consultation with their Internal Financial Advisers; and (*iii*) powers that can be exercised by the administrative ministries in consultation with the Finance Ministry. The first two categories of powers do not require any consultation with the Finance Ministry, but the administrative ministries are free to consult it, in case they feel that such a consultation is necessary.

The third category of cases are those which require the prior

[18] 55th Report of the Estimates Committee, p. 6. The provision of amounts in the Budget in respect of those cases where details are not sufficient is resorted to rarely.

* These limits have since been relaxed. The only condition is that schemes should first be approved by the Ministry of Finance.

consultation with the Finance Ministry. In other words, expenditure sanction in respect of these schemes can be issued only after the specific approval of the Ministry of Finance has been obtained.[1] The objectives of such prior consultation are threefold[19]: (*i*) it enables the Finance Ministry to examine the schemes which involve large amounts of money in a more leisurely way. (It is also to be recognised that budgeting is a continuous process and cannot be confined to a particular season. What happens during the 'Budget Season' is nothing more than that a continuous activity reaches a crescendo in the period between October to February when the Budget is framed). By limiting the powers delegated to the Ministries to a specific monetary ceiling, the Finance Ministry retains its control in respect of such matters as cases beyond this limit are to be referred to it. The cases so referred enable the Finance Ministry to gain a knowledge of the activities, problems and needs of each department. No doubt, such an understanding is formulated even at the stage of the Budget scrutiny. But a second opportunity enables a careful vetting of the financial proposals. (*ii*) Secondly, in regard to the cases of the type included in the first and second categories of powers which are also often referred to the Finance Ministry at the discretion of the administrative ministry the process of consultation establishes a useful discipline. The value of this discipline (though it is likely to be occasionally lost in the delay caused in the process of consultation with the Finance Ministry), cannot be measured in terms of the value of money. Such a process of consultation reinforces the hands of the administrative departments, for the proposals would be once again examined from the financial angle by the Finance Ministry. A frequent use of this device is, however, likely to defeat the purpose of the delegation of financial powers. (*iii*) Thirdly, this procedure might enable specific economies to be made in certain cases which would not have been made otherwise. What is overlooked, forgotten, and unrecognised during the initial examination conducted in a period of hectic activity when the Budget is prepared, may be noticed and analysed at the second stage. Such

[19] 6th Report of the Committee on Estimates, UK, p. xviii.

a procedure, depending upon the nature of the examination conducted, might result in a few 'economies'. The history of the control exercised by the Finance Ministry has much to say in favour of this practice as most of the economies are achieved at the later stage only. This, however, is not to say that such procedure should be widely followed. A careful balance has to be struck between the differing forces.

These opportunities enable the Finance Ministry to exercise its control again, and this time in a more detailed manner. In addition to these procedures there are other matters which require consultation with the Finance Ministry and in the process present a few more opportunities for the exercise of control by it.

The process of execution of the Budget throws up many new matters which might incidentally prove that the original estimates were not altogether correct. The actual process of spending the amounts might reveal that the amounts provided under a sub-head are not adequate and that the amount provided in another sub-head is more than what is required. In other words the variation in expenditure in different spheres might require a reappropriation from one head to another, changing the 'balance' between the spheres, but keeping the overall expenditure at the scheduled limit. Reappropriation is a technical process by which amounts are transferred from one sub-head to another, while the overall amount under a demand will remain unchanged. The administrative ministries are given certain powers in this respect and when cases arise where the powers are not adequate, reappropriation is done in consultation with the Ministry of Finance. At this stage the Finance Ministry once again reviews the need and justification for such a transfer of amounts.

Similarly, the amounts provided under a head may not be adequate, or a 'new service' not contemplated at the Budget formulation stage, and therefore not included in the Budget, may crop up. Both these factors might necessitate a 'supplementary grant'. Such supplementary grants are again to be presented to the Finance Ministry which considers the need for such a supplementary grant with reference to the latest figures of expenditure available. The procedure of examination of the supplementary grant by the Finance Ministry is not different

from the procedure it adopts for the examination of the original budget estimates, and they undergo the same process of examination. No expenditures can be incurred on a 'new service'[20] which was not included in the Budget. It may, however, be implemented, if a supplementary grant has been obtained for the purpose. The Finance Ministry is very careful and cautious in these matters, as any relaxation of the procedures is liable to be treated as exceptions to the legitimate rights of Parliament and its control.

The last stage of control in respect of budgetary matters is in regard to the timely surrender of savings. Surrender of budgeted funds imply the non-materialisation of the programmes included in the Budget. This aspect assumes considerable significance in a process of planned economic development, as that would imply a slackening in the pace of the execution of the plan. Moreover, such savings would also result in immobilising certain other fields of activity for which funds were not provided under the belief that the funds provided for a scheme would be spent under that scheme, and if the savings are diverted in time, they might prove useful in these fields.[21] The Finance Ministry, therefore, issues a circular before the close of the financial year, suggesting to the administrative ministries that the likely amount of savings may be surrendered in time.

In this manner the Finance Ministry exercises control (although the emphasis is on the budgetary angle) on the financial activities of a department during the 'Execution phase'.

[20] The term 'new service' does not lead itself to a precise definition. Its application is governed by a 'case law' which has been evolved over a period of years on the basis of the recommendations of the Public Accounts Committee. *Epitome,* Vol. II, p. 274.

[21] An erroneous point of view seems to have been advocated recently by the Ministry of Finance before the PAC. The Finance Ministry's representative argued before the PAC that savings would go only to reduce the extent of deficit financing by which the budgetary gap was being met. In the context of a plan the emphasis should be on the fulfilment of the plan rather than short spending the amounts to reduce the effects of deficit financing. The Committee rightly pointed out that this question should not be looked at from that angle and stressed the need for a better budgetary control. 35th Report of PAC, p. 2, 1961.

Other Matters

' The other matters, on which control is exercised, arise in the various specified fields of expenditure such as contracts, grants-in-aid, write-off of losses and waiver of recoveries. '

The general principles of contracts are laid down in a set of rules. Notwithstanding these standardised rules, consultation with Finance Ministry becomes essential depending upon the magnitude of the amounts involved in the contract. The control exercised by the Finance Ministry in this respect, assumes particular significance in the context of the Developmental plans where a large volume of expenditure is incurred directly by way of contracts or agreements either with the local agencies or international agencies. As Durell stated: "It is the risk of Public loss where the amount involved is considerable that calls for the intervention of the Treasury, for it is important that under such circumstances the responsibility should be assured by an outside impartial tribunal."[22] This function is performed by the Ministry of Finance.

It examines the covenants of a contract from the financial angle and recommends such modifications as may be considered necessary. The Finance Ministry satisfies itself that the 'contract' does not give any advantages to the outsider and that the contract is technically sound.

Similarly, in respect of write-off of losses of either cash or stores, the departments are given a certain extent of financial powers. Where cases arise, which are beyond these powers, the administrative ministries have to approach the Ministry of Finance for concurrence and sanction. The same is the case in respect of waiver of recoveries also. By delegating only a segment of the powers and by retaining the rest with itself, the Finance Ministry has put itself in a position where it has necessarily to be consulted. The process of such consultation acts as a salutary check on the financial arrangements of the departments.

Review

The issues that arise in the course of the execution of the

[22] *Ibid.*, p. 237.

Budget and their consideration alone are not adequate to ensure that the performance and achievement in the course of execution of the Budget were in conformity with the objectives of the Budget. This aspect of comparison of the Budget results with the Budget is ensured by a systematic review of the progress of each scheme and project included in the Budget. The review is two-fold: (*i*) By the administrative ministries and (*ii*) by the Ministry of Finance.

Administrative Ministry

As stated earlier, the responsibility of the execution of the Budget squarely rests on the administrative ministry. To enable it to execute the Budget better, the ministry is provided with the Internal Finance Adviser. This Financial Adviser carries on a quarterly review of the progress of expenditure.[23] The objectives of the review are: (*i*) to gather data which would enable a better administrative management; (*ii*) to enable the formulation of the next year's Budget; and (*iii*) to review the performance in monetary terms.

These objectives are fulfilled through the quarterly expenditure control meetings, which the Financial Adviser convenes with the representatives of the ministries to review the expenditure for the preceding quarter. The data relating to the progress of expenditure complied under each head serves two purposes: (*i*) It is useful for the budgetary forecast. On the basis of this data, the Financial Adviser formulates his opinion, whether a Supplementary grant is necessary or whether an increased pace of incurring expenditures is necessary in the remaining quarters. Where the progressive actuals in the expenditure reveal a comparative complacency, it is treated as an indication that further efforts are necessary for spending the amount. (*ii*) The data also reveals the achievement in terms of expenditure; while a correlation of physical achievement with the monetary expenditures is essential for a proper realisation of the extent and the nature of achievement, yet the achievement in terms of expenditure is

[23] These quarterly expenditure control meetings were formerly (prior to 1958) conducted by the representative of the Finance Ministry accredited to the administrative ministry concerned. Now these meetings are convened by the Internal Financial Adviser. *Epitome,* Vol. II, p. 3.

useful as a guide, even if it represents the picture only partly. These meetings are also utilised for a discussion of other accounting matters such as Reconciliation of accounts, settlement of Audit objections, etc.

This review is helpful in two ways: (*i*) in ensuring that remedial administrative action is taken wherever necessary in the interests of an efficient management of the department and (*ii*) the occasion provides the basic data which is useful in the formation of the next year's Budget. The achievements of the year which come to light during the course of the review, indicate the strong points and the deficiencies in the current year's Budget and, therefore, act as an indication for the next year.

Ministry of Finance

The Ministry of Finance is also interested in the review of expenditures. For that matter it is interested in any activity which leads to economy. As, however, it is not directly responsible for the review of expenditures in the departments, it keeps itself abreast of the developments in the activities of the departments only in an indirect way and intervenes only where it is absolutely necessary. The methods adopted by the Ministry of Finance (Department of Expenditure) for this purpose are: (*i*) The copies of the Minutes of the meetings held by the Internal Financial Adviser are also sent to the Ministry of Finance. These, as also the regular contacts maintained by the officers of the Finance Ministry with the Internal Financial Advisers, enables them to know the efficiency of the financial management of the department, as also its progress of expenditures. (*ii*) From their experience on specific matters, and having regard to the movements in the expenditure direction and pattern, the representatives of the Finance Ministry might feel that control in certain fields is defective, and it tries to corroborate it by making a formal enquiry and, where necessary, they advise the ministry on the proper course of action. (*iii*) The Ministry of Finance is also equipped with a Special Reorganisation Unit which carries on periodical reviews and inspections of the methods of work in the ministries, with a view to make such

changes as might result in economy.[24] In addition to these inspections by the SRU, periodical inspections are also carried out by the accredited representative of the Finance Ministry "to ensure that the ministries concerned carried out fully the instructions laid down in the standing orders relating to the watching of the progress of expenditures against Budget grants". They also inspect "the registers maintained for this purpose by the ministries and bring to the notice of the Secretaries concerned points in respect of which improvements seemed to be called for.[25] (*iv*) The enquiries carried out by the Comptroller and Auditor-General either for the previous years or for the current year also help the Ministry of Finance in knowing the weak points of the financial management of a department.

Through these devices the Ministry of Finance exercises its control on the departments and their activities. Another significant aspect is the control exercised in matters of 'establishment'.

Control over Establishment Matters

The control of the Finance Ministry in respect of establishment matters is wide and extensive. The objectives of its control in this field are twofold: (*i*) to secure a uniformity in the conditions of service of the personnel employed in the government and (*ii*) to ensure economy in the employment of such personnel.

Towards the fulfilment of the first objective, the Finance Ministry has retained all the control in respect of all the conditions of service, such as pay, leave, allowances, pension, etc. With a view to maintain a *certain* uniformity in these aspects, the work relating to these matters has been centralised in the 'Establishment Division' of the 'Department of Expenditure'. The general principles regarding each one of the conditions of service are laid down by the Ministry of Finance and wherever possible, certain powers are also delegated to the administrative ministries. But any changes or relaxation or deviations from these rules can be made only with the prior concurrence of the Establishment Division of the Department of Expenditure.

[24] Minutes of the 55th Report, p. 37.
[25] Annual Report of the Ministry of Finance, 1955-56.

It is also the objective of the Ministry of Finance to check the growth of the expansion of civil expenditure on personnel. Economy is to be secured not only in the operation of schemes and projects but also in the maintenance of the administrative personnel at the minimum required level. It is, however, a general tendency of administration to expand. With a view to check this expansion and to control the rate of expansion, various measures are adopted by the Finance Ministry. In the early periods of the working of the reforms of 1919, the power of creation of posts in the entire government was restricted to the Finance Department only. Any department which required the creation of an additional post at any level had to approach the Finance Ministry for approval. Before agreeing to such a request the Finance Ministry weighed the various factors in favour of creation of a post and it was only after due deliberation that such a post was allowed to be created. These measures were supplemented by the regular scrutiny during the review of Budget estimates—when an opportunity was presented to review the overall working of the department, and secondly, through the specific *ad hoc* enquiries instituted for the purpose of bringing about reductions in the number of employees. (See Chapter VIII for a detailed study of the efforts made at different stages to bring out economies in this respect.) However, with the advent of new responsibilities of the execution of plans, etc. it has become imperative (see Chapter III) to delegate enhanced financial powers in regard to creation of posts. As per the recent declaration, the ministries were permitted to create any post up to a salary of Rs. 3,000 p.m. subject to the observance of certain conditions, without the prior concurrence of the Finance Ministry. Such a delegation of powers implied that the Finance Ministry depended upon the administrative ministries for exercising enough of caution in matters of creation of posts. But it had (the Finance Ministry) to see that the posts so created have not exceeded the normal requirements. Towards this purpose the Finance Ministry evolved a machinery which could make independent surveys of the requirements of personnel of the ministries and submit reports indicating their findings. A separate division was established in the Ministry of Finance

(known as Economy Unit)[26] in 1951 charged with the responsibility of examining the staff requirements of the ministries and their attached offices. This wing carried out frequent inspections to ascertain whether the strength of staff was over and above the requirements. This unit was subsequently reorganised into a Special Reorganisation Unit. The functions of this unit have undergone some changes in 1956 when the method of work of the unit was changed from a mere routine study to a systematic 'work study' of the methods and procedures adopted by each ministry. This unit seeks to achieve economies by changing the methods of work and by rationalising the process of work. The review carried on by this unit is essentially a post-Budget review and is not functionally connected with the Budget review at all. The reports submitted by the SRU are considered by the administrative ministries in consultation with the Ministry of Finance and necessary economy measures are taken as a result thereof.

Though the nature of review is an 'ex post' one, yet the existence of such a body itself acts as a significant check on the administrative ministries in the exercise of their powers in these matters.[27]

The Control exercised in all these matters by the Ministry of Finance is also supplemented by the control exercised by the administrative ministries. We may briefly examine the nature and process of that control.

[26] See the Annual Reports of the Ministry of Finance 1951-52 and 1956-57. It is significant to note that in 1958, one year preceding the experiment in India, certain enhanced powers in regard to creation of posts were delegated by the British Treasury to the administrative departments. The Treasury, however, followed the delegation of powers with the institution of an annual comprehensive survey to ensure that the powers are not wrongly used. See *Public Administration*, Spring 1960. Note on *Treasury Control over Establishments*.

[27] In UK the 'Staff Control' method is operated in a different way. In the first instance 'complements' indicating the scale of staff for each type of work are laid down by the Treasury. The Treasury also lays down ceilings beyond which departments may not create any posts without consulting the Treasury, and targets indicating the levels which a department must reduce its staff by a given date. In India reliance is placed more on 'Work Study' method. See A. J. D. Winnifrith, "Treasury Control on Establishments Work", *Public Administration*, Spring 1958.

Control in the Ministries

As indicated in earlier chapter, the financial control in the earlier years of British rule, was exclusively exercised by the Finance Department. It was the department which discharged the financial responsibilities—and they were manifold—of the Secretary of the State. But, with the growth of expenditures and with the increasing complexity of expenditures, and with the need for closer control on expenditures, it had become necessary to make the administrative departments responsible for the control of expenditure in their respective spheres. But the shift of the responsibilities was not, however, followed by any shift in the core of the financial control which continued to be exercised in a larger measure by the Finance Department.

The post-independence period, however, witnessed a change in the procedures. The change owed its origin to the changed circumstances and requirements. (See Chapter IV) And a situation was reached where the financial control, if it had remained as an outside agency, would have greatly reduced its own effectiveness. What Hilton Young stated a long time ago, could as well be true in the circumstances that prevailed after 1950, in India. He said (referring to the experiments of UK): "The Treasury can do the work of financial critic well enough in all but the great spending departments. In their vast complex and growing organisations, the most effective agent for economy must be one domestic, ever present and well versed in the internal affairs of the Office . . . an independent financial side within the office is the best and only guarantee of a rigid economy in details, and it is in details that money is wasted." Control had come to be exercised internally and ceased to be an external application.

Internal Financial Adviser

In accordance with these objectives a reform was carried out in 1958. The reform included increased delegation of financial powers and the appointment of an Internal Financial Adviser. The Internal Financial Adviser (hereafter referred to as IFA) was to assist the Head of the Department in all financial matters pertaining to that department. His functions in respect of control of expenditures, in different phases, have been described

during the discussion on these respective phases and need no repetition.[1] Broadly speaking, he is entrusted with the task of enforcing 'economy' and 'regularity' in the financial transactions of the department. To ensure the fulfilment of these objectives, he is given the responsibilities of scrutinising the Budget estimates and reviewing the progress of expenditure, etc. Besides, in considering each transaction the Financial Adviser is expected to ensure (*a*) that the project is financially secure, that it is economical, and (*b*) that the necessary statutory, Parliamentary and financial authorities exist and that the money is available. He is also responsible for ensuring that the amounts allotted to the department are spent and properly utilised. He is given abundant freedom to act in these matters and his relations with the Head of the Department are laid down clearly to ensure that his freedom is not encroached upon by the administrative authorities.

However, the mere institutional framework of financial advice alone is not enough to establish an efficient system of control. The economical expenditure and effective financial control within a department depends, to a very large extent, on the responsibility and enthusiasm shown by the IFA. As Durell stated, "The extent to which departmental expenditure is conducted economically, as distinct from regularity, must in a great measure depend on the system of control exercised and on the personal qualifications not only of the officials at the Head Quarters,"[28] but also on those who are away from the 'Head Quarters'. There is, however, a significant lacuna in the system. The Internal Financial Adviser, in the present system, does not have any functional control on the Budget branches of the administrative ministry. Instead these branches work under the supervision of the administrative officers and usually consult the IFA on these matters. A functional control of the IFA on these branches would render his control more effective and realistic for any control is based on complete knowledge of the details which can be facilitated if the functional control is made over to the IFA.

[28] Winnifrith, A. J. D., "Treasury Control on Establishments Work", *Public Administration*, Spring 1958, p. 375.

The emergence of the Internal Financial Adviser has changed the complexion of financial control. Though the 'control' which was hitherto exercised by the Finance Ministry is now exercised by the different departments through the IFA's, yet the ultimate responsibility of the management of the finance is, however, still that of the Finance Ministry. In view of this responsibility and in view of the changes that have taken place, it is an added function of the Finance Ministry to ensure that the general financial control exercised in the departments is exercised on the right lines and that the objectives of 'economy' and 'regularity' are duly fulfilled. Without the existence of a proper organisation and effcient methods of control by the IFA's a part of expenditure is likely to run into the sands and with it the value of the control exercised by the Finance Ministry is also likely to be lost.[29] The responsibility of ensuring the adequacy of the system is vital and clear, and therefore the maintenance of this system is watched with utmost caution by the Finance Ministry. This function is carried on in two ways: (*i*) by intimate contacts with the IFA, for upon the assistance which he renders to the Finance Ministry and the promptness with which he carries on his own duties depends the degree and efficacy of control. As Durell stated, "upon his relations with the Treasury and the ungrudging assistance which he is able to afford, the efficiency of Treasury Control must mainly depend". This is true not only with 'the system' of UK but is equally true in the case of the IFA. The second way of fulfilment is through the inspection carried on by the SRU of the various departments. This aspect has already been discussed earlier.

These are the various stages of financial control, whether exercised by the Ministry of Finance or by the administrative departments. It is the combined working from these two ends that establishes a system of control. The system is, however, often subjected to criticisms on various counts. What is more, if the system had staunch critics, it had also strong supporters. Perhaps such a situation is inevitable wherever and whenever there are two different points of view.

[29] 6th Report of the Estimates Committee, UK, p. xxxiv.

A Review of the System of Control

The criticisms levelled against the system from time to time, by academicians and administrators alike, are quite general in nature. However, for the purposes of this study the criticisms and suggestions may be classified into two groups: (*i*) those which are related to all those approaches included in the term 'Finance Mentality' and (*ii*) those which relate to the reorganisation of the system with a view to 'better' the control.

'In so far as the former is concerned, the general feeling, which is also widely supported, is that the Finance Ministry is more conscious of the savings in trivial transactions and is detailed in its control in respect of the minutiae of each transaction;[30] it is also alleged that its policy is one of saving 'candle ends' and betrays an attitude of 'cheese-paring' and 'wood-pecking' and that its motto is 'acceptance of precedent and refusal of risk'. These criticisms are not without reason. But it should be recognised that these attitudes reveal more of a personal approach than a deliberate policy. In their endeavour to put the administrative department on the defence and in their attempt to extract a reasonable and convincing justification in support of a proposal the Finance Ministry might betray a certain conservative attitude and it is also possible that this attitude may dampen the enthusiasm of the administrative departments. Control by the Finance Ministry is a delicate affair comparable only to tight-rope walking. An excess in one aspect may prove to be a hindrance, and a deficit in another may prove to be costly if not catastrophic. As Dean Appleby stated: "The first concern of financial administration is frugality. The enthusiasms of those charged with special functions have a high value; to damp them unduly is wasteful; not to discipline them is to open wide the door to extravagance and imbalance. True economy, consequently, results from the interaction of the drives of enthusiasm with the restraining disciplines of review."[31] But it is difficult to draw a hard and fast line in practice specifying that a trek across the border would hamper the enthusiasm and that a failure to reach the deadline would result in extravagance and

[30] Paul H. Appleby stated in his first Report, "Financial control seems to be too specific and too slow and detailed."

[31] First Report, 1953.

imbalance. It is only through a system of trial and error, and through a process of adjustment and readjustment that a compromise and a balance can be struck.

As for the other aspect of the criticism that control is too detailed, it may be argued that the absence of a detailed control, at a stage when economy is vital, may prove to be quite a handicap. This, however, is not to say that detailed control is required. On the contrary it is only to indicate the nature of a situation which is devoid of detailed control. The late John Mathai (a Finance Minister) observed, when he was charged with this criticism, "I think the control that the Finance Ministry exercises even in certain matters of detail has a deterrent effect which is not entirely to be disregarded.... On the whole I think more is to be lost than gained, if I issue instructions to the Finance Ministry to relax its present method of control."[32]

Another criticism is that the control of the Finance Ministry is remote and that the economy it seeks to achieve is gained through the 'cuts' (in fringes) it makes at the time of the Budget estimates. The control of the Finance Ministry, until 1956, was not based on an intimate understanding and realistic appreciation of the problems faced by the administrative ministries, and of the issues presented by it for the approval of the Finance Ministry. Whatever knowledge it had, was derived from the files referred to it. A natural consequence of this had been the procedure of making suggestions for reductions without verifying the appropriateness of such reductions. However, the later experiments in the reorganisation of institutional framework of financial advice, took the officers of the Finance Ministry nearer and nearer the administrative ministry and enabled them to have a clearer understanding of the proposals even when they were in an embryonic stage. Control is based on knowledge and such knowledge is based on intimate contacts with the administrative ministries. As for the second criticism that the control is exercised only in fringes, it may be argued, that 'cuts' in the Budget estimates are not the only means for exercising control. It is only one of the means and supplements the control exercised at the other stages. But essentially,

[32] H. P. Debates, 24 March 1950.

the 'cuts' are based on the philosophy that economy has to be found even when the estimates are in preparation. 'Economy' has to be 'built in' into the estimates. The Internal Financial Adviser is entrusted with the task of making the preliminary examination to examine their soundness and to satisfy himself that the estimates are economical. When the estimates are prepared on such sound lines, there would be hardly any room for cuts at a later stage. So long as the estimates remain what they are, the cuts at the later stage have to be treated as a part of the system.

Another criticism is that the consultation with the Finance Ministry involves delay as it puts too many queries at too many times, and that the supply of that information to meet those queries takes time and that in the process the proposal gets bogged down. Such queries may be the result of inadequate information supplied on the file or may be result of a personal curiosity on the part of the Finance Officer.[33] To the extent that it is the result of a personal curiosity, the remedy lies in the field of personnel management only and not in the field of control.

The second set of criticisms, which in a way are suggestions, relate to the organisation of the system of control. It is often suggested,[34] on the basis of the American experience, that the introduction of performance budgeting would enable a more effective control of expenditure than the present system does. Essentially, from the point of control of expenditures, as distin-

[33] C. D. Deshmukh once stated that delays could be removed by two methods: (*i*) "The first is by rapping on the knuckles of the official who is responsible for raising what might be called petty objections or not making up his mind at one time in regard to all the points that arise on a file. It often happens that when a file comes, a file pusher may ask one question and then send the file back. Then the file comes back and another question is asked. These things are possible, but I think, with the best orders of government these things cannot be prevented and they can only be stopped by taking notice of the individual instances which the administrative ministries must bring to the notice of the Finance Ministry." (*ii*) The other remedy, he suggested, was delegation of financial powers. *Debates of Lok Sabha*, 17 April 1954.

[34] See the Hoover Commission Reports of 1949 and 1955 for a detailed study of 'Performance Budgeting'.

guished from the budgetary angles, performance budgeting consists in (*i*) making appropriations on a functional basis, e.g. into programmes, projects and activities and (*ii*) in holding the spending officials responsible for keeping within the total amounts provided for the separate programmes, etc. It is expected that this system would ensure more freedom of action to the officers and free them from the "depressing and frustrating restrictions based on the theory that they are not to be trusted until they prove the contrary". The implementation of this proceduce requires a tight and accurate budgeting as also a classification of the activities of the government into programmes. These, however, are not found in India, and the implementation of these suggestions has therefore been held in abeyance.

Whatever be the defects, the system of control has withstood the test of time and is now an important ingredient of the contemporary administrative machinery. Its role is essentially to 'advise', the final responsibility in administrative matters being that of the ministries. The successful functioning of the system is partly attributable to the 'conventions' that were developed[35] over a period of time, and partly to the steady and continuous support it has received from the Cabinet. Without either of these, the process of financial control would end up, however well intentioned it may be, in loggerheads with the administrative departments.

Organisation of the Department of Expenditure

The control described in the preceding paragraphs, is exercised by the Department of Expenditure of the Ministry of Finance. The organisation of this department may be briefly discussed here. Until independence all the functions including the raising of revenues were discharged by a single department known as the Finance Department. After independence, the Finance Ministry was split up into two departments—Department of Revenue and Expenditure and Department of Economic Affairs. In 1956, the Department of Revenue and Expenditure

[35] The success of the UK system is atributed to (*i*) a single civil service and (*ii*) respect for conventions. In India, however, the 'Services' are too many, but nevertheless the regard for convention is as strong as in UK. See Samuel Beer, *Treasury Control.*

was further split up into the Department of Revenue and Department of Expenditure. Until this time the Expenditure wing of the Department consisted of a Civil Expenditure Division, Defence Finance Division and Communications (accredited to the Ministry of Transport and Communications) Division.

After the separation of Revenue from Expenditure, the Department of Expenditure was further reorganised. This department now consists of an Establishment Division which is responsible for the administration of rules and regulations relating to the conditions of service and other financial codes, and other Expenditure Divisions. The Expenditure Divisions are classified into (*i*) Defence Division and (*ii*) Civil Expenditure Divisions.

The Head of the Defence Division is the Financial Adviser, who as the principal representative of the Finance Ministry in the field of Defence Expenditure, is responsible to the Finance Minister. The Financial Adviser is also the Head of the Defence Accounts Organisation (technically the Head is the Controller-General of Defence Accounts—who is subordinate to the Financial Adviser), and he is also the Chief Accounting Officer for the Defence Services. In the latter capacity he prepares the appropriation accounts of the Defence Services. He is intimately associated with all the activities of the Ministry of Defence.

The Civil Expenditure Divisions are slightly different from the pattern of the Defence Division. Each Expenditure Division which is headed by a Joint Secretary is accredited either to a single ministry or to a group of ministries. Generally, major spending ministries have an exclusive Division all to themselves. These ministries have their Internal Financial Advisers also, but in matters which are beyond their powers and where consultation with the Finance Ministry is necessary, they are referred to these Divisions for their opinion. If and when necessary these Divisions obtain the orders of the Secretary of the Department of Expenditure, and convey them to the administrative ministries.

The formation of the Divisions helped the finance officers to maintain regular contacts with the administrative ministry to which they are attached. These regular contacts enable them to form a correct perspective of the programmes and policies of the ministries.

Wholesome influence

The different stages of work described in the preceding pages reveal the different facets of the control of the Finance Ministry. It has been the one single agency which had, whatever the circumstances, been consistently entrusted with a job, which to say the least, may be called 'onerous'. Its duties were heavy and so were its responsibilities. All the techniques of control described earlier were evolved to enable it to discharge its responsibilities. To call these techniques a 'method of control' would be tantamount to doing injustice to the organisation of control. It is a system that has grown in different and diverse directions, over many years. All through these years it had exercised, through its procedures, a wholesome influence on the conduct of the government in rendering services to the constituents of a nation, efficiently and economically.

Chapter Three

ASPECTS OF DELEGATION OF FINANCIAL POWERS

WE HAVE seen, in the last chapter, how the Finance Ministry exercises its control, and the techniques adopted by it to exercise such a control. In the process, it was also noted that certain financial powers are delegated to the administrative ministries to enable them to discharge their duties.

In this chapter, we will be concerned with a study of these delegated powers, how they developed over a period of years and how they are exercised and the problems they present in the exercise of 'control' by the Finance Ministry. In the first instance, the history of delegations is traced. In the second a study is made of the existing 'delegated' powers.

The structure of delegated financial powers is an expression of the relations of the administrative departments with the Ministry of Finance, and also an indication of the extent to which they are dependent on the Ministry of Finance. Besides, they reveal the extent to which the financial authority is centralised in the Finance Department and the extent to which it is distributed among the departments.

The history of the delegation of financial powers by the Finance Ministry to other departments is as old as the history of financial control itself. However, there were different stages in the delegation of powers, both in the process of delegation of powers by the Secretary of State to the Finance Department and in the second stage when the Finance Department in its turn delegated the powers to the administrative departments. A study of the development of the delegation of powers would reveal that different forces were at work which necessitated the delegation of powers, at different stages, and an attempt is made in this chapter to trace the developments in this field, as also

the factors that were responsible for such developments.

The history of the development of these delegations may broadly be divided into four stages: (*i*) up to 1919, (*ii*) 1919-1935, (*iii*) 1935 to 1947, and (*iv*) post-independence period.

Early History

The first regulation regarding the delegation of financial powers was contained in the 1858 Act, and the same provision was subsequently incorporated in the 1915 Act also. This regulation stated, "The expenditures of the revenues of India, both in British India and elsewhere, shall be subject to the control of the Secretary of State in Council and no grant or appropriation of any part of these revenues or of any other property coming into the possession of the Secretary of State in Council by virtue of this Act, shall be made without the concurrence of a majority of votes at the Meeting of the Council of India."

An omnibus provision of this type necessarily meant an excessive concentration of power in the Secretary of State, and no power at all in the hands of other authorities. However, to facilitate the work of the Government of India, the Secretary of State prescribed certain limits in respect of each general subject of expenditure within which expenditure could be incurred without reference to the Secretary of State. These ceilings prescribed by the Secretary of State were, until 1889, embodied in the executive orders issued by him from time to time. Until this period, there was no provision to enable the Audit to challenge or question an expenditure which has been wrongly incurred, or incurred without sufficient authority. However, with the promulgation of an Audit Order in 1889, which was reissued with slight modification in 1893, this defect was partly removed. In 1897 a resolution was issued defining the powers of the Central Government and local Presidencies in different matters.

The delegations made by the Secretary of State during this period were not technically correct or even valid, as the proviso incorporated in the 1858 Act and in the 1915 Act (quoted above) gave the Secretary of State no power to divest himself of this responsibility without a violation of the spirit of the proviso. Technically, therefore, the executive orders issued by him were

invalid. To overcome this difficulty, a proviso was included in the 1916 Act. This proviso read: "Provided that a grant or appropriation made in accordance with provisions or restrictions prescribed by the Secretary of State in Council without the concurrence of a majority of votes at a meeting of the Council shall be deemed to be made with the concurrence of majority of such votes."

Notwithstanding this proviso, another complication came to light very soon. The proviso included in the 1916 Act enabled only the Central Government to have certain powers delegated to it by the Secretary of State, but it was not clear whether the Governor-General in Council could redelegate his powers to the subordinate authorities stationed at various places. This uncertainty was put an end to in 1917 when a set of financial rules clearly defining, not the actual powers, but the limits up to which powers could be delegated by the Governor-General in Council to the subordinate authorities without reference to the Secretary of State were formulated. These powers, delegated to the Government of India by the Secretary of State, and the powers delegated by the Central Government to its own subordinate authorities were reviewed and were published in the form of a *Book of Financial Powers* on 1 June 1918. The publication of this book has to be considered as an important landmark in the history of the delegation of financial powers, for it contained all the relevant rules at one place, and it proved to be the starting point for the later-day delegations.

The *Book of Financial Powers* which was so prepared had very soon undergone a revision and in fact a total change in its composition and content, as the earlier powers in respect of the local governments became obsolete with the introduction of the 1919 reforms. As indicated in the first chapter, the Devolution Rules of 1919 gave a certain amount of autonomy and freedom to the provinces from the hitherto overwhelming control exercised by the Centre. The *Book of Financial Powers* which was revised after excluding those powers which were handed over to the provinces as per the Devolution Rules, contained the limits of powers of the various subordinate authorities and the departments at the Centre, in respect of (*i*) creation of posts, (*ii*) powers in regard to appropriation and reappropriation,

(*iii*) grants-in-aid, (*iv*) contingent expenditure and miscellaneous expenditure, (*v*) write off of losses and waiver of recoveries, (*vi*) powers of the subordinate authorities, (*vii*) powers of the Central Public Works Department, and (*viii*) purchase of stationery, etc. This revised publication was issued in 1922.

The financial powers so delegated were in vogue up to 1937. But during this period there were sporadic changes in the delegation of powers necessitated by the needs and requirements of the day. The *Book of Financial Powers* by its very nature, could not be a rigid one, unless the administrative machinery for the use of which it was devised, was itself a static one. But any administrative system is expected to be a flexible system and the contemporary administrative system was no exception. It possessed enough plasticity to adjust itself to the changing requirements and the changes that have taken place in the financial organisation as a result of the constitutional changes.

A new revision was issued in 1937. The revised edition incorporated the changes that had taken place between 1922 and 1937. The improvements included: (*a*) the changes in the structure of delegated powers consequent to the constitutional changes ushered in with the acceptance of the 1935 Act, (*b*) the Book was brought up-to-date by adding all those offices newly created and all those offices whose administrative Heads were declared as Heads of Departments during this period, and (*c*) simplification, clarification and proper grouping of subjects. (It was found that quite a few earlier codes were overlapping in respect of different matters.) The new edition helped the removal of overlapping, provision and consolidation of the relevant rules and regulations concerning each subject into systematically organised codes. The results of these organised attempts were the publication of a set of financial rules called the General Financial Rules, Treasury Rules, Account Code, Audit Code, etc. It is, however, important to note here that though there have been many changes in the form and composition of the powers at this time, there were no significant changes in the extent of the financial powers delegated to the various authorities. It may also be added that there was no demand for increased powers either, partly for the reason that the essential core of the activities of the government remained the same and partly for the reason

that the contemporary economic depression gave enhanced value to the powers already delegated as to create an impression that the limits themselves were slightly more than the requirements.

The scene changed slightly later. With the advent of the war, and in the wake of the appearance of fresh issues relating to procurement of supplies and war production, increased financial powers were delegated to a few specific authorities (under the Department of Industries and Supplies) to tide over the temporary difficulties. As soon as the war came to an end, some of these offices to whom the enhanced financial powers were delegated, were either abolished or merged with other departments and in any case lost their independent status and with it the powers provisionally delegated were also withdrawn and the earlier powers resumed.

The period between the end of hostilities and the dawn of independence was not a happy one. The powers delegated by the Finance Ministry were not always allowed to be exercised in the manner in which they were intended to be exercised as in the *Book of Financial Powers*. The important limitation in the exercise of these powers was the existence of overriding powers which the Finance Ministry retained to itself to issue directives as and when a situation arose demanding recourse to such an action. Such an exigency arose during the years between the war and independence when the Interim Cabinet was in power. Driven by an urge to prevent excessive growth in the personnel[1] the Finance Minister issued a direction that no post—not even a post in the lowest echelons of the administrative hierarchy—may be created even where the department was authorised and had the requisite power to create such a post, except with the approval of the Finance Member of the Cabinet. This direction restricted the powers of the administrative departments and in fact nullified the purpose of delegation of financial power, and

[1] Liaquat Ali Khan, the Finance Member of the Interim Cabinet, stated in his Budget Speech (28 February 1947): "It may be found that certain establishments of the Government of India are susceptible of reduction.... I feel that there might be advantage in an *ad hoc* review at this stage by a committee." No such Committee was, however, appointed; instead the above direction was issued.

therefore was not liked by many, and the directive was received with a spontaneous outburst of criticism.

The direction of Liaquat Ali Khan, which was resented in all quarters, mostly from a political angle, was very soon given up with the advent of independence. The system of delegation of financial powers, however, continued as in pre-independence days, even after independence.

Features of the Pre-Independence System

The essential features of this system, the history of which we have recounted in the preceding pages, are as follows:

1. The Secretary of State retained some measure of control, even after 1936, through the issue of directions, etc. The responsibility of ensuring that the directions were carried out, in matters where the directions were of a financial character rested on the Finance Department.[2] The responsibility for financial operations of the Central Government as also for the exercise of all the financial executive authorities rested on the Governor-General, whose sanction, given either directly or by persons to whom the necessary powers were delegated, was necessary to all expenditure incurred from the revenues of the Central Government. The extent to which the powers to sanction expenditure were delegated to the various executive authorities in respect of different matters which arise in the course of regular administration, were included in the *Book of Financial Powers.*

2. The philosopy behind the delegation of powers may be observed from the criteria on which the structure of delegated powers is based. Briefly the criteria for delegation of powers were: (*i*) to give a certain degree of freedom to the various administrative departments and executive officers for expending amounts, (*ii*) the development and growth of the executive machinery and the accumulation of experience and expertise in the departments gained in the exercise of their responsibility for

[2] The matters which constituted directions of a financial character, after 1935, are contained in the Financial Despatch of the Secretary of State dated 24 January 1939. Those matters are (*i*) expenditure in respect of Governor-General's household, (*ii*) expenditure in respect of the imported military stores, etc.

economical and efficient administration over a wide and, in certain cases, specialised range of activities, have enabled them to view the matters from a correct perspective and if that is supplemented by an adequate delegation of powers, it would help them to exercise and execute their powers and responsibilities in an efficient manner; and that it is not possible for the Ministry of Finance to examine every item of expenditure, for such a process, apart from being inexpedient, would also be uneconomical. If these two are the broad conditions which determine the general course of the delegated powers, the extent to which powers are to be delegated in respect of each item was decided with reference to a few other criteria, which are as follows: (*a*) the nature of expenditure is such that the Finance Ministry, as the repository of all financial powers and custodian of resources, considers it necessary to be consulted with a view to judge whether the expenditure is worthwhile in relation to the other alternative expenditure proposals presented before it; (*b*) will delegation in a given respect enable the Ministry of Finance to see sufficient cases still on which it can form a reasonable understanding of the range and nature of the activities in respect of which powers were delegated? (*c*) is the delegation likely to strengthen or weaken the endeavours of the financial staff in their task of preventing waste? (*d*) has sufficient delegated authority been given to ensure that the department is given a sense of financial responsibility in its affairs? (*e*) are there grounds for a change in the structure of delegated powers either because of an acute financial stringency or any other developments? (*f*) in general, is a proper balance being struck between the need for the Finance Ministry to maintain a sufficient control in its own hands for the discharge of its proper responsibilities and the need to avoid slowing down the tempo of public business and consuming too much manpower both in the Finance Ministry and the other departments in the submission and scrutiny of cases? These principles generally determined the nature of delegation of powers though the actual extent of delegation depended upon the requirements of the department in the interests of its administrative efficiency, and the limitations of the Finance Ministry in view of its responsibilities.

The system continued even after independence, except for

the change that the Secretary of State had completely disappeared and the role and functions of the Governor-General were taken over by the President. The President is now responsible for all the financial matters, and every expenditure sanction issued either by the Central Government or by the subordinate agencies under it are issued in the name of the President.

Post-Independence Developments

Though the system continued in its broad framework, some changes in the extent of the delegated powers took place very soon largely due to the new problems that appeared on the horizon.

The first real break in the activities of the government came with the launching of the First Five Year Plan. However, even earlier to this and during the period from independence up to 1951, various issues such as the rehabilitation of refugees and increase in the defence expenditure, state trading in food, etc. threw up a considerable number of problems relating to the delegation of financial powers. The administrative situation during those years revealed that the financial powers were not adequate, that the dependence on the Ministry of Finance was excessive and that there was inordinate delay occurring in the process of consultation with the Ministry of Finance. The combined impact of these three factors was a slackening in the tempo of the work resulting in uneconomical financial management and administrative inefficiency. The Estimates Committee which made a study of the situation stated,[3] "The present rules under which the Heads of Ministries or Departments have been vested with certain Financial Powers are in their opinion inadequate. There have been instances in which proposals involving some minor expenditure have remained under discussion between the Ministry of Finance and the administrative ministry for weeks without settlement, while in regard to proposals involving huge expenditure, there have been fewer discussions and quicker agreements between the Ministry of Finance and the Ministry concerned. The committee consider that in order to avoid unnecessary delay in the day to day performance of the

[3] 2nd Report, 1st Lok Sabha.

normal functions of the Ministry, greater financial powers in the field of minor items of expenditure should be devolved on the Heads of Ministries and Departments." The Committee added that while it did not intend suggesting "in detail the lines on which such division of powers between the Ministry of Finance and the administrative ministry should take place, the underlying principle should be that the itemised control should be delegated to the Heads of Ministries and the Ministry of Finance should be left free to devote more attention and thought to major proposals involving bulk expenditure".

The First Five Year Plan, which followed soon, also emphasised that excessive interference by the Finance Ministry must be avoided and suggested that the financial procedures should be so evolved as to ensure adequate control required for the efficient execution of projects while allowing, at the same time, a certain freedom to the executive agencies. Meanwhile the needs of the ministries, which were engaged in the developmental activities, in respect of the creation of posts and contingent expenditure both of which formed essential prerequisities necessary for the implementation of the developmental plans, became more apparent and in fact obvious. A result of these forces—that is, a realisation of the growing demands from the administrative ministries and an anxiety to avoid delays in the implementation of plans—was the beginning in the direction of greater delegation of financial powers made in 1953. In that year certain increased powers were given in respect of creation of posts and contingent expenditure. They were further increased in 1954 and in 1955, when thty reached what may be considered unprecedented heights.[4] As per these delegations of 1955, the ministries were empowered (*i*) to create posts up to the rank of an Under Secretary in the Secretariat for a period of two years, (*ii*) to sanction up to Rs. 1,000 recurring in respect of contingent expenditure and Rs. 5,000 in respect of miscellaneous expendi-

[4] During the course of a debate, Shri C. D. Deshmukh, the then Finance Minister, stated in 1954: "The other remedy (for delays) is delegation and that is a matter, I think, where perhaps a good deal of progress is likely to be made on the review of the matter which is in progress now." 17 April 1964.

ture, per annum. It is significant to note that these enhanced powers were delegated continuously over a period of the first three years of the First Five Year Plan.

The need for still greater delegation, however, continued and in fact received greater momentum and attention in the early years of the Second Five Year Plan. It was realised on all hands that considerable liberalisation and progressive distribution of financial powers was essential for the speedy implementation of the plans. But on the question as to what exactly should be the extent of delegation there were many opinions prevalent. As for example, we find the Ministry of Finance stating in 1956, "in regard to major organisations or projects it is proposed that adequate financial powers should be delegated to the authorities in charge and that they should be given the assistance of Internal Financial Advisers".[5]

The Public Accounts Committee also stated that "delegation of powers is very essential for the speedy and economic execution of the projects".[6] But the exact scope and extent of delegated powers was not specified by either.

While these general pronouncements were being made on one side, a comprehensive plan for delegation of financial powers, as also for a reorganisation of financial control, was being prepared by the Comptroller and Auditor-General.[7] The scheme presented by him pinpointed the defect in the existing system, according to which the Finance Ministry was responsible not only for the allotment of funds, but also for satisfying itself that the schemes for which allotments are made, are good even in details. This procedure entailed considerable delay and therefore resulted in the immobilisation of the available—limited as they are—resources. It was, therefore, suggested that the details of the proposals referred by the administrative ministry to the Finance Ministry, at the pre-Budget review stage, should be furnished in greater detail so as to enable the Finance Ministry to carry on a better and more systematic review. It was also suggested that the administrative ministry may be empowered to issue expenditure sanctions on all schemes which

[5] 8th Report of the PAC, p. 28 (1958).
[6] *Ibid.*, p. 6.
[7] See Appendix to the 1955 Audit Report.

do not cost more than Rs. 50 lakhs, while in respect of other schemes, exceeding this amount, the approval of the Finance Ministry was to be taken even if provision for the same was included in the Budget.

These suggestions were accepted by the government and accordingly a scheme of enhanced delegation of powers[8] was drawn up and introduced with effect from 20 August 1958. The various aspects of this scheme may be considered in a little detail here.

II

The pattern of the powers delegated in 1958 follows the earlier pattern set up by the *Book of Financial Powers.* Its main contribution is in the enhanced powers delegated under the scheme. In addition, the scheme of 1958 was responsible for a few changes in the previous system. These changes—it may be more appropriate to call them revisions—mainly consisted in (*a*) additions and alternations at suitable places so as to include those organisations which were of a recent origin, (*b*) the language of the rules has been modified so that it could be in conformity with the new Constitution (for example, the terms 'Governor-General', and 'Legislative Assembly' were substituted by the 'President' and 'Parliament' respectively), (*c*) as far as possible uniformity in the delegated powers was maintained among the Heads of Departments. In the earlier system there were wide divergences in the matter of powers relating to the creation of posts between one Head of Department and another. However, it is not an absolute uniformity that can be found in the new procedure, but powers were modulated according to the requirements. For example, the Administration of Andamans and Nicobar was given specific powers (slightly lesser powers) distinguishable from others for the simple reason that its needs are not comparable to a department at the Central Secretariat. (*d*) The rules were framed with a bias to plan schemes and therefore the limits placed in respect of each scheme were considerably higher than in the previous

[8] Delegation of Financial Powers Rules, December 1958.

rules, and (*e*) these new powers were not applicable to the Railway Board, Ministry of Defence, Department of Atomic Energy and the Comptroller and Auditor-General.[9]

The main features of the delegated powers are as follows:

1. Subject to certain conditions, the ministries were empowered to create posts up to a pay scale of Rs. 2,250 p.m. for a period of two years. They can also create permanent posts in classes II, III and IV. This meant an improvement as under the earlier scheme, the ministries were empowered to create posts only up to the rank of Under Secretary for a period of two years and as for permanent posts they were empowered to create posts under classes II and III only.

2. The departments of the Central Government were delegated powers to issue expenditure sanctions on any scheme, the total expenditure of which did not exceed Rs. 50 lakhs. For the purpose of applying this limit the entire cost of the scheme up to the date of completion including the cost of works is taken into account.

3. In respect of grants-in-aid and loans, full powers, without any monetary ceilings (subject only to Budget provision and availability of funds), were delegated to the departments where schemes and pattern of grants and loans were already approved by the Finance Ministry.

4. Similarly, in regard to expenditure on contingencies, on miscellaneous purposes and for the local purchase of the stationery, etc., the departments were delegated full powers without any ceilings.

5. In respect of contracts and purchases, the Finance Ministry was to be consulted only when the value of a contract exceeded Rs. 25 lakhs (in case of a single tender contract the limit is Rs. 10 lakhs), in case of indent for stores if the value is more than Rs. 5 lakhs, and in all cases involving an agreement or contract with foreign governments or firms.

6. The ministries were also delegated powers to reappropriate funds in all matters except to increase the provision under the sub-head of 'Pay of Officers' and 'Establishment', and to meet

[9] The Lok Sabha and the Rajya Sabha are not within the purview of the delegated powers.

a new expenditure or in respect of schemes where the reappropriation will have the effect of augmenting the Provision of a Scheme by more than 5 per cent or Rs. 1 lakh whichever is less. The delegation rules also emphasised that the administrative ministries, to whom these powers were delegated, should in their turn delegate the powers to the maximum extent, to the subordinate authorities with due regard to their respective levels of responsibilities.[10] The attempt all through the scheme has been to delegate more financial powers.

Though these powers were a significant improvement on the earlier powers enjoyed by the ministries, yet there are certain aspects which do not diminish the dependence of the ministries on the Ministry of Finance. This dependence can be analysed from two angles, viz., (*i*) dependence inherent in the powers and (*ii*) dependence arising out of conventions and in the course of practice.

The dependence, in so far as it is inherent in the powers, arises in different spheres: (*i*) one of them may be said to consist in the Finance Ministry retaining its traditional power in regard to a *new principle* or *practice* (service or item). (It is generally the sheet-anchor of financial control that no new service can be taken up except with the consent of the Ministry of Finance.) (*ii*) No reappropriation, as indicated earlier, is permitted for augmenting the provision under the Pay of Officers and Pay of Establishment. The intention obviously in restricting the scope of reappropriation in this respect is to avoid increases in the growth of personnel. Similarly no reappropriation is permissible when the variation in the expenditure of a scheme is more than 5 per cent[11] of the original estimate or Rs. 1 lakh whichever is less. These restrictions seem to be on the conservative side and in practice a variation in the expenditure of a scheme appears to be almost regular and universal. The under-estimation in the initial stage of formulating the estimates, and later changes

[10] Though the scheme provided for delegation of powers, the progress in this respect has been negligible; very few proposals in this regard had been received in the Finance Ministry. See the 55th Report of the Estimates Committee, p. 19.

[11] This ceiling of 5 per cent is based on the suggestions of the Comptroller and Auditor-General. See Audit Report 1955, Annexure.

in the costs due to sharp fluctuations in the price level, and inclusion of new items, etc., have the effect of changing the estimates and the actual expenditure may be ranging anywhere from 10 per cent to 100 per cent of the original estimates. In such circumstances the fixation of the limit at 5 per cent seems to result in almost all the cases being referred to the Ministry of Finance. Such a procedure is not unlikely to restrict the freedom of the executive in the execution of his plans. The opinion of the Public Accounts Committee is different, and almost borders on conservatism. It held the view that delegation in respect of reappropriations should be restricted and financial control made more vigorous in this respect. The Committee commented thus: "With regard to powers of reappropriation, the Committee understand that at present ministries have wide powers to reappropriate funds without reference to finance. They are not sure whether it would be proper to continue to vest these powers in the changed set-up. While it is true that the estimates under each item will be scrutinised thoroughly and pruned by finance thereby leaving no scope for reappropriation, the Committee feel that effective financial control cannot be exercised unless the Finance Ministry is consulted as soon as it becomes apparent that the item of work in question cannot be completed within the limits of expenditure approved by the Finance Ministry. The administrative ministry should not therefore have the powers to reappropriate funds without the prior concurrence of finance."[12] The counter argument to this review is that the 'reappropriation' itself is to be treated as a contingency and therefore it would not be proper to tie the hands of an administrator in such contingencies. Besides, all cases of irregular reappropriation are in any case to be reviewed by the Public Accounts Committee as per its terms of reference.[13] Another factor which contributes to the dependence, is the one where certain conditions bordering on extreme restrictions, are attached to the delegated powers. As for example, the ministries are delegated powers to create permanent posts in certain categories, but such creation can take place only if there is a provision for

[12] 8th Report, p. 7 (1958).
[13] See Part III of this book.

it in the Budget. However, no provision is ever included in the Budget, for it is the general policy not to create permanent posts *ab initio*. Similarly no posts can be converted into permanent ones, because there is hardly any recurring saving (which is a qualifying clause for converting posts) and therefore such conversion has necessarily to be done in consultation with the Finance Ministry and likewise in matters of grants and loans, where there are no approved patterns, and in cases of contracts which exceed the specified amounts, consultation with the Ministry of Finance is obligatory. While these restrictions enable the Ministry of Finance to exercise its control in matters of 'detail', yet the other side of the picture is whether powers cannot be delegated without any conditions attached to it. The answer is that so long as the financial responsibility rests with the Finance Ministry, it has to receive a section of cases so as to enable it to formulate an understanding of the activities of the ministries and these restricted delegations enable them to receive a segment of cases which would provide such an understanding.

Another aspect of dependence arises out of the convention which has grown over the years to consult the Ministry of Finance in all financial matters (there are very few matters which are not financial in nature) partly out of habit. This was continued even after the extensive Delegation of Powers of 1958 and the Ministry of Finance was generally consulted even in matters where it was not obligatory to consult it. The continued consultation process may be ascribed to two factors: (*a*) to ensure that a proposed action is correct from the financial angle and (*b*) with a view to have the responsibility shared. Needless to add that the latter deserves not only to be discouraged but condemned as well. As for the former, it can be said that an extensive application of this procedure may defeat the very purpose of delegation. Therefore, as a procedure, it has to be invoked but rarely.

1962 Reforms

A realisation of the various handicaps which were inherent in the type of delegation of powers made in 1958, very soon led to the introduction of a new and wider scheme of delegation

of powers. As in 1958, the new scheme had two aspects: (*a*) a change in the institutional framework of financial advice, and (*b*) delegation of more powers. The former aspect is considered in the following chapter. It is with a study of the latter that we will be concerned in this chapter.

The delegation of powers under this scheme consisted, as earlier, in (*i*) greater delegation of powers to the administrative Ministries, and (*ii*) similar delegation of powers by the administrative Ministries to the Heads of Offices subordinate to them. Though no definite powers were formulated in respect of the latter, it was envisaged that this would be done in due course. In so far as the former is concerned, the scheme made a progressive headway in the delegation of powers and it can be said that the powers delegated under this scheme gave more operative flexibility to the administrative Ministries and removed the riddles of the 1958 reforms. The features of this scheme are: (*i*) in lieu of the 1958 powers under which Ministries were allowed to sanction expenditure up to Rs. 50 lakhs, the new scheme of delegation provided that any amounts, without specified limits, may be sanctioned by the Ministries, if the projects for which such expenditure is sanctioned, were earlier scrutinised and accepted by the Finance Ministry; (*ii*) powers were delegated to the Ministries to incur expenditure on all items irrespective of the fact whether it was a new item or otherwise for so long as such expenditure does not exceed the overall budgetary limit; (*iii*) full powers for reappropriation between the primary units were delegated and to facilitate the exercise of these powers, it was required that the primary units consisting of allied schemes may be formed into groups. Such groupings of the primary units were required to be approved by the Ministry of Finance; (*iv*) powers to create posts up to a pay scale of Rs. 3,000 per month were delegated to the Ministries and some of the conditions attached to the powers delegated in 1958 scheme were removed; and (*v*) the Ministries were also delegated powers to sanction variations in expenditure in respect of schemes up to a limit of 10 per cent or Rs. 1 crore whichever is less (it was formerly 5 per cent and Rs. 1 lakh) without reference to the Finance Ministry. Similar enhanced powers were delegated in respect of other matters of detail also.

Another significant aspect of this scheme is that the Finance Ministry, for purposes of control, relied more on a process of 'review' than 'control' as such. It will be recalled at this stage that one of the factors which influenced and, in a way, determined the exact form of delegated powers was the scope and range of cases that would reach the Finance Ministry to enable them to form an understanding of the activities of the Ministries and an estimate of the repercussions that such expenditures may have on the contemporary or future resource position. Under the 1962 scheme, very limited powers were retained by the Finance Ministry, but with a view to supplement whatever data it gets, the Ministry has also evolved a system of 'reporting' and 'test checks' to enable it to exercise 'control' and undertake a review as well.

The enhanced powers delegated under this scheme have no doubt provided the Ministries with considerable operative flexibility and reduced their dependence on the Finance Ministry and to that extent this made a definite advance over the earlier schemes. However, the real utility of these delegations would be felt only when similar delegations of powers are made to the subordinate agencies who are responsible for the implementation of the plan projects. Much progress remains to be made in this direction.

Review

The preceding survey would indicate that the degree of delegation of financial powers to the departments is much wider now than what it has been in the past. The great increase in the volume and complexity of government activities and therefore of government expenditure has made the delegation of greater powers essential. It is, however, difficult to say whether the delegation of powers described earlier is adequate or not. A pronouncement regarding the adequacy of the financial powers can be made only when there are set criteria which can indicate the exact extent to which powers are required. Such criteria are difficult to formulate for general application. What may appear to be the genuine demands of a Ministry, may not arise in the case of another Ministry. The diversity in activities and the divergence in the approaches and objectives render the formula-

tion of such criteria more difficult. However, the story of the delegation of powers we have traced so far indicates that a review was undertaken as and when changes in the circumstances required it and to that extent, powers were delegated. The 'delegations' made from time to time may be said to have reflected the requirements of the period.

However, one is bound to argue whether Budget scrutiny and acceptance of the Budget by the Finance Ministry may not be treated as adequate, and whether complete freedom may not be given in the post-Budget stage. In other words, whether the acceptance of proposals in principle may not be followed by complete delegations of powers. This is not possible for two reasons: (*a*) the acceptance of a proposal in principle may mean a lot of administrative danger[14] and (*b*) such a proposal would cut at the very roots of the system of financial control. Indeed, while it is necessary to delegate, complete delegation would be a negation of the purposes of the Finance Ministry.

Mere delegation of powers by itself is not enough. They must be exercised, and for this purpose, the departments must have the technical personnel capable of exercising the delegated powers. The standards of financial control in the departments varies considerably with the variations in the personnel and with it the degree of the exercise of the delegated powers also varies. But, by and large, the institution of the Internal Financial Advisers in the spending departments enabled a better exercise of the powers than before.[15]

[14] John Woods, "Treasury Control", *Political Quarterly* (1954).

[15] The existence of the delegated powers alone is not enough as they are often subject to the overriding directives issued by the Finance Ministry. In times of financial stringency directions are issued restricting the exercise of delegated powers. Such directions were issued, in addition to the one issued in the period of Interim Cabinet, in 1957 (when Shri T. T. Krishnamachari ordered that all works at the foundation stage should be stopped) and in 1960 when the creation of all types of posts in the Secretariat was prohibited. Such directions prevent the legitimate exercise of powers given to the department. However, such overriding powers are also essential in the interests of the maintenance of the financial solvency of the government.

Chapter Four

FINANCIAL ADVICE—THE GROWTH OF A NEW SYSTEM

WE HAVE seen in the first and the subsequent chapters that the system of financial control adopted by the Ministry of Finance has, in the recent past, been decentralised and that more responsibilities were delegated to the administrative departments. We have also seen how, over a number of years, more and more financial powers were delegated to the administrative departments. Behind all these phases of delegation of financial powers and responsibilities, there were, at each stage, a number of different forces at work. Along with the increasing delegation of financial powers there have also been changes in the framework and pattern of the financial control exercised by the Finance Ministry. All throughout this period, the relations of the Ministry of Finance with the administrative departments were sought to be crystallised in different administrative forms by many a reformer.

The objective of this chapter is to trace the evolution of the new administrative forms suggested and at times implemented. The suggestions for the improvement and reorganisation of financial control came from different bodies—committees appointed by the government for the purpose, *ad hoc* bodies, and by the Parliamentary committees. The scope of this chapter does not extend beyond being a historical account of the various forces at work, the suggestions made from time to time, and the schemes implemented by the government.

It has been pointed out in Chapter I, that during the second world war, a change in the organisational pattern of the Finance Department was made and that a separate division to work intimately with the Departments of Industries and Supply was established. It was also indicated therein that the system was

withdrawn towards the close of the war and the pre-war system of centralised financial control was brought back.

The successful working of the wartime scheme and the amount of freedom it gave to the administrative departments created an excellent impression of partnership and coordination on the administrative departments. Therefore at the end of the war they asked for a continued retention of this scheme as also for a wider application of the scheme. Despite their pleas, the earlier type of control was reinstated. This situation was the subject of a study made by Sir Richard Tottenham who submitted a series of reports on the Reorganisation of Central Government during 1945-46.

Sir Richard's ideas regarding the reorganisation of the system of financial control were derived from two sources: (*i*) the ideas of Sir James Grigg, who was earlier Financial Member of the Viceroy's Council and whose ideas on the British system were just then published in the form of an article; and (*ii*) the recommendations of the Rowlands Commission[1] which had then completed a study of the Bengal Administration, parts of which included certain suggestions for financial reform on one hand, and the impact of the wartime experience of the 'Financial Advisers' on the other.

The ideas of Sir James Grigg, which were quoted extensively with approval by Tottenham, were full of indictment of the procedures of detailed control adopted by the Finance Ministry. Sir James stated: "From Gladstone's time we have inherited the habit of requiring specific Treasury authority for many of the detailed expenditure even after the general policy has been accepted by it and by Parliament... whatever may have been its efficacy in Mr. Gladstone's time, it pretty certainly ceased to have any potency when Mr. Lloyd George arrived at the Treasury. In fact it seems to have transmogrified itself in practice into straining at the gnat and swallowing the camel.... I am sure that the Treasury will have to exercise their financial powers more in bulk and less in detail.... My own experience indeed both in this country and India leads me to believe that bulk control is more economical than itemised scrutiny." Sir Richard

[1] Government of Bengal, 1945.

recognised that in India too, there was too much control in terms of details; what was more, the control in details made it imperative for the administrative departments to refer all proposals for acceptance to the Finance Ministry. Such a process, Sir James Grigg considered, gave rise to many irritations. In pleading for bulk control, Sir James thought that these irritations would vanish and that the essence of 'control' would remain intact. Sir Richard also considered that there were many 'irritations' which arise in the process of consultation with the Finance Ministry (such consultation was necessitated by the fact that the powers enjoyed by the ministries were limited). The irritations according to him were: (*i*) Secretary of a department dislikes that the views of the Finance Department should necessarily be accepted. He is more willing to accept advice than dictation. (*ii*) He dislikes having his proposals whittled down on reasons of economy, but since he expects a cut, inflates his demands—which, as a practice, is not only uneconomical but positively harmful too. (*iii*) Another fruitful cause of irritation is the practice by which a proposal sponsored by a high authority in one department is turned down by a much lower official in the Finance Department. Sir Richard pointed out that these irritations tend to blunt the conscience of the spending departments. He expected that these could be avoided by putting financial responsibility on the departments and "by demanding of them a more intelligent forecast of their future financial requirements and a greater interest in the economical expenditure of their grants and by providing them with financial advisers of their own for these purposes." In support of this argument, he added that the contention that the system of financial control is too meticulous, is shared by most secretaries of the government.

The situation was obviously an unpleasant one where the administrative departments found the control of the Ministry (at this stage it was only a department) of Finance too detailed and trenching on the administrative spheres. The Finance Ministry, on its part, was not willing to part with its control. As an alternative to what looked to be an explosive situation, Sir Richard suggested (*i*) that every spending department should have a financial adviser of its own. He should be a trained

Finance Officer but should be regarded more as an officer of the department than as a watch-dog representative of the Finance Department. (*ii*) Certain enhanced powers in respect of establishment matters (such as fixation of pay up to a given point in a given scale) and in respect of certain of posts, should be delegated. He, however, warned that a complete by-passing of the Finance Department in these matters would be unnecessary.

The recommendations of Sir Richard received cold treatment from the government. For one reason, it was not strictly within his term of reference[2] and for another, the government's attention was focussed on the more urgent political issue of the day than on matters of financial reorganisation. This report and the subsequent reports presented on the subject conclusively prove one point, and that is, whatever the merits of the suggestions, they were liable to be either rejected or put in cold storage, unless the suggestions were well-timed and made at a stage when the recommendations were not overshadowed by other more important issues. However, this is one of the trends which everyone recognises when analysing the problems in retrospect.

The next attempt came from the Secretariat Reorganisation Committee, also known as the Officer Shortage Committee or Bajpai Committee which submitted its report in August 1947. Its primary objective was to suggest a reorganisation of departments taking into account (*i*) the direction of work, (*ii*) directions in which the activities could be curtailed, and (*iii*) allocation of personnel among different departments. The Committee's main purpose was to suggest ways and means by which the shortage of officers, which was likely to be the result of the impending partition, could be met and it was only incidentally that it ran across the problem of the reorganisation of the Finance Department.

This Committee was aware of the new problems that were coming up as a result of the developmental activities newly undertaken by government. One among such problems was the problem of 'delay' which was the feature of the day, and which

[2] Sir Richard Tottenham confessed in his report: "I doubt whether this very controversial matter is strictly within my terms of reference" but could not resist the temptation of making the suggestions.

often was a result of the excessive noting and drafting involved in all matters of consultation—and there were many—with the Finance Department.

The Committee visualised the functions of the Finance Department as consisting of day-to-day scrutiny of proposals and other expenditure with a view to avoid extravagance and ensure value for the money proposed to be spent. The department is responsible for prescribing rules and regulations in respect of all establishment matters. It is also responsible for the provision of funds for such schemes as it has approved for inclusion in the Budget. The Committee thought that while the second and the third functions could continue to be exercised by the ordinary branch of the Finance Department, the first function should be exercised by officers each one of whom was to be placed in direct relationship with a department or a group of departments. The Committee considered it essential for the Finance Department to associate itself more closely with the work of the administrative departments to give guidance and advice. It attached no importance to the designation of 'Financial Adviser' though it contended that the essence of the financial adviser system introduced during the war should be preserved and extended. It also emphasised that the rank of the Finance Officer so attached to a department should not be less than of a Joint Secretary, so that the Secretary of the administrative department could rely on him to give, in nine cases out of ten, the final answer of the Finance Department.[3] The Committee considered that coordination within the Finance Department, between the different divisions would not present any difficulties, as the different Heads of Divisions could meet in what was called as the 'Honourable Members Meeting'.[4]

The impact of these recommendations is hardly discernible as no change was made in the pattern of financial control on

[3] The Committee considered that having too many junior officers under a Joint Secretary attached to a ministry on behalf of the Finance Ministry with a view to help him is also not good as it tends "to keep the Joint Secretary out of the administrative picture and will nullify the whole objective of the scheme". At a later date, however, in 1957, the emphasis was focussed on having junior officers only.

[4] A precursor to the present day Meeting of Heads of Division.

the basis of these recommendations. However, very soon, the thread of the argument for financial reform was picked up by the Economy Committee (see Chapter VIII for a detailed study of the Economy Committee) in 1949 and by Shri N. Gopalaswami Aiyangar, a Minister in the Cabinet in the same year. By this time the administrative implications of the post-partition problems also became clear.

The Economy Committee's recommendations cover not only the system of financial control, but also the Budgetary system. Regarding the system of financial control, the Committee stated thus: "We are surprised at the vehemence of complaints by some of the ministries against the present method of control." The control exercised by the Ministry of Finance, the Committee felt, was "ritualistic and ineffective rather than intelligent and progressive". The Committee preferred that the assistance should be 'constructive' rather than 'obstructive'.[5] The Committee gathered the impression that there was no complaint from those ministries such as Defence (which had a financial adviser from the very beginning) and Industry (in which there was a tradition of associating financial advisers more closely with the administrative work). Obviously inspired by the successful working of the Financial Adviser System during the war, the Committee recommended "that the Joint and Deputy Secretaries in Expenditure Divisions should be geographically so located as to sit near one or more of the Ministries to which they are accredited and the Ministries should be encouraged to consult them at as early a stage as possible. The present sense of frustration should then decrease. In order to emphasise the advice aspect, the officers should be designated 'Financial Advisers'."[6] The Committee also recommended that extensive powers should be given to these officers, as it considered the prevailing practice under which proposals from the administrative ministries in respect of creation of posts were referred by the accredited divisions to the Establishment Division (which was coordinating the action on them) without themselves taking a decision as unjustified. The Committee expressed the opinion that such a

[5] Report on the Ministry of Finance.
[6] General Report of the Committee.

practice would defeat the very objective of having a Joint Secretary as an accredited representative of the Ministry of Finance. (During this period all proposals for the creation of posts were considered by an 'Expenditure Proposals Committee' in the 'Establishment Division'. The accredited Finance Officers were not allowed to consider these matters and decisions in this regard rested with the Establishment Division only.)

As for budgetary matters, the Committee recommended that non-lapsing grants should be given to the ministries engaged in developmental[7] activities, and that development funds (non-lapsable) should be created[8] in the Ministries of Works, Mines and Power, and Industry and Supply.

The recommendations of the Committee, considered from any point of view, represented a new trend and revealed a progressive attitude. But this time, the attention of the government was focussed more on the specific suggestions for economy made by the Committee, and no attention was paid to its recommendations relating to the reorganisation of the system of financial control. What is more, the reports of the Committee were not even made public and were treated as classified documents until recently. Thus the Committee was deprived of the normal utility of a committee, for its recommendations were neither accepted nor were they allowed to be publicised, in which case they would at least have created an atmosphere facilitating further reform.

Even before the recommendations of the Economy Committee received a preliminary consideration, the report of Shri N. Gopalaswami Aiyangar was submitted in November 1949 to the government. The refrain of Shri Aiyangar, in regard to the system of financial control, was not different from that of Tottenham and Grigg whom he quoted at length. Shri Aiyangar recognised that there was far too much centralisation[9] entailing considerable delays in obtaining financial sanction. But he thought that the entire fault lay not on one side. He pointed out, "I have no doubt that the administrative ministries and departments are also to blame. Even in normal times, the interests of

[7] General Report.
[8] Report on the Finance Ministry.
[9] See Shri Aiyangar's Report, pp. 37-39.

the taxpayers could not be left entirely to the spending departments"; and by saying this he treaded on a new path where he recognised the need for a reform in the system of financial control, but did not think that a radical departure from the existing procedure was either necessary or warranted. He expected that the problem could be solved by bringing about such "changes in the machinery and procedure as would render the process of expenditure sanction more intelligent, well informed and speedy, and thereby remove the sense of frustration which afflicts, at any rate, several ministries and departments at present, and at the same time to tighten up the process of budget control of expenditure and to promote economy consciousness and a sense of financial responsibility, which are the really effective safeguards against extravagance".[10] Shri Aiyangar recognised that what was required to avoid the contemporary evils of financial control was a permanent financial advisory organisation of the type that was operating in the Ministry of Defence. But he warned[11] that multiplication of similar agencies for each department (which was in fact the contention of the Economy Committee) to deal with a relatively small volume of transactions would be administratively difficult as 'it would not be possible to allot an officer of sufficient experience who can exercise a delegated authority'.

If such an officer is not found, neither could delegation of enhanced powers be made, nor a change in the financial control contemplated, for either of them requires competent personnel. The problem assumed the shape of a vicious circle. The problem briefly stated was that the existing situation required a change in the system of financial control, but there were no competent and senior personnel available to work the changed system. Shri Aiyangar himself observed: "A Financial Adviser to whom necessary authority is not delegated would be useless. Equally useless would be a financial advisory organisation which is not located in close proximity to the administrative organisation which it is intended to serve and is linked with it on a practi-

[10] *Ibid.*, para 56.
[11] *Ibid.*, para 25.

cally permanent basis."[12] He, therefore, suggested, as an alternative to these problems, that the Ministry of Finance may be divided into two, one to deal with the control of civil expenditure and another with the control of defence expenditure. The civil Finance Department, according to him, was to have the full authority and responsibility in respect of control of expenditure; and its organisation was to be so designed as to bring about improvement in its divisions associated with different ministries.

Shri Aiyangar diagnosed the problem in much the same manner as the Economy Committee and Sir Richard, and it is only in emphasis that they differed. These reports had their own approaches and answers to the problems. But all of them recognised the need for a financial advisory organisation. They emphasised (Bajpai Report and Aiyangar Report in particular) that unless the financial adviser was of the rank of a Joint Secretary, the utility of the Advisers' System would be lost. The latter factor has undergone a change in the reforms introduced in the following years—in 1957.

The recommendations of Shri Aiyangar were implemented partially. The Ministry of Finance was subdivided, not on the pattern suggested by Shri Aiyangar, but into two departments: (*i*) Department of Revenue and Expenditure and (*ii*) Department of Economic Affairs. And to make financial advice more speedily available, the expenditure divisions were reorganised and more divisions were created. The other suggestions were not implemented.

Immediately after Shri Aiyangar's report, there was a lull for some time. The attention of the Government and the people alike was diverted to more important issues like the new Constitution and the First Five Year Plan. The period following 1950 presents a significant diversion in the trend of the suggestions for financial reform. The suggestions during this period were more and more directed to a plea for an enhanced delegation of financial powers, rather than to a change in the framework of the system of financial advice. Meanwhile, however, the relations between the Ministry of Finance and the administra-

[12] See Shri Aiyangar's Report, para 12.

tive ministries continued in the same strained way. The control, if detailed in some respects, was also remote, impersonal and detached in a few other respects. It was detached and remote for the reason that the representatives of the Finance Ministry had no complete understanding of a proposal from its very inception, but were asked to consider it, often, when it was finalised by the administrative ministry. At such a stage, the comments of the Finance Ministry, which were either adverse or pleaded for more economy, were either resented or were unwelcome to the administrative ministries.

The important landmarks in the history of the suggestions for financial reform during the period from 1951 to 1954 (early 1954 only) were a report of the Estimates Committee, a report of an expert and a report of a foreign expert. All these had a common approach and all of them emphasised the imperative need for enhanced delegation of financial powers.

The Estimates Committee, in its second report,[13] pointed out that greater financial powers in the field of minor items of expenditure should be vested on the Heads of ministries and departments. This theme was taken up by Shri A. D. Gorwala, who was asked by the Planning Commission[14] to suggest reforms for the reorganisation of the governmental machinery. He was concerned more with what may be called the attitudinal factors—the approaches and attitudes of the Finance Department than with a reorganisation of the system of the financial advice. He characterised the attitude of the Ministry of Finance as one of 'woodenness' and 'lack of discrimination' and observed that what was really needed was 'control and not interference'. To avoid the defect of financial control and to see that the administrative ministries are given enough powers to enable them to execute the plan projects speedily, he suggested that certain financial powers in respect of contingent expenditure should be delegated to the Heads of departments, and where adequate delegation of powers is already there, it should be enforced. He added that the possibility of enlarged delegation should be investigated further.

[13] "Government of India Secretariat", p. 9, February 1957.
[14] Report on Public Administration in India.

The Government itself was meanwhile becoming aware of the problems of the implementation of the plan and the inadequacy of the financial powers of the administrative ministries in this regard. The result of this awareness was the delegation of financial powers in 1953 and 1954.

The policy of the government was strengthened and a further need for delegation emphasised in 1953, with the submission of the report of P. H. Appleby in that year. Dean Appleby critically commented upon the system of control, which he considered to be "too specific and detailed and too slow", and commented wryly on the 'extensiveness of efforts to guard and control in terms of very small amounts".

While these were the opinions of the experts, the opinions of the Members of Parliament, surprisingly enough, were opposed to any diminution of financial control. The debates on the demands for grants of the Ministry of Finance in 1951[15] and 1952 are marked by a forceful plea for extension of the control. One Member commented, "day by day, the old inescapable control of the Finance Ministry over the activities, especially the spending activities of the various Ministries of Government of India, is slackening. In fact I could go to the extent of saying that each Ministry is today functioning as something like an *imperium in imperio.*"[16] The reasons that prompted the Members of Parliament to plead for an extension of control were the large amounts of savings, excesses and irregularities revealed by the Public Accounts Committee in its reports.

If opinions of the legislators were against slackening of financial control, the opinion of the Finance Minister was for it. He pointed out that the criticism in government was "that we are rather overdoing it than not doing it satisfactorily".[17] He added at a later date, "I hear grumbles and murmurs even now behind me that too much control is exercised and I am perpetually being blamed of being obtuse, obdurate and obstructive. Actually, therefore, I can infer that we are doing our duty fairly

[15] See the speeches of A. C. Guha, Khandubhai K. Desai and R. K. Siddhwa in April 1951.

[16] Dr. Lanka Sundaram, H. P. Debates, 2 July 1952.

[17] See H. P. Debates, 10 April 1951.

and tolerably effectively."[18] The viewpoint of the Finance Minister prevailed and as we have seen in the earlier chapter the Finance Minister initiated a series of delegations of enhanced financial powers.

Very soon there was another plea for reform. In 1954, there was a great flutter if not a mild sensation with the proposals of financial reform submitted by A. K. Chanda, the Comptroller and Auditor-General designate of India. His proposals received added importance, with an item that appeared in the newspapers to the effect that the Finance Minister had threatened to resign if Shri Chanda's recommendations were accepted. Shri Chanda's report arose from a direction from the Prime Minister who asked him[19] to make a study on various matters including the existing financial procedure with a view to expediting government business and to offer suggestions from the point of view of expediting the implementation of the plan and the projects included in it. What was published was only a news item, purporting to be the gist of the recommendations of Chanda. The report, however, has not so far been published.

The suggestions (an unauthorised gist of which appeared in the press) of Shri Chanda caused quite a discussion in the House of the People. One Member thought that the adoption of the system as suggested by Chanda would reduce the control of the Finance Ministry over other ministries and in consequence whittle down "that which we are more anxious to establish, effective parliamentary control".[20] Another Member commented: "that is not financial procedure, that is not safety for public economy, and that is not the way in which this House can have its wishes respected."[21] In a reply to the House, the Finance Minister explained the procedure of financial control and considered that the answer to the problem lay in more delegation of financial powers,[22] in which direction he was already moving. Strangely enough, not a word was mentioned on Chanda's report in the course of the Finance Minister's speech. And stranger still,

[18] See H. P. Debates, 3 July 1952.
[19] See Short Notice Question No. 9, 9 April 1954.
[20] Dr Krishnaswami, H. P. Debates, 15 April 1954.
[21] T. S. A. Chettiar, *ibid.*
[22] H. P. Debates, 17 April 1954.

the suggestion of Shri Chanda raised a commotion though no one, except for the government, was sure of what Chanda had stated in his report.

However, Shri Chanda's ideas became public very soon in a different form.[23] His suggestions for financial reform were given in the form of an Appendix to the Audit Report of 1955. But this time, it was said to be at the instance of the Public Accounts Committee who requested him "whether he (Comptroller and Auditor-General) could suggest certain structural changes in the presentation of the Budget and the compilation of accounts to secure a more realistic presentation of the estimates and their economic and efficient utilisation."[24]

The suggestions of the Comptroller[25] and Auditor-General covered a wide range of activities including budgeting, system of financial control, and grants to States. The suggestions, in so far as financial control is concerned, may be stated as follows: (*i*) Financial scrutiny should be in two parts—broad and overall scrutiny at expert level, located within the adminstrative ministries. (*ii*) The administrative ministries should be provided with Internal Financial Advisers drawn from a panel of officers with financial experience (as approved by the Finance Minister). (*iii*) Internal Financial Officers should be associated with the delegation of authority. (*iv*) A schedule of sanctions should be prepared by every officer for submission to the authority immediately superior to him, to enable a review of the manner in which delegated powers have been exercised.

He considered that the financial advice given by the Ministry of Finance as unreal and detached. It was contended that the conception of administrative responsibility could be implemented only if the financial advice and assistance flows from within the ministry. It was pointed out by him that in the present system there was an unnatural divorce between authority and responsibility. Installation of Internal Finance Officers and delegation of powers would on the contrary be a definite im-

[23] In February 1956, Shri Chanda expressed the same views in an address delivered at the foundation-laying ceremony of the building of the office of the AGCR. *Commerce*, 25 February 1956.

[24] Introduction of the Audit Report of 1956.

[25] Shri Chanda had then assumed the office of the C & AG.

provement on the prevailing conditions, as it would pave the way for a complete identity of interests. Such an institutional set-up would allow a speedy execution of a scheme with due regard to economy and efficiency and would also lead to the growth of a financial consciousness at all levels in the spending departments.

The suggestions of Shri Chanda were based and modelled on the British experience, in whose system extensive changes were made in 1921 by Sir Warren Fisher. Under these reforms, the Head of each department was designated as the Accounting Officer and was made responsible for the economy, regularity, and efficiency of his department. He was made responsible, "for the financial administration of the grant of the services under his control", for the proper conduct of financial business and for efficient financial administration. Under that scheme, before allowing payments, he was to satisfy himself as to the correctness and propriety of the payment. To enable him to discharge these functions the Accounting Officer was given a small nucleus of finance officers which was to render assistance in these matters.

These suggestions of Shri Chanda, the Ministry of Finance considered, were difficult to be implemented, because of the difference in the structure of the Indian Finance Ministry and the UK Treasury. In the UK, the Treasury at this stage[26] was in charge of the civil service also. Also, there is a single service and a bulk of the officers have the opportunity to gain both administrative and financial experience. Since the Head of the Treasury was also the Head of the Civil Service, the process of control was further strengthened by the intimate relations between the Accounting Officers in their capacity as Heads of departments and the Head of the Treasury. Another important factor is that in its capacity as the Head of the Civil Service the British Treasury was distinguishable from its Indian counterpart. The British Treasury had also a general responsibility for the efficiency of the governmental machinery (the O & M Division is still under its charge).

Apart from these differences in the structures of the two sys-

[26] In 1956, the British Treasury was reorganised so as to be headed by two joint permanent secretaries—one in charge of the Treasury proper (directly under the Chancellor of the Exchequer) and another in charge of the Cabinet and service matters to work under the Prime Minister.

tems, a factor which made the implementation of Shri Chanda's suggestion difficult was the shortage of personnel which was already a problem of considerable magnitude. This was further accentuated by the steady dependence of the public sector on the Civil Service personnel, and the numbers of the available senior civil servants began to dwindle slowly.[27]

In view of these two factors, the government found it difficult to implement these suggestions. However, it has not equivocally condemned the proposals; on the contrary, it contented itself with a partial acceptance and still more with a partial implementation of the scheme. But Chanda's recommendations left an indelible impression and had considerable impact on the approaches of the government. In pursuance of these recommendations, early in 1955, the Cabinet decided[28] that the Indian system of financial advice and control should be ultimately modelled on the UK pattern. It was the Cabinet's intention that the ministries should develop their own financial cells so that schemes and proposals involving expenditure and requiring financial advice are properly vetted in the ministry itself and financial concurrence accorded as expeditiously as possible. In accordance with the Cabinet decision that budgetary and financial competence should be developed in the administrative ministries, it was decided that the scheme covering the combination of these aspects, might be tried, to begin with, in the Ministries of Irrigation and Power and the Department of Communications.

Later, however, in view of certain practical difficulties, the Department of Communications was withdrawn from the scope of the scheme, and it was introduced only in the Ministry of Irrigation and Power. Under this system an Internal Finance Adviser of the rank of a Deputy Secretary was posted in the Irrigation and Power Ministry. His functions were to scrutinise all the financial proposals relating to the multipurpose projects,

[27] The implementation of Shri Chanda's proposals presupposes the existence of personnel. But that itself proved to be one of the handicaps. *Commerce* warned that if the requisite type of personnel are not available the experiment might make matters worse than they were. See its leader article, 2 June 1956.

[28] Annual Report of the Ministry of Finance for 1955-56.

etc. and to assist the Secretary of the Department in all financial matters. The scheme which was introduced as an experimental one was continued in the subsequent years and continues even now to be in existence in the same form as was introduced in 1956. Thus the essence and the spirit of Shri Chanda's suggestions were accepted, but due to the shortage of experienced personnel, its implementation was done only partly.

It is a truism that the extent and nature of the control to be exercised by the Finance Ministry must be left to be determined by the Finance Minister in such a manner as will enable him to discharge adequately his responsibilities to the Cabinet and the Parliament; and it is likely that each minister may have his own methods of control. The new Finance Minister, who took over charge in 1956, had different ideas in the matter and therefore a new system had come to be introduced early in 1957.

This scheme is generally known as the Attached Financial Adviser Scheme (AFA).[29] The attempt this time was to render financial advice to the administrative ministries and to secure close collaboration and harmonious working relations between the administrative and the finance officers. The scheme's features were: (*i*) A Joint Secretary, who is now called the Financial Adviser, is accredited to one or a group of ministries. He was to be in the overall charge of financial advice of those ministries, but each ministry was given an AFA (Attached Financial Adviser) of the rank of either an Under Secretary or a Deputy Secretary. The AFA was to deal with all the proposals emanating from the administrative ministries, and where necessary he was to seek the orders of his superiors (Financial Adviser). Thus the AFA[30] was really the officer who was available to the ministry at any hour ready to offer advice on all financial matters. (*ii*) In order to enable the AFA to deal with all matters himself, noting at the office level was discouraged and it was suggested that all files should be marked to the AFA himself. (*iii*) In order to ensure that the AFA functioned in a really attached manner, he was accommodated as close as possible to the Secretary of the

[29] 3rd Annual Report of the O & M Division of the Cabinet Secretariat.

[30] Rightly, not much emphasis was paid to the rank of an AFA. It would be recalled that the Bajpai Report insisted on the rank of the officer being that of a Joint Secretary.

Administrative Ministry. (*iv*) With a view to acquaint the AFA with the various aspects of every financial proposal, it was suggested that the AFA be taken into confidence by the administrative ministries at the earliest possible opportunity, right from the stage when the proposal was in an embryonic form, and allowed full facility of discussion with the senior officers of the administrative ministry, so as to ensure that no time or labour is wasted on the preparation of the schemes and proposals which are not likely to be considered financially feasible and acceptable at a later date. (*v*) The AFA was exhorted to give constructive advice based on sympathetic understanding. The views of the administrative ministry as regards the urgency and the necessity of a scheme were to be given due weight, and the AFA was asked not to give an impression that the Finance Ministry claimed a monopoly of wisdom, and no attempt was to be made by him to substitute his judgment for the technical judgment "of the ministry and its technical experts". The essence of the scheme was adequate discussion before formulation of a scheme, and both the administrative ministry and the Ministry of Finance were expected to make discussion an automatic working method. (*vi*) Though the AFA was an officer of the Ministry of Finance, yet for all intents and purposes, he was to work as though he was an officer of the administrative ministry, and one of his functions was to assist the Secretary of the Administrative Department in the formulation of the Budget and other financial schemes. The AFA was to keep a systematic and continuous watch over the progress of expenditure of the department. It was eventually expected that he would take over the functional control of the Budget and other finance sections of the administrative ministry to which he was attached. (*vii*) To ensure coordination between the various expenditure divisions as also uniformity in all important matters which are now distributed all over the expenditure divisions, certain matters like negotiations with foreign firms and purchases, etc. were dealt with by separate Boards set up for the purpose. The Boards consisted of one or more Financial Advisers. This enabled the Finance Minister to get the considered views of the Board; and at the same time it paved the way for the establishment of uniformity and a better coordination of economic policy.

(*viii*) The representatives of the Finance Ministry on the various Boards, companies and corporations have been rearranged by regrouping the organisations by broad categories and by posting officers who were acquainted with the work of these organisations. These organisational changes gained further impetus and its spirit was reinforced by the changes that took place in the procedure of consultation with the Finance Minister. The Finance Minister offered that he would be ready to discuss any matter with the Secretaries of the departments directly and suggested that they could meet him and explain the matters to him. An additional device adopted during this period to appraise the Finance Minister personally of the financial implications of major projects was the introduction of a procedure whereby Secretaries of the departments concerned were to prepare a small note indicating the justification for every proposal of major expenditure, and submit it to the Finance Minister. Thus the relations between the Finance Minister (ministry) and the administrative ministries became closer and more intimate. What had hitherto been an atmosphere of mutual bickering, if not acrimony, had been transformed into one of mutual understanding.

The system which was introduced in 1957 continued up to the middle of 1958. The annual report of the Ministry of Finance for 1957-58 stated, "the reorganised arrangements for financial advice to ministries reported during the previous year continued to function well during the year under review". This sense of satisfaction did not remain long, and new arrangements were introduced with effect from 20 August 1958. The annual report of the Ministry of Finance for 1958-59 stated, "the arrangements for budgeting and financial control in regard to civil expenditure during the year under review, were reviewed and revised and new arrangements brought into force with effect from 20 August 1958". What were the reasons for the change? And why was a system which continued to function well abandoned and instead a new scheme introduced?

The reasons for the change may be stated as follows: (*i*) the recommendations made earlier by Shri Chanda received more strength and impetus with the Public Accounts Committee endorsing all his suggestions, and (*ii*) the experience of the AFA

Scheme which proved to be a success brought home certain compelling conclusions, such as (*a*) it is necessary to entrust the financial responsibility in matters of details to the administrative ministries and (*b*) that such responsibilities can be discharged by the administrative ministries, if only they are given the proper personnel equipped with financial experience for the job.

The recommendations of the Public Accounts Committee[31] which followed the lines of the suggestions made earlier by Shri Chanda (details of which have been considered in the earlier paragraphs) were that the control of the Finance Ministry should as far as possible be confined to the control in respect of policy and a detailed review of the proposals before the budget is framed, and that the post-budget execution and the control in the process of the execution is to be entrusted to the administrative departments themselves. The recommendations were accepted by the government and a new scheme was worked out in close consultation with the Comptroller and Auditor-General. The Scheme covered many aspects such as budgeting and the system of financial advice. Based on the objectives enunciated above, a scheme was evolved (*i*) to delegate more financial powers and (*ii*) to supply the 'personnel' to act as the Internal Financial Advisers.

So far as the delegated financial powers are concerned, we have analysed the various aspects of these delegations in the preceding chapter. The new scheme envisaged a greater delegation of financial powers and responsibilities and a reorganisation of the financial control system. As a part of this scheme they were given officers of appropriate status such as Financial Adviser, Deputy Financial Adviser and Assistant Financial Adviser, but all of them were treated as 'Internal Finance Advisers'. They were treated as part of the administrative ministries and were paid from their budget demands. Briefly, the duties of the IFA were to assist in the financial, budgetary and other connected work, as also to ensure a proper exercise of control of expenditure against appropriations. They were also to assist in the formulation of proposals for inclusion in the Budget.

[31] 8th Report of PAC, April 1958.

The departments were free to exercise the already existing powers delegated to them before 1958 without consulting the IFA, but in respect of powers delegated after 1958, it was mandatory for the ministries to consult the IFA.

The posting, selection and transfer of the IFA's in each ministry was to be arranged by the Central Establishment Board and the Secretary of the Department of Expenditure was to be co-opted whenever these postings were considered by the Board.

The IFA under the new scheme is subordinate to the Secretary of the administrative department. However, his 'subordination' does not prevent him from offering his independent, forthright financial advice. Generally, however, there may be many instances where the Head of a department may be influenced in the direction of extravagance by various motives such as (*a*) a genuine interest in the subject matter of his work, (*b*) a desire for smooth working, and (*c*) a desire to stand well with his minister; and influenced by these different factors, he might override the financial advice given by the IFA. To ensure that such cases, where the advice of the Financial Adviser was ignored, are brought to light, a procedure has been devised. Under this, in all cases where the advice tendered by the IFA is not accepted, they are to be referred to the Secretary of the Administrative Department, and if the Secretary also differs from his advice the case has to be brought to the notice of the minister. A monthly list of cases, where such differences arose, has to be forwarded to the Ministry of Finance and the Comptroller and Auditor-General. The fact that these cases are reported to the Comptroller and Auditor-General and through him to the Public Accounts Committee acts as a salūtary check on the Heads of the administrative departments from ignoring the advice of the Financial Adviser. Thus, a certain degree of independence, which is so very essential for the smooth and effective working of the IFA had been conferred on him.

It is often suggested that when the Financial Adviser is made subordinate to the Secretary of the Administrative Department, it would reduce the effectiveness of financial control, for the FA as a subordinate of the administrative department may like to ingratiate himself with the Secretary and may like to soft-pedal his way, thereby ceasing to work as an impartial outside

tribunal and a critic. In such a contingency, the FA becomes not only a part of the administrative ministry but a part of the administration itself. It is, however, only to avoid these pitfalls and ensure an effective financial control, that the IFA had been provided with abundant independence.

Working of the System

As stated earlier, under the revised arrangements[32] the ministries were given Internal Financial Advisers. The Finance Ministry on its part maintained contact with the administrative ministries through its expenditure divisons, whose officers were called External Financial Advisers. However, due to the paucity of personnel, the Financial Advisers at the level of the Joint Secretary, were given the combined functions of both Internal and External Advisory duties in respect of most of the ministries. This, however, did not create any confusion, as the Joint Secretary was given the charge of more than one ministry. To supplement his work, independent Internal Financial Advisers of the rank of Deputy Secretary or Under Secretary were posted in the administrative ministry.

The contacts between the IFA and External Financial Adviser arose out of the division of functions itself. The delegated financial powers were exercised by the IFA and proposals beyond these powers were dealt with by the External Financial Advisers. Since all proposals were to be referred to the External Financial Adviser only after they had been seen by the IFA, there was always a regular contact between the two.

The scheme continued to function well in every respect, except for the personnel arrangements. The existence of an IFA and an External FA meant to the administrative ministries, the creation of another channel through which its proposal had to be processed, and this meant the emergence of a set of new procedural problems. The creation of the new branches also meant extra expenditure and a drag on the technical personnel which was already in short supply. So, a process of combining the functions of IFA and External FA in one and the

[32] A similar system was introduced in Pakistan also. See its *Second Five Year Plan.*

same person even at the lower ranks, started in February 1959—in less than six months after the initiation of the scheme. This process of combination was effectively carried on in the following months and by January 1960, almost all the Financial Advisers, both internal and external, were combined in one officer, with the exception of the Departments of Labour and Employment, Home Affairs, Transport, Irrigation and Power (which retained the earlier set-up) and Iron & Steel. The Annual Report of the Ministry of Finance for 1959-60 stated, "one of the important changes made during this year relates to the introduction, at the request of some administrative ministries, of a combined financial set-up, under which the officers of the finance branches of the ministries concerned functioned, in addition, as 'external' Financial Advisers in respect of matters requiring consultation, concurrence with the Department of Expenditure".

The officers in whom the roles were combined, were brought on under the administrative control[33] of the Ministry of Finance and were paid from the 'Demands' of the Finance Ministry. This meant that Financial Adviser formed no more a part of the administrative ministry, except for performing his functions on their behalf. But, it was stated, "the combined arrangements are expected to ensure the avoidance of unnecessary duplication of work and also ensure the economical utilisation of the man-power available for financial advice work".[34] The reasons for such a combination of different roles are, to summarise: (*i*) the existence of an IFA and external FA meant an additional procedural channel, (*ii*) it also meant an increase in expenditure on staff, (*iii*) to avoid the risk of the Finance Ministry losing direct contact with the affairs of the administrative ministry and the companies and undertakings working under it, and (*iv*) to ensure a better coordination of financial policy.

It is pertinent to pose the question whether such a combination is desirable. The answer is not easy, for opinions are divided. One Secretary of a department thought that "there should be

[33] As a result of this reversal, the Department of Expenditure had to go in for a supplementary grant of Rs. 6 lakhs more, in January 1960.

[34] Annual Report of the Ministry of Finance for 1959-60.

only one Financial Adviser for each 'Ministry',[35] and thought the combination as harmless".[36] Another Secretary expressed himself positively against such a combination as he considered it wrong in principle. These differences in approach incidentally explain the present system which partly represents a system of combined Financial Advisers and the External Financial Advisers retained separately in respect of certain ministries.

It would thus appear that the system introduced in 1958 had, except in parts; reverted to the earlier systems.

It is, however, difficult to say whether the system of financial control through the IFA was as effective (judging it from the broad canons of the control of expenditure) as the earlier AFA system or even the previous system was. The effectiveness of the control in the existing situation or for that matter in any situation depends on three factors. They are: (*i*) the Finance Officer—whether external or internal, (*ii*) the Secretary of the administrative department, and (*iii*) the minister of the administrative department. A sense of financial responsibility on the part of all these three will build up a financial consciousness in the departments. An absence of this feeling may encourage the extensive adoption of the 'theory of long stop' (which implies that no control needs to be exercised in the administrative departments as the Ministry of Finance is in any case there to ensure a careful examination of proposals. The concept is based on the cricket terminology where the posting of a fieldsman behind the wicket-keeper enables the wicket-keeper to afford to leave some balls on the presumption that they would in any case be stopped by the 'long stop'), and may make financial control complicated, confusing and finally ineffective too. It is on these factors that the success of reform depends.

1962 Reforms

Another reform was introduced in September 1962 by the Central Government. This reform was the result of a review of the earlier reforms as also of an awareness of the problems that are confronted in the execution of the plans. The new reform

[35] Minutes of the 55th Report of the Estimates Committee, p. 31.
[36] *Ibid.*, p. 31.

was based on the philosophy that financial responsibility should be devolved in a greater measure on the administrative ministries and that the role of the Finance Ministry should be restricted to control through the pre-budget scrutiny and through random checks and work studies in the course of the execution of the Budget. The important features of the new scheme are:

(*i*) The budgets of the respective departments may be prepared in greater detail and be submitted to the Ministry of Finance in August (such estimates were hitherto submitted some time after October) to enable an exhaustive examination by the Ministry of Finance.

(*ii*) With a view to enable the administrative ministries to control the expenditure and ensure a steady expenditure against the appropriations, arrangements were made with the Audit Department for the regular and timely supply of accounting data.

(*iii*) It was provided that a small extra provision in the budget of every ministry to meet unforeseen liabilities may be allowed on merits. (It was made clear that this would not be tantamount to the acceptance of the principle of provision of lump sums in the budget.)

(*iv*) That a work study unit would be established in the administrative ministries to carry on periodical surveys of staff strength, etc.

The scheme envisaged that the Financial Advisers as well as their subordinate staff would form an integral part of the administrative ministry and together with the accounting and budgeting branches of administrative ministry would form the financial conscience of that ministry. It was also provided in the scheme that the Secretary of each department shall be the final authority to decide each issue after obtaining the advice of his Financial Adviser. It was, however, open to the former to over-rule the latter. While the 1958 scheme of reform provided that instances where the advice tendered by the Financial Adviser was over-ruled, should be conveyed to the Ministry of Finance and the Comptroller and Auditor-General, this scheme dispensed with such conditions and made the Secretary of the Department the actual Head responsible for matters, both of administrative and financial nature. This scheme which was

initially introduced as an experimental measure applicable only to three Ministries was later extended to all the Ministries and is now retained permanently.

Under the scheme, the scrutiny and control of the Ministry of Finance was limited to the pre-budget stage of the estimates, and a sort of review of the actions of the ministries through random checks and work studies. It may, however, be argued[87] whether such review is adequate and whether it will not eventually lead to a consideration of the question, in each of the transactions checked by the Ministry of Finance, whether a particular decision was proper or not, and it can also be argued whether such a review will not be more of a review of 'propriety' than 'economy'. Although such a risk is inherent, yet, in a way, what is 'proper' is also perhaps 'economical'.

It should, however, be noted that this scheme was indeed a progressive one, for what was hitherto a nominal freedom of the administrative ministries has now become a real one.

From this survey one fact becomes clear. Since independence we have had many reforms and if one may say so, we had a surfeit of reforms rather than a lack of it. What is indeed unfortunate is that no system was given a fair trial and no system was objectively assessed before being switched off. Instead, reform after reform were discarded and modified as quickly as they were introduced. The system of control was in a perennial transition and continuous change. It is time that the system is given a larger dose of stability.

[87] It can similarly be argued, whether early preparation of Budget estimates may not lead to considerable modification at a later stage. In fact the Hoover Commission (1955) task report suggested that the period should be reduced so that a more realistic appraisal can be made of the estimates. However, the magnitude of this problem is lessened in India in view of the fact that in the context of a plan the annual budget is only a part of the expenditure programmes that have already been decided upon.

Chapter Five

PLANNING AND CONTROL OF DEVELOPMENTAL EXPENDITURES AT THE CENTRE

For one thing, there is yet nothing in human history to disprove—just as there is nothing to demonstrate—that economic welfare in its highest sense cannot be achieved, even where it is most lacking, by the planned, deliberate and organised effort of a government, relentless as to purpose but not ruthless as to means, provided the effort is not only emotionally impelled but is scientifically guided.

RURAL CREDIT SURVEY (GENERAL) REPORT

WE HAVE so far analysed the methods of controlling the expenditure. In this chapter we would be discussing the various aspects of developmental expenditures and the methods used to control them. In considering these aspects, a good deal of attention may have to be paid to the role of the Planning Commission also. It has often been felt by administrators and academicians alike that the advent of the Planning Commission as an active body associated with the evolution as well as implementation of all economic policies, has generally undermined the traditional role of the Finance Ministry. Some have even argued that there has been a virtual shift of control from the Finance Ministry to the Planning Commission. In the following paragraphs an attempt is made firstly to provide a narrative of the evolution of planning in India, secondly to discuss the relations between the Finance Ministry and the Planning Commission and lastly to describe the methods of control of developmental expenditures.

This chapter is slightly different and a little more ambitious than the other chapters for it includes not only the 'control' aspects, but aspects of planning and budgeting, too. An attempt is also made in this chapter to weave the current expenditure

trends into the descriptive pattern. Also the history of planning efforts is considered at length.

Before narrating the evolution of planning in India, etc. it would, however, be advantageous to define what we mean by developmental expenditures and to indicate how they are different from the other expenditures, described in the preceding chapters and included in the broad term of conventional expenditures.

Generally the answer to the question what constitutes the developmental expenditures, is dependent on the type of development schemes included in the plan of a nation. These expenditures, as interpreted in normal practice in India, comprise (*a*) new development schemes on capital account, (*b*) new development schemes on revenue account, and (*c*) expenditure on schemes which are in the nature of extensions or additions to the existing institutions. The expenditure on the maintenance of new institutions which have come up as a result of these initial developmental expenditures, is called 'committed expenditure'. It is necessary to realise the distinction between 'committed expenditure'[1] and 'development expenditure'. The latter is expenditure that is incurred for the specific purpose of creating some new assets which were not existing in any form heretofore. Committed expenditure represents that expenditure which is incurred on the normal maintenance of an institution as an institution. The objective of the former is to create, and the latter to maintain.

We have seen in the earlier chapters that all proposed expenditure for which Budget provision is sought (Part II—New Items in the Revenue Budget) is examined by the Department of Expenditure and reductions are suggested by it keeping in view the overall availability of resources for the year. The estimates so reduced by the Department of Expenditure are susceptible of further *ad hoc* reductions by the Department of Economic Affairs (which is responsible for the preparation of

[1] The Second Finance Commission pointed out that there was initially some misunderstanding about the exact scope of the term 'committed expenditure' as used in the correspondence between the Planning Commission and the States at the time of the formulation of the Second Five Year Plan. This misunderstanding was cleared later.

the Budget) in case the total proposed expenditure is in excess of the total means available. The reductions suggested by the Department of Economic Affairs are for the entire demand, and are not generally made with reference to any specific scheme, for such detailed reductions are not possible at the last stage. In regard to the development expenditures which are included in the Revenue Budget, the process is almost the same. However, the procedure in regard to the developmental expenditures to be met out of the Capital Budget is slightly different. The role of the Department of Expenditure is also slightly different in the preparation of Capital Budget in that there is greater interplay of the forces of the Planning Commission, the Department of Economic Affairs, and the Department of Expenditure. A portrait of these forces, the interplay between them, and other related issues, are discussed in the following paragraphs as in the order indicated here—(*i*) an examination of the growth of the system of planned development in India and the structure of the Planning Commission and (*ii*) an examination of the developmetal budgetary pattern, and (*iii*) methods of the control of the developmental expenditures practised during the various stages.

History of Planning

Planning for economic development in an organised manner in our country, has been the direct result of the impact of the global wars. But even before the Second World War, there was a growing awareness of the need for planning for economic development. This awareness is reflected in the writings of the persons who were actively associated with this field, and in the contemporary resolutions of the National Congress. The first effort at framing a plan was made by Shri M. Visvesvaraya in 1933 when he formulated a ten-year plan with the object of doubling the national income of the country. This attempt was followed five years later by a resolution passed in an all India conference of the Ministers of Industries, which stated, "the problems of poverty and unemployment, and of economic regeneration in general cannot be solved without industrialisation. As a step towards such industrialisation, a comprehensive scheme of national planning should be formulated." This resolution led to the appointment of a National Planning Committee,

with Pandit Jawaharlal Nehru as its Chairman. Under the auspices of this Committee, various sub-committees were set up to study the different aspects of the country's economy and suggest schemes for its development. These sub-committees put in voluminous effort, and in the process created an urge for economic development, as also a planning consciousness. The subsequent efforts in this direction were mostly at the governmental level, although there were some efforts made by independent industrialists and others, in their own way, to formulate schemes for the development of the country. To the latter category belong such prominent schemes as the 'Bombay Plan', the 'Gandhian Plan' and the 'People's Plan'.

The advent of the war gave an added impetus to these efforts. The plans for post-war reconstruction started in the government as early as in June 1941 when a Committee was set up under the chairmanship of the Member of Commerce for this purpose. This Committee was replaced in 1943 by the Reconstruction Committee of the Council with the Viceroy as the Chairman. This Committee was equipped with a competent secretariat and was aided in their deliberations by a number of expert committees consisting of representatives from provincial governments and non-official organisations as well. This Committee submitted two reports, both of which held that the ultimate object of all planning must be to raise the standards of living of the people as a whole, and to ensure employment for all. In June 1944, i.e. one year after the establishment of the Committee, a separate Planning and Development Department was created. Simultaneously the State governments were asked to have their own planning organisations and to draw up their own plans. The very first effort of the Central Department was towards the enunciation of certain principles[2] in regard to the objectives, methods, principles and finances. These in their turn were intended to serve as the general principles on which the plans of the provincial and state departments could be drafted. This department also established panels of officials and non-officials for planning the development of individual industries

[2] The Second Report on Reconstruction Planning (1944), Government of India.

in consultation with the provincial and state governments. In all there were 31 panels working in the department for this purpose.

The first step in planning for industrial development, which was the object of the day, was to enunciate a policy of the government in the field of industrial development. The initial groundwork of the panels, and the department was responsible to the 'Industrial Policy Resolution' of 23 April 1945. At the same time, the other Central Departments were engaged in a systematic appraisal of their subjects and these efforts resulted in the submission of various reports by the experts which helped the departments to draw up their own plans. Significant among these reports were—the Bhore Committee on Public Health, Adarkar Report on the Scheme for Sickness Insurance of Industrial Workers, and a number of other reports in the field of agriculture, important among them being the Krishnamachari (V.T.) Committee on 'Stabilization of Agricultural Prices,' the Saraiya Committee Report on 'Co-operation', and the report of Dr Burns on the 'Technological Possibilities of Agricultural Development'. Simultaneously, progress was also taking place in the formulation of the plans at the provincial level on the pattern of the general framework outlined by the Government of India. The plans varied from state to state, not only in content but also in merit.[3] These efforts coincided incidentally with certain other changes, mainly political in nature, which were taking place in the country. The impact of these developments on the general framework of the plans, as also on the working of the Department of Planning and Development was considerable. The contemporary political developments were the end of war in September 1945, and the elections in early 1946 which installed the rule of the popular elected ministers in place of the Advisers' rule. Very soon the elected ministers in the provinces revised the provincial plans, and the revision was on a large scale involving considerable changes in the scope of the plans.

At the Centre, the Planning and Development Department was

[3] The Advisory Planning Board set up in 1946 reported that "the plans vary in merit. Some are fairly carefully integrated whole; others are little more than collections of departmental schemes hastily thrown together" (p. 68 of the Report).

abolished in early 1946 after the resignation of Sir A. Dalal who was until then the Head of that department. The government itself was reorganised in September 1946, when an interim government headed by Pandit Nehru took over the administration. This interim Cabinet initiated steps to prepare a National Plan and towards this purpose an Advisory Planning Board was set up under the Chairmanship of Shri K. C. Neogy. The Board was asked to make a survey of the work already done and to offer suggestions for laying down the objectives and priorities, and for suggesting a suitable machinery for planning. The Advisory Board completed its task and submitted its report in December 1946. The Board observed in the course of its report, that the objectives should be "to raise the general standard of living as a whole and to ensure useful employment for all". But it refused to fix any targets for development. The Board stated: "It must be frankly recognised that we do not at present possess in India, either sufficient knowledge and statistical information or sufficiently extensive control over economic activity to be either able to frame or execute plans whose combined and cumulative effect will be to increase per capita income by a predetermined amount." For the implementation of these objectives, the Committee suggested the setting up of a Planning Commission which would be directly responsible to the Cabinet, while devoting its attention continuously to the whole field of development. The primary function of the Commission, as recommended by the Board, was to formulate plans for the development of major industries and important minerals, etc. The Commission, it was envisaged, was to make recommendations only, while the final decisions were to be taken by the government itself. The Board also suggested the establishment of a consultative body (with 25-30 members) to offer advice, suggestions and opinion on different matters to the Commission. However, before the recommendations of the Advisory Board could be given effect to, there were sweeping changes in the political field which resulted in the partition of the country and a division of resources, equipment and population. These changes in the political situation required a fresh consideration of the issues which naturally took some time. Meanwhile, the plans which were already drawn up, were not wholly given up but were

implemented piecemeal by all alike, viz. states, provincial governments and the Central Departments, each according to its capacity, and to the extent they could be implemented in the troubled situation. This resulted in a haphazard and irregular development of resources. This uncoordinated and independent approach continued for some time, until, and to an extent, even after a few years after the establishment of the Planning Commission.

Pattern of Financial Control

It is in order, at this stage, to consider the type and pattern of financial control exercised during this initial period when planned development had not yet emerged in a systematic and organised form, but was only a small nucleus whose final form and utility were not yet settled. As stated earlier, the control was generally exercisable in detail by the Finance Department both before the inclusion in the Budget and after its acceptance. Broadly the pattern of control was exercised in the following stages: (*i*) Rules of Business (Rule 13) of the Viceroy, provided that no matter which has certain financial implications can be proceeded ahead with, unless that matter has been considered by the Finance Department and approved by it. (*ii*) Items which were included in the Budget were subject to 'expenditure sanctions' at a later date. At this stage, the expenditure sanction could be issued only with the concurrence of the Finance Department. This procedure implied that no expenditure could be incurred, even if it was provided for in the Budget, except with the approval of the Finance Department. (*iii*) The existing pattern of delegation[4] of powers to the various departments was not of a liberal order, with the consequence that dependence on the Finance Department was by and large considerable. (*iv*) Most of the developmental activities were provided in the Revenue Budget. Though the Capital Budget was in existence, yet it was used mostly to divert a few items from the Revenue Budget to the Capital Budget, so that the heavy deficit on the

[4] For example, except for the Department of Transport, all the other Departments had to depend on the CPWD, not only for construction of buildings etc., but even for the procedural formalities attached to it. See para 10 of the *Book of Financial Powers.*

Revenue Budget could be reduced to tolerable limits. A systematic budgetary pattern for developmental expenditures has not yet been evolved. (*v*) During the war period certain improvements were made in the institutional framework of financial control, and an experiment of the Attached Financial Adviser Scheme was initiated in respect of the Department of Supply (the pattern in respect of the other departments, however, remained as it was). The details of this system have already been discussed in the preceding chapter. (*vi*) During this period the Standing Finance Committee was also labouring hard for achieving economy. This Committee which was presided over by the Member for Finance and had members of the Central Assembly as its members, was a body established to acquaint the members of the Legislature with the governmental administration. (A detailed study of the Committee is made in Part III.) It is essential to realise at this stage, that this committee, whose primary duty was to scrutinise the new items (within limits specified for the purpose) and the proposals for supplementary grants, was an additional factor that had to be reckoned with in the prevailing methods of financial control. The existence and the continued working of the SFC meant an additional channel through which the departmental proposals had to pass through. The Standing Finance Committee, however, had no philosophy of its own. Its main function consisted in satisfying itself regarding the need and urgency of an expenditure. Though the entire usual machinery was at work, there was one important factor which brought about a change in the work if not the attitudes of the Finance Department. The imperatives of the contemporary war included a quick disposal of all proposals. In ensuring the fulfilment of this objective, the conventional elaborate procedure was put in the cupboard for the time being. Before the system could be restored to its normalcy, the needs of planning and post-war reconstruction came up to the surface, necessitating, to some extent, a change in the system of financial control and also in the attitudes revealed in its working. Surprisingly, the immediate post-war period witnessed no attempts to reorganise the system with a view to adapt it to the changed circumstances. There were, however, arguments and suggestions for reduction in the control exercised by the Finance Depart-

ment. The suggestions made by Sir Richard Tottenham and the Officer "Shortage Committee" and the Report of Gopalaswami Aiyangar, were all directed towards the lessening of the control of the Finance Department on the administrative ministries. While the Report of Shri Aiyangar was generally concerned with the changes in the methods of work, not in the context of reconstruction or planning but in the context of a growing uneasiness and resentment on the part of the administrative ministries towards the control of the Finance Minister, the reports of Sir Richard and Sir Girija Shankar emphasised the need for changing or improving the structure and content of financial control in the context of a planned economic development. Sir Richard stated, referring to the need for a change, "I would only add that there was a great deal to be said, in my opinion, for the principle of 'contract budget' experiment which was tried in the old Defence Department before the war. Something analogous would appear to be essential, if plans for reconstruction and development over a series of years are to be carried out successfully." Similarly the Officer Shortage Committee revealed a keen awareness of the requirements of the day. It reported: "The Committee fully recognises the need for strict financial control but is of the opinion that pre-war methods of exercising such control from a distance and in compartments will not suit the present circumstances. Speed of action will remain as important as it was during the war and the success or failure of development programme will depend upon the speed with which final decisions are taken." They, therefore, suggested the continuance of the System of Financial Advisers. It should be recognised that these recommendations were not made at an opportune moment. The country was being divided into two and the transfer of power was taking place. Against such a background, it was neither opportune, nor possible to embark on any large scale reorganisation programme. While action was taken on the immediate issues of the day, like the shortage of officers and the ways and means to meet the shortage, the larger issues were deliberately pushed into the background. Meanwhile the Finance Department was slowly and deliberately reverting to its pre-war set up. The developmental problems and their

impact on financial control, were taken up only at the end of the First Five Year Plan.

The Planning Commission

We have so far traced the growth of development expeditures and the process of control on these expenditures, as also the genesis of planning in India. The efforts at planning made up to 1946 reveal the absence of an adequate coordination and the lack of precise information on the availability of resources. The post-independence developments like the "inflationary pressures inherited from the war, balance of payments difficulties, the influx into India of several million persons . . . deficiencies in the country's food supply aggravated by partition and a succession of indifferent harvests and the dislocation of supplies" put the economy under severe strain. These developments, alarming as they were, emphasised the need for comprehensive planning and coordinated action. It was thought that this could be achieved "through an organisation free from the burden of the day-to-day administration but one which is in constant touch with the Government at the highest level". This organisation, as it came out, was the Planning Commission itself. Its functions, as stated in the resolution, were to:

(*i*) "make an assessment of the material, capital, and human resources of the country, including technical personnel, and investigate the possibilities of augmenting such of these resources as are found to be deficient in relation to the nation's requirements; (*ii*) formulate a plan for the most effective and balanced utilisation of the country's resources; (*iii*) define the stages, on a determination of priorities, in which the plan should be carried out and propose the allocation of resources for the due completion of each stage; (*iv*) indicate the factors which are tending to retard economic development and determine the conditions which, in view of the current social and political situation, should be established for the successful execution of the plan; (*v*) determine the nature of the machinery which will be necessary for securing the successful implementation of each stage of the plan in all its aspects; (*vi*) appraise from time to time the progress achieved in the execution of each stage of the plan and recommend the adjustments of policy and mea-

sures that such appraisal may show to be necessary; and (*vii*) make such interim or ancillary recommendations as appear to it to be appropriate either for facilitating the discharge of the duties assigned to it or on a consideration of the prevailing economic conditions, current policies, measures and development programmes; or on an examination of such specific problems as may be referred to it for advice by Central or State governments."

The Commission thus established, started functioning from 28 March 1950. The Commission's task was to formulate a plan for the economic development of the country so that the standard of living could be raised higher. The first answer for such a task was provided in the First Five Year Plan.

The plan was clear in its objectives and almost for the first time, it attempted a systematic evaluation of the resources. Planning implies a careful budgeting of manpower, foreign exchange, and commodities. This task which by itself was formidable was rendered more difficult by the absence of a national accounting system. The developmental programmes included in the First Plan was, however, in a large measure a consolidation of the plans already in existence. It is not within the scope of this chapter to enumerate the various features of the plan. The attempt here is to indicate only some of the salient points of the plan, and the problems thrown up in the process of implementation.

The working of the First Five Year Plan brought to light many an administrative tangle, as for example the absence of 'adequate coordination'[5] between the thinking of central ministries in certain fields and the schemes as embodied in the programmes followed in the States. These and many other issues required rectification and numerous changes in the system, which were met only partly during the First Five Year Plan. The emphasis of planning changed in the course of preparation of the Second Five Year Plan. This time, the object of the Commission was to formulate a plan from below. The emphasis of the plan was shifted from agriculture to industry, though during

[5] 21st Report of the Estimates Committee on 'Planning Commission', p. 27.

the course of the plan period, the core of the plan was changed and the earlier emphasis on agriculture restored.

The working of a system always throws up a number of problems in different fields. It is, however, not the attempt here to trace and sort out all the different problems. It is only to emphasise that each plan has its own implications and each plan is sought to be made better in the light of the experience gained from the previous one. It is a continuous process. The main objective of the study at this stage is to analyse the working of the Planning Commission in so far as it is related to financial control. The role of the Planning Commission in matters of financial control can be studied from two angles: (*i*) relationship between the Planning Commission and the Ministry of Finance and (*ii*) nature of the financial scrutiny of the Planning Commission.

Relationship between the Planning Commission and the Ministry of Finance

The Planning Commission is not an executive body. It is an advisory body and in that capacity it advises the Central Government and also the State governments. The Commission started with an executive body consisting of a Chairman, a Deputy Chairman, four Members, a Secretary (in common with the Cabinet Secretariat) and a Deputy Secretary. The Chairman was the Prime Minister himself and even now he continues to be so. At the initial constitution of the Commission, there were two Central ministers out of whom one was a member[6] of finance and also another who was a Deputy Chairman. With the increase in the tempo of work arising out of the lateral expansion of the scope of work, the membership of the Commission was increased from 4 to 7 (including a *de facto* member who is an Hony. Statistical Adviser to the Cabinet). It has been argued that the association of the Prime Minister,[7] and other Central ministers as either the Chairman or even as the members may elevate the

[6] The Finance Member of the Commission was the Finance Minister himself.

[7] Prof. P. H. Appleby in his second report states that the "Membership of the Commission is a small edition of the Government itself", p. 31.

Planning Commission from an advisory body to an executive body. It is said, to cite one instance, that the "purely advisory character of the Commission is lost, if Cabinet ministers including the Prime Minister are members of the Commission. A decision to which they are a party taken in the Planning Commission and transmitted to the ministries, to be considered by them or in the Cabinet is, it is pointed out, more than advice and is *very nearly* (italics mine) a final decision." There are, however, other opinions too, totally opposed to this point of view and one among such opinions is that a body totally detached from the government is likely to be an ineffective body and that the association of ministers in a formal way as members of the Commission "bring an essential link between the Planning Commission and the Cabinet". It has also been argued that even though a minister is in the Planning Commission, he may "still disagree with the view taken in the Commission when the matter is considered later by the Cabinet and that this has happened in practice".

The Commission in its advisory capacity considers the availability of resources and considers the schemes presented by the different central departments. In other words, all the schemes, including their financial implications, and annual plans are scrutinised by the Planning Commission before their inclusion in the plan. It also scrutinises the plans of the States. The type of the scrutiny and the nature of its examination, exercised by the Planning Commission, is discussed in the following paragraphs while considering the second aspect relating to the budget scrutiny of the Planning Commission.

It has been pointed out earlier that any proposal which has financial implications is first referred to the Ministry of Finance for its opinion in the matter regarding the advisability and urgency of each proposal of expenditure. The determination of urgency, in other words, is the process of determining the priorities for a given period. The term priorities has two connotations. In one sense it can be understood as referring to the priorities in planning over a given stretch of years. In the second sense, it may be interpreted as indicating the immediate 'priority' pattern for the next year. The distinction is one which is based on time span. It can be that the priority pattern in both the cases may

have the same nature and a uniform composition. In such cases there is no problem at all. But in a few other cases, some changes in the immediate 'priority' pattern might be needed to provide for problems which were not foreseen earlier and which have cropped up rather suddenly. The difference between the two is not any more than the difference between long term planning and short term planning. The Finance Ministry's control is essentially of a short term nature. In a system of planned economic development, which implies a long range plan divided into annual plans, the verification of long term priorities as also the short term priorities has to be necessarily undertaken and approved by the Planning Commission. Sub-paragraphs (iii) and (vi) of the terms of reference of the Planning Commission, cited earlier, make it imperative and legal for the Planning Commission to satisfy itself regarding the short term priorities as well as the long term priorities. It is necessary that the Commission should ensure that the short term priorities fit into the integrated picture of the long term priorities, and where there are variations between the two, they are justified in the circumstances. The determination of priorities is within the fold of the Commission's functions. These imply that the control in policy matters rests with the Planning Commission. It can, however, be argued that the Planning Commission is only an advisory body and that the executive responsibility is squarely on the shoulders of the Government. No doubt, the Planning Commission is an advisory body, but generally its decisions, or more appropriately 'suggestions', once approved by the National Development Council, become binding on the government. It is on the basis of considerations of this nature that it has often been pleaded that there has been a shift of control from the Ministry of Finance to the Planning Commission. This shift is in matters of control at policy level. As enunciated in the earlier chapters, the control of the Ministry of Finance is an all-embracing one, starting with a vigorous role in the formulation of policy and more elaborately exercised in the scrutiny of Budget estimates, and the sanctioning of specific schemes. The advent of the Planning Commission and its day-to-day working has taken away, to some extent, the control in policy matters related to developmental expenditures.

Developmental expenditures are the expenditures incurred on

the schemes included in the plans. These are plans which have been scrutinised by the Planning Commission and approved by it. This overall role of the Commission in scrutinising and approving the plans and the long term expenditures programmes is nothing more than the conventional role of the Finance Ministry. The shift is inherent in a situation where a Commission is established to discharge these functions. A former Minister for Finance at the Centre expressed the opinion in a conversation with the writer that "planning involves a slackening of financial control as also a shift of control from the Ministry of Finance to the Planning Commission." He considered this to be one of the imperatives of a planned economy. Another former Finance Minister, however, thought that the relationship between the two is one of a division of responsibilities, the ministry being an agency responsible for the implementation of the plan and the deployment of resources while the responsibility of the Planning Commission is confined to advice and review. The above conclusively shows that there has been a shift of control in policy matters from the Ministry of Finance to the Planning Commission. But the shift has not really made any change in the processes of control. The Ministry of Finance still sees the proposals and vets them—but at a later stage. This aspect can be studied in detail here.

Roles of Planning Commission and the Ministry of Finance

The Minister of Finance is a member of the Planning Commission. Generally all proposals that require the consideration of the Commission as a whole, are first circulated to the members of the Commission. The papers that are referred to the Finance Minister, are considered by his ministry also, and where considered necessary, the viewpoint of the Ministry of Finance is sought to be ventilated through the Finance Minister himself. It may be pointed out that after 1956, the approval of the member (Finance) of the Planning Commission was usually taken as the approval of the Minister of Finance also, unless the approval itself was one which was subject to a qualification. Prior to 1956, however, there was prevalent, to an extent, a 'split personality', as matters which were considered by the Commission and approved by the Finance Member were referred

again at a later stage to the Ministry of Finance for its approval. The general practice was that proposals, even in an embryonic form when the details and the financial implications were not quite clear, were referred to the Ministry of Finance before its submission to the Planning Commission and again at a later stage, i.e. after its acceptance in principle, by the Commission, were referred to the Department of Expenditure of the Ministry of Finance for undertaking a technical examination of the details. Referring to this practice, the Estimates Committee commented: "The Committee consider it highly unsatisfactory that the Ministry of Finance should undertake the financial scrutiny of a scheme after its inclusion in the plan. Elementary common sense indicates that the financial aspects of a scheme or project should be thoroughly examined prior to its consideration by the Planning Commission so that all aspects of a scheme, among which financial aspect is no doubt important, are before the Commission and the approved plan is realistic. The Committee have no doubt that this neglect on the part of the Finance Ministry has led to certain grievous errors in the past, e.g. the Steel Projects and the Dandakaranya scheme were included in the plan and later in the Budget without adequate financial scrutiny."[8] The later day scrutiny of the Ministry of Finance also implied that a proposal is considered by the Planning Commision devoid of the considered views of the Ministry of Finance regarding the technical details. This system occasionally gave rise not only to an ill-equipped judgment at the initial stage, but frequently necessitated a change in the scope of the scheme when a thorough financial scrutiny was undertaken by the Finance Ministry. There has, however, been some justification also in support of such a 'later date' examination of the Finance Ministry, for such an examination enabled the Ministry of Finance to impose last minute overall 'cuts' or even 'priority cuts', if such cuts were warranted by the resource position of the government. A plan for expenditure is always made having in view a particular estimate of income. When there is a change in the income estimates, cuts are imposed on the initial estimates.

[8] 55th Report of the Estimates Committee on the 'Department of Expenditure', p. 4.

As one former Finance Minister stated, the 'later date' review was insisted upon by the Ministry of Finance only to enable itself to exercise those 'guillotines', should a resort to them be found necessary.

The main distinction between the roles of the Planning Commission and the Finance Ministry is one between the stages of formulation and implementation. As a former Secretary to the Department[9] of Expenditure stated, the "Department of Expenditure came into the picture more at the implemenation stage than at the formulation stage". The same opinion was endorsed by his successor also, who stated "that approval of a scheme *in principle* (italics mine) would be given by the Planning Commission. The Finance Minister who is associated with Planning Commission and senior officers in the Department also had opportunity to comment on the proposal before it was accepted in principle. Further, the Ministry of Finance would be responsible for exercising detailed checks with reference to Budget provision, etc. before finally sanctioning it."[10] This scrutiny is exercised not only in the pre-Budget stage but also after inclusion in the Budget. This is true even in respect of schemes whose total cost does not exceed Rs. 50 lakhs. Such detailed post-Budget scrutiny is necessitated because of the absence of adequate and relevant data at the pre-Budget stage. The Secretary of the Department of Expenditure has stated, "that generally at the stage of pre-Budget scrutiny, the Finance Ministry got sufficient details in respect of schemes costing less than Rs. 20 and Rs. 30 lakhs but not in respect of larger schemes and the retention of this power in the Finance Ministry helped it to satisfy itself that no big scheme escaped detailed scrutiny prior to incurring expenditure thereon."

However, with a view to enable a balanced judgment and to appraise the Planning Commission even at the initial stages of the consideration of a proposal, the procedure has since been revised. Under this procedure, the sponsoring ministry has to obtain[11] the preliminary views of the Finance Ministry regard-

[9] Shri S. Ratnam, Minutes of the 55th Report of the Estimates Committee, p. 4.

[10] *Ibid.*, p. 9.

[11] In addition to the Department of Expenditure the Department of

ing the economic and other aspects before consulting the Planning Commission regarding a proposal.

The preceding paragraphs indicate the broad relations between the Finance Ministry and the Planning Commission. A few other aspects of these relations are analysed in greater detail in the course of our discussion on the process of capital budgeting later on.

Planning Commission's Scrutiny

The process of planning implies an organised 'look' into the future. In doing so the agencies of the government re-examine their objectives and determine their priorities and programmes. When these programmes are brought together the Planning Commission is able to relate them to each other and rearrange the priorities in the light of the resources available as also the immediate needs. The schemes included in a plan represent the public expenditure programmes for a given number of years (5 years) and these are subdivided into the annual plans. In assessing the resources, and in planning for public expenditures, the Commission takes an overall view of the Centre as well as the States. The preparation of annual plans was, however, evolved only during 1957.[12] Until 1956, that is, until the close of the First Five Year Plan there was no systematic annual planning. Annual planning became imperative during the Second Five Year Plan only. The preparation of these annual plans may be analysed from two aspects: (*i*) annual plans of the Centre and (*ii*) annual plans of the States.

Annual Plans of the Centre

The schemes for development which are prepared by the concerned ministries are formulated for the entire period of five years for which a plan runs. The schemes so formulated by the administrative ministries may be classified into those that are directly executed by the Centre and those that are executed by

Economic Affairs are also to be consulted regarding the correctness of estimates, in so far as the aspects of the availability of resources and foreign exchange are concerned.

[12] Annexure III-A to the 8th Report of the Public Accounts Committee, 1958.

the States. The later category of schemes includes the centrally sponsored and centrally assisted schemes also. These schemes are examined by the various working groups set up for the purpose. These working groups consist of the representatives of the sponsoring Ministry, Planning Commission and the Ministry of Finance. These groups are assisted by the Technical Divisions of the Commission. The Commission's administrative machinery, set up for the purpose of scrutinising the different proposals to render effective assistance to the 'working group' may be grouped under two heads: (*i*) General Divisions,[13] i.e. those concerned with the whole economy but from specific points of view, e.g. economic, resource, statistical, etc. and (*ii*) Branch Divisions, i.e. those concerned with particular specified branches of the national economy, e.g. agriculture, industry, minerals, village and small-scale industries, transport, health, education and other similar divisions.

These Divisions are staffed with 'subject specialists' possessing specialised knowledge and experience in their respective fields.

The recommendations of the working group which are arrived at after considerable examination and discussion between the technical experts and the representatives of the Commission, Finance Ministry and the administrative ministry are considered in further detail by the Commission and necessary approval given for inclusion of those schemes in the plan proper. The procedure for inclusion of irrigation and power projects which necessarily imply expenditure on a large scale and certain other matters is slightly different. The scrutiny of the irrigation projects, which are generally initiated by the states, is conducted by a technical board called the 'Advisory Committee on I & P Projects' originally set up in 1953. The terms of reference of this Board are to satisfy itself (*i*) that the schemes have been prepared after detailed investigation; (*ii*) that the estimates are complete and correct technically; and (*iii*) that the financial forecasts and estimates of benefits likely to be derived are based on accurate data and are reliable. The information that is to be supplied with every scheme to enable an exhaustive scrutiny

[13] P. P. Agarwal, "The Planning Commission", *Indian Journal of Public Administration*, March, 1958.

by the Board, is of a fairly detailed nature and is designed to spotlight the various aspects of the project—technical and financial. The Board itself consists of eminent engineers, and a representative of the Ministry of Finance. Similarly schemes relating to industrial housing and slum clearance are reviewed from the technical aspect by the Ministry of Works, Housing and Supply. Besides these, there are other fields where specialised technical agencies were set up for a similar purpose. These agencies in consultation with the Planning Commission and the administrative ministry concerned, jointly review the schemes initiated and included in the central plan as also those which are included in the State plans. The agencies not only review the schemes proposed by the government but also issue the expenditure sanctions in respect of certain schemes. Among the agencies of the type the following are prominent: (*a*) for small industries: the Handloom Board, the Small Scale Industries Board, the Handicrafts Board, the Coir Board and the Silk Board; (*b*) for co-operative development: the National Cooperative and Warehousing Board: and (*c*) for technical education: the All India Council of Technical Education. It would thus appear that in the process of examination and selection, the Commission receives considerable assistance from these auxiliary agencies. It is significant to note that some of the agencies have got powers to issue expenditure sanctions also, and to that extent they work as substitutes to the administrative ministries.

The schemes so reviewed are recommended for inclusion in the Five Year Plan. It should be stated here that at this stage of technical examination, the complete financial repercussions or the extent of likely commitment of the proposals is not normally given (they are not available). The primary object of this examination is to ensure that the scheme conforms to the general pattern of development. The financial estimates of these proposals though they involve the difficult task of looking ahead for a number of years, are at best 'guestimates' only. Past experience has also revealed that there were quite a few schemes which had undergone substantial variations at a later stage, where a more financial based examination was made.

The second phase in the scrutiny of schemes is that after these schemes have been approved and included in the plan, they are

split up into various phases. These phases are so devised as to fit automatically into the annual budget system and the budget provision in respect of each proposal in each year is reviewed by the Department of Economic Affairs in consultation with the Planning Commission and only that amount which is required for the next year and is likely to be expended is provided for in that year's Budget.

Scrutiny of the State Budgets

At the State level the schemes of the various administrative departments are consolidated by the State Planning and Development Departments and included in the State Plan.

The administrative machinery set up to deal with the plans is not uniform in all the States. In a few States the Planning Department is a separate department and generally the Chief Secretary is designated the Development Commissioner, while the Secretary of the Department itself is designated the Joint Development Commissioner. In the Madras State, however, the Planning Department is a part of the Finance Department and the Secretary of the Department is also the Development Commissioner of the State.

The Budget proposals of the administrative departments are first scrutinised by the State Finance Department and the State Planning Department to ensure (*i*) that the estimates are realistic and (*ii*) that the purposes of expenditure conform to the overall priority pattern of the plan. The final proposals which are arrived at after examination from these two aspects are sent to the Planning Commission. The Commission meanwhile would have already gathered a fairly good idea of the direction of work as also the tempo of work in the State from the progress reports received from the States and the periodical assessment reports made on the performance of the States in various fields, by their own Programme Advisers.

With the ideas so gathered the Planning Commission sets itself to the task of examining the proposals of the State governments. The scrutiny of these proposals by the Planning Commission is conducted mainly with two objectives in view. The objectives are: (*i*) to decide the composition and extent of central assistance, viz. the proportion of grants and loans; and

(*ii*) to moderate and rationalise the demands of the State governments to such limits as are considered feasible. The process of fulfilment of the first objective consists in scrutinising the schemes sponsored by the States, but are eligible for central assistance, in consultation with the central administrative ministries. On the basis of the discussions the Commission had with the departments, and on the basis of its own findings, the Commission arrives at tentative conclusions. The Commission then discusses its conclusions with the representatives of the State Government in a meeting, where the representative of the Central Finance Ministry is also present and after a considerable process of 'higgling and bargaining' some items which are mutually agreed upon are included in the plan.[14] The scrutiny of the Commission in respect of the individual schemes is not of a detailed nature as mostly these are schemes which have already been, in a way, finalised after careful consideration and consultation between the concerned administrative departments at the Centre and the State Government. The amounts fixed by the Planning Commission and agreed to by the States are then included in the State Budgets and the Central Budgets.*

The second objective of this scrutiny, as mentioned earlier, is to reduce the excessive demands of the State governments. It is a delicate and an embarrassing task to prune and rationalise the demands of the States. In recent years these demands have been growing on a very large scale and quite often complaints

[14] The following case study, relating to the Department of Agriculture, illustrates the procedure adopted in this respect. "In India, the States are required to submit to the Ministry of Agriculture early in the year detailed proposals in respect of schemes requiring financial authority from the Central Government. These are examined in the Ministry of Agriculture and Finance and comments are made available to the States. Thereafter the representatives of each State are invited by the Central Ministry of Agriculture to a meeting, at which representatives of the Ministry of Finance and Planning Commission are also present and decisions are taken at the meeting in regard to financial authority." "Planning Machinery and Economic Development", *Economic Bulletin* for Asia and the Far East, November 1957.

* According to a procedure introduced in August 1961, the discussions of the Planning Commission are confined to the 'more important projects and programmes only'. See the Prime Minister's statement in the Lok Sabha on 'Administrative Reform', 10 August 1961.

are made in the State legislatures[15] that their demands have not been agreed to or that they were cut drastically, etc. Similar expressions[16] were heard and are being heard from other autonomous agencies also. These are inevitable for these agencies, concerned as they are with specific spheres of activity, peg their demands at a higher level, without fully realising the importance and implications of the competing demands for the limited resources. The role of the Planning Commission, in this context is, to an extent, a negative one. But if it is negative, it is only to achieve a positive purpose of ensuring a balanced utilisation of the available resources. It is also to be realised that significant emphasis is laid by the Commission on the need for raising more resources and the scrutiny and the review carried on in this respect have been of considerable utility. As Prof. Gadgil observed it was not only "in persuading the State governments to rationalise their schemes of expenditure and moderate their continuous demands on the Centre" but the Commission "acted as an influence which induced some State governments to shoulder the responsibility of raising additional resources on their own account".[17]

Working of the System

We have so far contented ourselves with a description of the system. We may briefly examine how it worked in practice.

The working of this system reveals certain deficiencies and certain merits. The first merit is that the annual budget discussion with the State governments offers an opportunity to review the progress made so far and to review the requirements of the future in a systematic manner. It also establishes the Planning Commission as a superior body to which all the States look for advice and guidance. In short, the annual budget scrutiny pro-

[15] For example, during the discussion on the demands for grants of the Ministry of Health, Andhra Pradesh, in March 1961 the Minister for Health stated that some of their plans were pruned by the Planning Commission.

[16] See Smt. Durgabai Deshmukh's article on "Continued Neglect of Women's Education in India". *The Statesmen* (Delhi), 27 March 1961.

[17] "Indian Planning and the Planning Commission", Harold Laski Institute of Political Science, 1958.

vides a time for annual stock taking.[18] Nevertheless there are certain deficiencies, which are to be found not so much in the method of working, as in the structural inadequacy of the system. Such an inadequacy is to be found in the direction of a functional agency, within the Commission itself, to advise it on matters both financial and economic. The Planning Commission has got a Financial Adviser who is the accredited representative of the Ministry of Finance. But the functions of the Financial Adviser are limited as he is concerned more with the administration proposals of the Commission, arising out of its capacity as an administrative agency and is not consulted regarding the schemes or any other proposals referred to the Commission by the administrative ministries.

The need for such a technical agency within the Commission to scrutinise and plan expenditures, will be evident from the following objectives and other factors: (*i*) A Commission which is charged with the responsibility of framing a plan and the implementation thereof, should have enough[19] of data and means to collect such data, as that would enable the Commission to review and scrutinise all the estimates and the subsequent expenditures, with a view to bring about the necessary changes in the policies and diversion of resources as and when such changes are found necessary. (*ii*) It is quite often found that different estimates for services of the same nature are presented by the States. While it is true that there are regional variations which make the estimates different in each case, yet it is necessary to ascertain these variations so as to arrive at a proper technical appraisal of the schemes. In the absence of a precise idea of the extent to which regional variations may be permissible, it would be a difficult task to discriminate those estimates

[18] Prof. Gadgil feels that this annual phasing did not work well. He stated: "All plans have to be broken down into allocation for different types of activities located in different regions and areas. It appears in retrospect that the preparation of the annual breakdown was never effectively undertaken and no annual phasing was completed." Prof. Gadgil, however, does not indicate the data on which this judgment is based.

[19] Dean P. H. Appleby stated: "It (Planning Commission) should, for example, require the development of expenditure data, promptly and frequently, should therefore support arrangements that will make it possible to secure such data." Second report, 1956, p. 32.

which provided for these latitudes generously, from those which have not. It would therefore be necessary to have a 'standardisation' process in respect of the costs of different schemes. What is suggested and emphasised is nothing more than the extension of the pattern of scrutiny now limited to the irrigation and power projects. (*iii*) The establishment of an internal accounting machinery which can supply analytical data, will be a very useful aid in the formulation of a policy. The Commission should also have a Financial Adviser of its own, to deal exclusively with the financial aspects of the schemes that are evolved by the Commission. Besides furnishing a 'standardised cost' in respect of each service, the 'accounting agency' would also enable an administrator to link up the financial allocation and the physical targets.[20] Such data would be of particular help in the proper examination of a proposal and also in making changes in allotments in the light of changes in the size of the plan, and in detecting the inter-regional variations in schemes of a similar type. Besides it will also be of help in evaluating the progress of expenditures not only in money terms, but in physical terms as well. It can, however, be argued against this that the technical examination is already done or would be done by the Finance Ministry, and that it would not be necessary to undertake any extra scrutiny in the Planning Commission. To this, it may be pointed out that the scrutiny of the Ministry of Finance, in spite of these proposals, is not based on any scientific data and its examination is nothing more than a financial estimate on the basis of the past year's experiences. In such a context the availability of a handy standardised pattern of costs would facilitate quicker and more accurate examination. It is in this respect that the utility of such data is to be found. The work of the Com-

[20] Prof. Gadgil argues (referring to the non-realistic estimation of the 2nd Plan): "This implies . . . that after the general picture of the size and the structure had been accepted, there would follow a careful examination and building up from below on the various financial allocations and physical targets. The real failure of the Commission arose from its inability to complete this essential step." Prof. Gadgil feels that the proper procedure for the Commission would be to have a technical examination of any individual proposal and to make additions and withdrawals in the light of the size of a plan and structure. Prof. Gadgil's suggestion can be made a reality only when accounting and other technical machinery are set up.

mission should be more akin to that of a Research Laboratory which finds out 'formulae for application elsewhere and if necessary within itself. Another argument that would arise is, whether such compilation cannot be undertaken by the Finance Ministry itself. For obvious reasons, such compilation can be undertaken only by a coordinating agency, which in itself is not an administrative department, but which is charged with the best utilisation of the resources. From this point of view, the Commission is pre-eminently suited for the purpose.

II

Budgetary Pattern for Developmental Expenditures

The relations between the Commission and the Ministry of Finance become closer and intimate in formulating a Budget for developmental expenditure. This section is devoted to a study of this phase.

The Budget of a government embodies those of its programmes and schemes that are to be executed during the next financial year. The process of budgeting is essentially a judgment making process, involving a series of value judgments at every stage. The Budgets so prepared have two purposes. One is to serve as the major tool of executive management and legislative control and the other is to reveal information significant to economic analysis and at the same time provide the framework for a policy of stability and development.[21] The structure of the Budget is, however, influenced not only by these objectives but also by the institutional background and the future requirements of a government.

A developmental Budget is of necessity a long term Budget, providing for the expenditures on a number of plan schemes spread over a period of years. As Prof. Gunnar Myrdal has suggested, the ideal of planning is to have a 'Rolling Plan'[22] over a long period. The framework of such Budgets, which may be called long term Budgets, should be of such a nature that within the ambit of that Budget, individual schemes can

[21] "Budgetary Structure and Clarification of Accounts", UNO, February 1951, pp. 3-4.

[22] "Indian Economic Planning", AICC, 1958, p. 4.

be planned, authorised and implemented. This framework should be capable of being subdivided into annual Budgets, which are more detailed in nature, and in which annual marginal adjustments, which may be considered necessary from time to time, can be carried out. The long term Budget calls for a provisional assessment of the available resources for expenditure purposes and also for a periodical measurement of not only the available resources but also of the expenditure estimates so that the variations in the cost estimates due to changes in the general price level or any other economic factors, could be taken into account.

The developmental schemes, as indicated earlier, are included both in the Revenue Budget and the Capital Budget. However, during the recent past there has been a gradual shift from the Revenue Budget to the Capital Budget in providing for the developmental items. This change in the emphasis from Revenue Budget to the Capital Budget, can be attributed to two important factors: (*i*) the shortage of revenue resources made reliance on the medium of financing through loans and issue of treasury bills imperative and (*ii*) there has been a major diversion of expenditures to purposes which lead to a creation of tangible assets and substantial capital formation. Table I illustrates the trend of expenditures during the 'Plan Period'.

TABLE I

Unit : Crores of Rupees

Public Expenditures	1950-51	'55-56	'56-57	'57-58	'58-59
Developmental					
(*i*) Revenue	241	424	451	553	610
(*ii*) Capital	214	334	491	405	644
Non-Developmental					
(*i*) Revenue	476	573	634	713	792
(*ii*) Capital	29 (−)	21	28	29	55

Source: Planning Commission, *Selected Plan Statistics*, 1959, pp. 1-2.

The increasing reliance on the Capital Budget even in respect of the Receipts during these years can be observed from Table II.

TABLE II

Unit : Crores of Rupees

	1950-51	'55-56	'56-57	'57-58	'58-59
	Public Receipts Revenue				
Tax	632	768	889	1048	1049
Non-Tax	148	229	260	293	316
Capital receipts	238	270	272	238	936

Source: Planning Commission, *Selected Plan Statistics*, 1959, p. 1.

From the above tables, it is clear that a major portion of the Revenue Budget is devoted to non-developmental expenditures, while only a very minor segment of capital expenditures are devoted to non-plan expenditures. Though in the initial periods during the First Five Year Plan capital expenditures played only a supplementary role, they came into their own as a major tool of economic development during the Second Five Year Plan. Considering this trend the ECAFE observed[23] in 1955: "An appreciable stepping up of expenditure is reflected in the Capital Budgets in the Union and the State Governments. (The proportion of the plan financed out of the revenue account decreased from 36 per cent in 1951-52 to 29 per cent and 28 per cent respectively in 1952-53, and 1953-54. It is 26 per cent in the revised estimates for 1954-55, in 1955-56 budget estimates the percentage is further down to 25 per cent.)" The same tendency except in a few years has continued ever since and if anything the reliance on Capital Budget has become clearer and more conspicuous. The role of the Capital Budget, as a vehicle of developmental expenditures—notwithstanding the periodic fluctuations both in absolute terms and as a proportion of the overall budget—cannot be minimised.

It is necessary, however, at this stage to point out that the expenditures on plan were not shown separately until recently. Though the need[24] for showing expenditures separately as non-

[23] *Economic Survey of Asia and the Far East.*

[24] Referring to this aspect, the annual report of the Ministry of Finance for the year 1955-56 stated that there were considerable difficulties in the separation of an expenditure from non-plan expenditure. It added that

plan and plan was all along felt, no action was found feasible until the question was raised emphatically by the Estimates Committee in their 20th report on 'Budgetary Reform'. The Committee observed that it would be a distinct advantage if the plan expenditure could be shown separately and they hoped "that it would be possible to give effect to the suggestion... for the exhibition of plan and non-plan expenditure separately in the Budget documents at least from 1959-60".[25] This suggestion of the Committee was accepted[26] by the government and these expenditures are now classified and shown separately. Such a division of expenditures enables the Parliament and the public to have a clear appreciation of the progress of the plan and incidentally helps the establishment of an effective parliamentary control.

Capital Budget

It has been stated earlier that the growth of developmental expenditures has also brought about a change in the budgetary pattern for an increasing emphasis was laid on the Capital Budget as the fiscal tool for economic development. This, however, should not be taken to mean that Revenue Budget has no importance in a 'development budget'. It retains its traditional role and, in its own way, contributes to the development effort, for a portion of developmental expenditures are met from the Revenue Budget also.[27] What is sought to be shown is that the Capital Budget is more representative of the developmental expenditures than the Revenue Budget. A major portion of the

"this matter was considered very carefully, and both government and the Comptroller and Auditor-General have reached the conclusion that complete segregation between plan and non-plan expenditure is not a practical proposition". This stand was subsequently abandoned in favour of a separation of plan expenditure from the non-plan expenditure.

[25] 20th Report, pp. 9-10.

[26] 60th Report of the Estimates Committee, 1960.

[27] "In India Capital Budget itself does not precisely bring out capital formation—there are investment outlays included in the Revenue Budget and items are shifted from one direction to another." Dr. N. A. Sarma, "Problems of Budgetary Classification", *Reserve Bank of India Bulletin*, November, 1955.

present day Capital Budget[28] consists mainly of plan schemes only and to that extent it is to be treated as the main budgetary vehicle of developmental expenditures.

The content of the Indian Capital Budget may be studied from the following aspects: (*i*) the nature of a Capital Budget; (*ii*) the process of the formulation of the Capital Budget; and (*iii*) aspects of its working.

Nature of Capital Budget

The transactions of the government are generally divided into two categories which are labelled as 'current transactions' and 'capital transactions'. Transactions on current account are those which include the purchase of goods and services which are consumed within an accounting period (in India, the accounting period is one year) while expenditures on capital account are those that are incurred on goods and services which have a longer life expectancy.[29] In the administrative terminology of a government, "expenditure of a capital nature is that expenditure which has a material and permanent character, or of extinguishing or reducing recurring liabilities such as those for future pensions by payment of commuted value. Expenditures on temporary assets cannot ordinarily be considered as expenditure of a capital nature."[30] It is, however, difficult to draw a hard and fast line between what is debitable to the capital and revenue accounts,[31] and cases may arise which possess the features of both capital and revenue, thus making the question of classification complicated.

To reduce these complications, a method is followed, under which expenditures which have the following features are included in a Capital Budget: (*i*) that it is essential for the exhibition of financial results of any special service or undertaking on the basis of generally accepted commercial principles, or in

[28] The annual circular of the Ministry of Finance states: "Proposals for capital expenditure should be mainly confined to plan schemes", O. M. No. 1 (Ci)-PII/60, 18 October 1960.

[29] "Budgetary Structure and Classification Accounts", UNO, 1951, p. 15.

[30] Government of India, "General Financial Rules", GOI, para. 310 and para. 497.

[31] *An Introduction to Indian Government Accounts and Audit*, 1956.

some other conventional manner, so that the cost of the service or undertaking may be ascertained or that the full implication of any policy may be clearly demonstrated, or (*ii*) that the expenditure involved is so large that it cannot reasonably be met from ordinary revenues.[32]

The Capital Budget may be divided into two types: (*i*) a capital expenditure Budget which consists of the acquisition of newly produced assets that are a part of the nation's gross investment for the period, and (*ii*) a finance Budget which consists in the acquisition of previously produced assets which do not affect the volume of production, i.e. the Budget concerned with the provision of working capital.[33] The investment or the expenditure of government for investment purposes may be split up into direct investment—government investment in the public sector and indirect investment-loans and advances by the government leading to asset formation in the private sector. The Indian Capital Budget is a capital expenditure Budget only and does not include a finance Budget. The finance Budget requires a constant valuation of government assets and provision for regular depreciation of equipment and is more applicable in the case of commercial concerns than of government. Recently there have been suggestions for the reorganisation of governmental accounting structure so that finance Budgets also could be included in the Capital Budget of the government. It is, however, questionable whether all the commercial principles of accounting could and should be made applicable to the government. Considering this aspect, a Committee of UK government observed that the argument that a finance Budget would enable the "accounting provision to be made for the extension and replenishment of fixed assets, and that it provides a record of assets and liabilities" is incontrovertible. But, it observed, "There is here a notable lack of similarity between the position of the government and that of a business undertaking. We would agree in principle that all facts material to judging the position of the public finances should be made

[32] "General Financial Rules", GOI, para. 311.

[33] "Budgetary Structure and Classification of Government Accounts", UNO, 1951, p. 17 and also "Budgeting in Public Authorities", George Allen & Unwin, 1960.

available. But we doubt whether this can be done on a strict accounting basis by the mere substitution of one basis of accounts for another. Further, the concept of 'solvency' as applied to a government defies precise definition, and in any event is not to be judged by the tests ordinarily applicable to a business undertaking."[34] In India too, the absence of a system of valuation of assets in the budgetary structure has often been commented upon as a defect in the structure. Mrs. U. K. Hicks considered that "the Indian Capital Budget is a cash account on par with revenue account in which no attempt is made to achieve an objective valuation of real assets or regular depreciation of equipment".[35] But then, it would be realised, this view is based on a belief that the accounting pattern of the government should be changed to the commercial system. In view of what has been stated by the Committee of the UK government, the opinion of Mrs. Hicks hardly requires any further comment.[36]

In India the Capital Budget[37] is not presented as a separate

[34] HMSO, UK, Final Report of the Committee on the Form of Government Accounts, 1953, p. 45.

[35] "Public Finance India Survey," UNO, 1957.

[36] In this context, it may be added that there have been frequent suggestions for changes in the classification of expenditures. For example, Shri K. Santhanam suggested that capital expenditures should be split up into (*i*) unproductive, (*ii*) semi-productive, and (*iii*) productive investments—"Planning and Plain Thinking", October, 1958.

It may be argued here that the extent of capital formation as a result of government expenditures is already indicated in the document supplied annually along with the budget called—"An Economic Classification of the Central Government Budget." Since the main purpose is served through this document, a classification of the expenditures on the lines of Santhanam's suggestion is hardly necessary. Besides such a classification would require a thorough overhaul of our accounting structure. Shri Santhanam has recently suggested that the Budget itself should be presented in four parts: (*i*) Dealing with revenue expenditure, (*ii*) Public Debt, (*iii*) Role of the Central Government as chief creditor of States, and (*iv*) Role as a mighty capitalist indicating its investment. "Union Budget and Parliament", *The Hindu* (Madras), 11 March 1961.

[37] In the UK Budget system there is no formal Capital Budget, but an account of 'loan operations' is given in 'below-the-line' budget. See Sir Herbert Britain, *British Budgetary System*, Chapter IV. In the American system also there is no capital budgeting as a separate category though the Hoover Commission recommended the introduction of such a measure. See Jesse Burkhead, *Government's Budgeting*, Chapter 8.

Budget. The Capital Budget is a part of the Budget presented by the Finance Minister to the Parliament, but is in addition to the Revenue Budget representing a type of transactions which are by their very nature different from the transactions on revenue account. The details of the amounts provided under each head are shown separately in the 'demands for grants' of each ministry, as also in the "Explanatory Memorandum" to the Budget. The receipts and expenditures on this account are submitted to the Parliament in a comprehensive form (concerned with aggregates only) in the 'Summary Table' account in the Budget. The aggregate amounts are included therein under the head.

Formulation of the Budget

Capital budgeting in a developing economy is essentially a long term process and is correlated to the periodicity of a plan for development. The formulation of an annual Capital Budget is therefore primarily a process where the five year plans are divided into annual plans and only those amounts which can be spent during the year and are available for the year are provided for.[38] The annual Budget so arrived at, consists of different amounts provided for (*i*) plan expenditure—sub-divided into (*a*) plan expenditure directly incurred by the Centre, and (*b*) by the State governments in respects of Central schemes executed by them, and, grants and loans given towards the State-sponsored schemes for which Central assistance is admissible,

[38] Referring to long term budgeting Prof. Gunnar Myrdal suggested, "For India I would recommend to make for every year three new plans. Firstly, one for the next following year; this yearly plan should include the fiscal Budget and, equally important, the Budget for the utilisation during the next following year of the scarce foreign exchange resources; this yearly plan would generally determine State and Private activity during the next following year. Secondly, one for the next following shorter period of some few years, let me be conservative and keep to the five year pattern, adjusted annually through the deletion of the year, which has just passed, and the inclusion of an additional 5th year... and thirdly, one perspective plan for fifteen, twenty and in some sectors even more years ahead." "Indian Economic Planning", AICC, 1958, p. 5. The Indian Planning, in a way, reflects this suggestion. The Planning Commission has a separate organisational wing devoted to "Perspective Planning". 21st Report of the Estimates Committee, 1958, p. 31.

and (*ii*) non-plan expenditure. Purely, for administrative convenience, the Central Plan expenditure is further divided into plan expenditure in the Union Territories and expenditure in areas other than Union Territories. (Though most of the Central schemes are included in the national plan, yet in effect the main executive agencies are the States. To enable the States to execute these plan schemes, the States are given grants and loans. The various aspects of Central assistance to States are considered in detail in the next chapter.)

In addition to the preceding groups there is another functional division within the Capital Budget. The Budget is subdivided into (*i*) expenditure on projects other than works, and (*ii*) expenditure on works. This division is imperative in the context of a plan which has a bias for construction plans. The 'Works Budget' as it is usually called represents the construction plans and is not different from the Capital Budget. On the contrary, it is a part of it. However, a subtle distinction is maintained in the formulation of the respective budgets. This distinction arose out of the division of responsibilities and functions itself. The Department of Economic Affairs* is charged with the responsibility of the preparation of the Capital Budget while the Ministry of Works and Housing is entrusted with the duty of formulating the 'Works Budget'. The preparation of the Works Budget is done in close and continuous consultation with the Department of Economic Affairs and the Planning Commission.

Formulation

For the preparation of the Capital Budget, the Ministry of Finance invites, in October of every year, the proposals together with financial estimates and a history of each proposal from the administrative departments. In inviting these estimates, it utilises the opportunity to exhort the administrative ministries to frame the estimates in a realistic manner and insists that "the ability to spend the money asked for should be taken into account with reference to the past performance and only the actual amount expected to be spent, asked for". The estimates of the administrative departments are scrutinised by the Depart-

* This work is now being done by the Deptt. of Co-ordination of the Ministry of Finance.

ment of Expenditure in respect of each detail, and the consolidated statement of the accepted items is sent to the Department of Economic Affairs. The concern of the Department of Expenditure, at this stage, is only to satisfy itself that the schemes proposed by the administrative ministries are technically correct. The scope of control exercised at this stage is limited, for the priority pattern is already set and approved. If some proposals do not find a place in the Budget, it is perhaps due to the fact that they do not have a place in the priority pattern, and not because they are not technically sound. This process again indicates that the financial control or control by the Finance Ministry, in the context of a planned development, dwindles and, as a matter of course, a greater responsibility rests on the Planning Commission itself. These statements are then reviewed by the Department of Economic Affairs in consultation with the Planning Commission. The review is made to ensure that the principles and physical targets of the schemes are in conformity with the pattern of planning and that the schemes so forwarded offer the means for the best utilisation of the available resources.

The final estimates for a year are arrived at having regard to the resource position of the country. The two aspects of the Budget, i.e. the revenue position and the provisional estimates for expenditure are then submitted to the Cabinet, which indicates the amount of capital grant for the year. In certain cases the grant may be large enough to accommodate and provide for all the estimates of various schemes proposed by the ministries; and on certain occasions, the final capital grant approved by the Cabinet may meet only a part of the demands. In the latter case some *ad hoc* reductions are made in the demands of each ministry. These estimates are then included in the Budget presented to the Parliament.

Works Budget

The Central Public Works Department is the main governmental agency which is charged with the responsibility of construction of all buildings, etc. that are required for governmental purposes. It is the agency intended for undertaking construction on behalf of the government either for its own use, or for others. Till the early part of 1958, the general situation was one

where there was a wide diffusion of power and a distinction of responsibility between those who are administratively concerned with the 'works', and those who are responsible for the construction of the 'works'. There were four important stages involved in the system. They were (*i*) Administrative approval of a work; (*ii*) Expenditure sanction of the work; (*iii*) Technical sanction of the work, and (*iv*) Allotment of funds for the work. The proposals for works were initiated by the administrative ministries and they were to consult the CPWD for the preparation of technical estimates. Thereupon the estimates were presented to the Ministry of Finance for inclusion in the Budget, and after inclusion, it was left to the administrative ministries and the CPWD to implement the budget proposals. The implementation part of it, however, was dependent on the 'Priority' programme of the CPWD. This procedure was considered unsuitable for a planned development—as the system revealed that a good deal of haste was shown in the preparation of estimates,[39] and undue delay in taking up works for execution as the issue of expenditure sanctions always took considerable time. To avoid the incorrect budgeting, inadequate scrutiny of works, delay in processing the works projects for sanction, and unnecessary lapse of funds, etc. a revised system was introduced, on the suggestion of the Ministry of Finance from 1958 onwards. The main features of the revised system are: (*i*) The Works budgeting is centralised in the Ministry of Works & Housing. The ministries which have proposals for inclusion in the Budget are, in the first instance, to obtain the preliminary plans and estimates from the CPWD. After examination of these estimates, the concerned administrative ministry is to accord its administrative approval,[40] and the consolidated statement of all the proposals so approved are then to be sent to the Ministry of Works &

[39] The COPP, in its report on 'multistoreyed buildings', observed: "It frequently happens that the time available for preparation of detailed plans and designs is insufficient, and to be able to utilise the budget provision a great deal of haste is exercised."

[40] The revised arrangements for financial control which were introduced in 1958 contain *inter alia* the principles of budgeting for works also. The circular of the Finance Ministry states: "For new works Projects, budget Provision will not be considered except for schemes for which administrative approval has been accorded."

Housing and CPWD. (*ii*) The proposals so received are examined by the Ministry of Works & Housing in consultation with the Ministry of Finance (which examines it from the point of view of austerity standards and market rates, etc.). The Ministry of Works & Housing also prepares a memorandum to the Expenditure Finance Committee, where such a reference to the Committee is found necessary. (*iii*) To enable the Ministry of Works & Housing to undertake a preliminary examination, the Ministries supply the information relating to their projects under the following groups: (*i*) capital works; (*ii*) works in progress; (*iii*) new works and (*iv*) minor works. The projects approved by the Ministry of Works & Housing for the entire government, are then sent to the Department of Economic Affairs who intimate the probable amounts that are likely to be available for works from the total capital grant. The amounts so indicated by the Department of Economic Affairs are then allocated by the Ministry of Works & Housing among the various proposals on the basis of '*inter se* priority'. In regard to minor works, a lumpsum amount is placed at the disposal of the Ministry of Works & Housing for allocation among the ministries. (*v*) After approval of the Budget by the Parliament and the completion of other formalities, the expenditure sanctions in respect of each work, irrespective of the Ministry to which it belongs, are accorded by the Ministry of Works.

With the introduction of this system the entire 'works' programme is now, for all purposes, administered and executed by the Ministry of Works and its agencies. The revised procedure helped in bringing a set of independent entities into an organised machinery.

It is necessary to point out here that there are essentially two stages of scrutiny: (*i*) the stage where the Finance Ministry and the Planning Commission come into the picture and (*ii*) the stage where the scrutiny pays more attention to the total expenditure implications and less to the individual schemes. It is at this stage that the Department of Economic Affairs and the Planning Commission consult and confer with each other, and together review the overall programme. The review has a long-term Capital Budget in its view—a long-term Budget which can meet all the future needs and lay down an integrated plan for deve-

lopment. The second stage is in regard to the technicalities and the specifications of each project and the scrutiny here is more with reference to certain set principles and cost criteria. At this stage the Department of Expenditure and its technical wings (Works Division) play a large role in ensuring the correctness of the estimates. If the scrutiny and review at the first stage is important from the point of view of the overall Capital Budget and its fitness in the fiscal canvass of a government, the second stage of scrutiny is equally important, as any lapses at this stage may result in considerable variations and may upset at a later date the budgetary balance itself. These two stages of review, it may be said, are concerned with the achievement of macro-economy (economy in aggregates) and micro-economy (economy in the details of estimates) in the later stage.

III

Control of Developmental Expenditures

The execution of a Budget is as important, if not more, as the preparation of a Budget and this aspect assumes added significance in the case of a Budget devoted to developmental purposes. The purpose of control at the pre-Budget stage is to provide certain broad ceilings to which expenditure should be confined so that *ad hoc* actions which may involve uneconomic practices to avoid underspending can be eliminated. It is also intended to provide as accurate a picture of the next year's spending programme as possible, so that the approval of the Parliament could be obtained for that programme. The purposes of control after the Budget is approved by the Parliament—this type of control may be called the control in the process of Budget execution, are *(i)* to ensure the maximum possible utilisation of the allotted resources; *(ii)* to observe[41] whether the exe-

[41] Referring to this aspect, the Finance Minister (C. D. Deshmukh) stated in his budget speech for the year 1956-57: "We are keeping a continuous watch over the growth of expenditure and securing economy... as part of our day-to-day control over expenditure.... Nevertheless this very tempo of raising expenditure during the next five years, would open up many possibilities of extravagance and waste and it is necessary to keep a still closer watch over such expenditure to ensure that the tax payers get the maximum benefits out of the plan outlay." Debates of Lok Sabha,

cution of an annual plan is avoiding waste in the process of utilisation; and (*iii*) to keep to the original fixed Budget, so that the lapses and excesses could be avoided. There is, however, an important factor which makes the control of an annual Capital Budget comparatively difficult and less practicable. In a system where a long term capital budgeting is prevalent, the maintenance of annual plans and spending the amounts strictly as a part of the long-term Budget is rendered difficult, for occasionally practical expediences are given more weight and priority in execution than the plans which are included in the long-term Budget. Long-term plan may also be nullified when the department concerned is eager to utilise its Budget provision in any manner. Quite frequently, criticisms are made that there is an unusual concern for spending the amounts before the end of the financial year. This is applicable not only to the government but also to a few other public authorities, and a statement which has been made on the basis of experience in the UK is equally correct in the Indian context. It has been stated by a study group that the execution of annual Capital Budgets involve departures from the agreed order of priorities and quite often, "less urgent schemes may be undertaken solely because they can be speedily executed to use up balances that would otherwise remain unspent at the end of the year, while more desirable schemes which take longer to plan and get under way, may have to be held over. Conversely, when there is a risk of overspending, schemes already authorised or in progress may have to be held back, reduced in scope or stopped entirely, even though this means adding to the total cost of the job or postponing economies in running costs." It added that "those dangers are inherent in any system of financing or rationing capital expenditures by means of fixed annual Budgets which are less than the authority concerned would otherwise have wished to

29 February 1956. Subsequently another Finance Minister (T. T. Krishnamachari) also admitted that wasteful expenditure is to an extent inherent in the system. He observed: "The fact is that when we undertake expenditure in a large way, the danger of wasteful expenditure is there all the time." Government of India, *Speeches of T. T. Krishnamachari*, September, 1958.

spend".[42] This is an inherent deficiency in the system, and to the extent that this is a basic handicap in the system, the remedy appropriately lies in the reorganisation of that system itself.

The control exercised at the Centre involves the exercise of detailed control as also a system of appraisal and evaluation. The objects of these two phases are complementary. If the object of control is to ensure that the available resources are utilised, the objective of appraisal and evaluation consists in indicating that the amounts so spent are spent in the most advantageous manner, and that the progress achieved is proportionate to the original plan, and that the results obtained are commensurate with the outlay on the project. The control[43] is exercised by the administrative ministry and the Ministry of Finance, while the appraisal and evaluation are performed by the Planning Commission and the subordinate agencies working under its aegis. However, the primary material on which the control is exercised and on which the review is based, is almost the same except for a subtle distinction—control relies more on budgetary tools, while evaluation is based on progress reports and inspection.

Control by the Ministry

In dealing with the various aspects of the control exercised by a Ministry, the term 'Ministry' is taken to include the representatives of the Ministry of Finance. The Financial Adviser, whether borne on the strength of an administrative ministry or the Finance Ministry, has the same functions to perform and to the extent that he is the person in charge of the financial matters of an administrative ministry, he can be treated as a part of the administrative ministry. Besides, the control exercised by the Ministry of Finance cannot by its very nature be a detailed one at the 'execution' stage, for 'execution' is essentially the responsibility of the administrative ministry. The controls exercised in the Ministry, including the control exercised by a Financial Adviser, can be divided broadly into the following stages:

[42] *Budgeting in Public Authorities*, pp. 237-8.

[43] Control in a way includes review of achievements also. But it is used here to indicate not only a review, but also a process which initiates action and which 'controls' during the course of action.

(1) action to initiate the implementation of a scheme in time; (2) review at regular intervals to verify the progress of actual expenditure and the results obtained; (3) analysis of the variations and reasons for variations in expenditure and estimates and action to obtain supplementary grants at the appropriate stages; and (4) to ensure a regular flow of expenditure and avoid lapses, excesses and rush of expenditure towards the end of the year. All through those four stages the objectives of control—economy and achievement—are constantly kept in view and efforts are made to translate these objectives into material deeds. These four stages may be considered in detail.

Action to Initiate Implementation

The annual Capital Budgets render expeditious work an absolute imperative of a planned economy. The implementation of schemes involving huge expenditures, and fixed against target dates, require that the budget authorisations be allotted in time to the various agencies subordinate to the Ministry. In the Indian system, a major part of the schemes is implemented through the State agencies, and only a minor part by the Central agencies. It is the responsibility of the Central Ministry to authorise these amounts provided for in the Budget, to its various executive agencies and issue sanctions to the State governments. Besides, the completion of such of the technical formalities and administrative procedures as are to be fulfilled before the launching of a scheme, also require prompt action on the part of the administrative ministries. Any lapse at this stage is likely to delay the implementation of a scheme and may eventually lead to surrender of funds allotted in the Budget. Such surrenders would necessitate *carryovers* in the Budget and consequently the tempo of development itself is likely to be retarded. It is thus essential for the Ministries to initiate action to apportion amounts and complete the administrative formalities. This is generally done.

Periodical Review

It has been indicated in the earlier chapters that one of the methods by which control is exercised is the 'quarterly expenditure control meetings'. These meetings convened by the Finan-

cial Adviser, and attended by the concerned officials of appropriate levels of the administrative ministry are convened primarily to assess the progress of expenditure, and ensure the periodic settlement of audit objections and reconciliation of accounts. In these meetings the progress of capital expenditure is also to be reviewed by the Financial Adviser, as it forms a part of his functions.

The practice of a quarterly review of capital expenditure is comparatively of a recent origin. Until 1956, the review of capital expenditure did not receive any separate treatment. Up to this period it was only as a part of the Budget demands that they were subjected to a superficial review[44] by the controlling officer at the end of every month. Even in the First Five Year Plan, during the later part of which the Capital Budget emerged as an important instrument of developmental policies, no specific attention was devoted to review the expenditure of a capital nature. Considering this as a major handicap, the Public Accounts Committee in one of its reports of this period commended that "the Ministry of Finance should issue general instructions that the Ministries controlling larger capital grants should conduct a review of the progress of expenditure every quarter, and during the last few months of the financial year, every month. This would enable them to surrender funds in excess of requirements, and avoid lapse of funds, alternatively. If the provision appeared inadequate, they can approach the Parliament for further grants in time. Further, a review of this kind will enable the Ministries to regulate the flow of expenditure and check rush of expenditure in the closing month of the financial year which in the Committee's experience is a feature always attaching to expenditure on works." These recommendations of the Committee were accepted by the government and the Ministry of Finance issued instructions suggesting to the various departments "to take steps to ensure that in future, such a review is conducted by the Ministry concerned regularly every quarter... and also to see that all anticipated clear savings in the sanctioned grants are surrendered as soon

[44] This review was in accordance with the instructions contained in paras 88 to 98 in the General Financial Rules, Vol. I.

as they are foreseen without postponing action till the closing stages of the financial year and the consequential lapses in the appropriation.[45] The acceptance of this recommendation supplied an essential link in the control system. However, in practice it turned out to be a different tale altogether. In the recent past, the practice of convening quarterly meetings has fallen into disuse. While it is true that a general 'quarterly expenditure control meeting' is convened regularly to assess and estimate the Progress of Expenditure in all the 'Demands', yet no specific emphasis is placed on the Capital Budget. Besides it is a moot point whether within the short period of a meeting, it would be possible to review all the demands of a Ministry. In the circumstances, a weighted attention to Capital Budget or even developmental expenditures becomes almost unthinkable. Added to this is the important factor of the inadequacy of data referred to at a later stage.

The instructions of the Ministry of Finance and the recommendations of the Public Accounts Committee are mainly concerned with the quarterly review from a budgetary angle—an angle which provides them with insight into the needs of the year, whether to go in for a supplementary grant or to surrender funds in cases of non-materialisation of schemes, etc. What is equally important is the economic aspect of the progress which consists in measuring whether a proportionate progress has been made in the physical targets of a plan scheme also. Quite often the progressive actuals of expenditure may not reveal a proper picture of achievement on the material side. The physical progress is as important as the monetary progress. It may, however, be conceded that the question of equation of expenditure with the physical achievement is primarily for the immediate executive officer, though it is no less important to the reviewing authority.

The experience of the State Governments in this field is somewhat different. The State Development Committee which includes all the Ministers and the Heads of Departments meets every quarter of the year to consider and review the progress of expenditure, as also of physical achievement. The review is

[45] *Epitome* of PAC Reports, Vol. II, p. 251.

confined to the developmental expenditures only, and the routine matters of reconciliation of accounts and speedy settlement of audit objections, which form part of the quarterly expenditure control meetings at the Centre, are left to the Departmental authorities in the States. The Committee, before its meeting, is supplied with all the monthly progress reports received for the term from the field officers, together with a statement of the trend of expenditures prepared by the Department of Finance specifically indicating those Departments which have not made considerable progress with expenditures. The progress reports sent by the field officers contain, *inter alia*, the reasons why much progress was not made in a specific project, etc. These matters are considered by the Committee and 'on-the-spot' directions and instructions are given for speeding up the progress and if resources are found to be inadequate, arrangements are also made to divert resources from other schemes. This review is not supplemented by another at the official level. It is doubtful whether such meetings can be possible at the Centre also. Such a procedure may not be possible as the expenditure involved in review at the Centre is large. Besides, the Centre is dependent on the States for the execution of a major part of their plans. But there is enough justification to demand such a review from the Financial Adviser. The Financial Adviser has to substitute for the Developmental Committees.

The review conducted by the Financial Adviser suffers from another handicap, viz., the absence of up-to-date information and data. The 'Budget' sections of the administrative ministry are not under the functional control of the Financial Adviser. Another factor is that these sections are more concerned with the progress of expenditure under the Accounting heads of 'Pay of Officers', 'Pay of Establishment' and 'Other Charges', and less with the developmental expenditures. Even these figures are not up-to-date and accurate, as there are delays in the reconciliation of accounts with the audit authorities. The system of control practiced in some of the local authorities in the UK, seems to suit the Indian purposes pre-eminently.[46]

[46] In the UK the local authorities conduct regular reviews of capital expenditure against the budget and as a matter of fact such reviews are considered as desirable as a check so as to ensure that no significant

The review of the administrative ministries is based on the reports received from the subordinate agencies and the State governments. These agencies send periodical reports—monthly in respect of important and large projects and quarterly in respect of others—to the administrative ministry, the Planning Commission, and the Finance Ministry. These reports have no specific form. But generally they include *(i)* a statement of expenditures by significant organisation units; *(ii)* statement of measures that have been taken or are proposed to be taken to improve efficiency; *(iii)* nature of bottlenecks, and obstacles encountered in the course of execution; and *(iv)* financial accounts. The accounts included in these reports are of a 'provisional' nature only and are subject to further verifications.

The review of these reports is mainly done through the usual process of administration, rather than through the meetings as generally the time that can be devoted for this in a meeting is too short to enable meticulous and detailed review of the progress. The administrative process of reviewing the progress reports consists in taking up important issues raised in the progress reports and taking action, where necessary in consultation with the Financial Adviser. Such a review is specific and independent in respect of each scheme. A 'scheme by scheme review' of this sort is likely to come in the way of forming an overall outlook on the total developmental Budget of a department and it can be argued that the process of the review tending to become compartmentalised and restricted to the narrower confines of a scheme or two may not be useful in the long run. This is a limitation of this type of review.

Analysis of Variations

The estimates included in the Budget are susceptible to varia-

developments have been overlooked. "Special meetings are often arranged for this purpose. In one Regional Hospital Board, for example, the treasurer, architect and engineer meet monthly to review the position on works in the annual programme and to decide which schemes should be deferred, halted or brought into the programme to compensate for any tendency to overspend or underspend." Such reviews presuppose the existence of up-to-date data—data which can facilitate the formulation of a policy and can throw up material which will make possible the assessment of the working of a policy. *Budgeting in Public Authorities*, p. 241.

tion in the course of execution. This variation is mostly in the nature of an increase in the expenditure, and is rarely in the nature of a reduction. They arise partly because of changes in the general price level and partly because of changes in the scope of schemes. In the latter case the variations are likely to be of a substantial nature as the revisions involved are likely to be of a greater magnitude. A factor no less responsible for variations is the inaccurate budgeting at the initial stages. This inaccuracy could be the result of inexperience[47] in the field or the absence of detailed information at the preliminary stage. In fact the principles of budgeting followed up to 1958 included making an *ad hoc* lumpsum provision in the Budget within the ceilings prescribed for the purpose, to be followed by supplementary grants during the year to meet the growing requirements. This system was considered inadequate for a planned economy. As the Public Accounts Committee observed in one of its contemporary reports: "The existing system of budgeting and administrative and financial control are not appropriate in the present context of a planned national economy."[48] The Committee, while conceding that importance should be attached to more realistic estimation and more prudent housekeeping, suggested that in future a small provision to cover the preliminary expenses of survey, etc. may be included in the Budget and a supplementary grant presented to the House after detailed estimates are available.

Supplementary grants arise not only in cases where the initial provision is by its nature only a 'token' provision, but may also arise where the original estimates were fairly detailed and elaborate. In the latter cases they arise because of variations in the estimates. At times the variations may be even large enough to upset the budgetary balance. A few examples of such variations are given in the table on the following page.

In most of these cases, the variations were due primarily to the fact that important features of the schemes have been reconsidered, omissions made good and so on. While some of these variations could have been foreseen and remedial action

[47] See Shri K. L. Ghei's lecture delivered at the Institute of Public Administration, "Government Budgeting in India", 1960 (Mimeographed).

[48] 8th Report of PAC, p. 2.

(in lakhs of Rupees)

Name of the scheme	*Plan provision*	*Recent estimates (up to 1959)*	*Percentage of increase*
1. Steel Plants at Rourkela, Bhilai and Durgapur	3,50,00	5,80,00	66
2. Neiveli Fertilizers	21,00	26,10	24
3. Kandla Port Project	12,95	17,73	37
4. Indian Refineries Ltd.	10,50	20,75	98
5. Dandakaranya Project	10,00	16,50	65

taken even at the initial stage, it remains a fact that there are certain factors which cannot be foreseen properly. These factors require prompt action as soon as they are detected. Good budgeting can partly[49] offset a few of these variations but not all of them. In a way these variations are to an extent inevitable when each year's Budget is planned and prepared in the 'December' of the preceding year.

It is the responsibility of the Financial Adviser to be aware of the changes that are likely to bring variations. As J. Enoch Powell has observed: "The Treasury and the Finance divisions of the spending departments need to be constantly reporting any change, as soon as it comes in prospect and asking in good time for the decisions of the administration or policy by which the effect of the change, if it occurs, could be counteracted."[50] The Financial Adviser, by his experience in the field, can generally detect the likely variations. As soon as these variations appear on the surface, the Financial Adviser either makes arrangements for reappropriation of funds from one head to another.[51] In case a

[49] Paul H. Appleby stated in his second report that "the expenditure control is used to far too great an extent as a substitute for good budgeting; it is a way of making the actual budget after the putative budget has been presented to and approved by the Parliament. The budget, therefore, is being made all the year long for the year rapidly marching towards its close. This is a negation of Programming and Planning." (p. 21). This being the situation, it is perhaps difficult to place any reliance on 'good budgeting' as a means of avoiding variations.

[50] *The Banker*, April 1958, pp. 216-17.

[51] Formerly in all schemes where there were substantial variations, they were brought to the notice of the Planning Commission also and its

supplementary grant is needed, the Financial Adviser initiates action to get such a grant.

Regular Flow of Expenditures

In the execution of a Capital Budget a regular flow of expenditure is essential. However, the flow of capital expenditure does not have the same regularity as the Revenue Budget, but quite often may have its own seasonal pattern. It is thus not possible to expect capital expenditure to be evenly distributed throughout the year. It is, however, essential to ensure a regular flow of expenditure even within these seasons, if such a course is feasible. The irregular flow of expenditure makes an administrator rush for expenditure during the later part of the year or to surrender the amounts without utilising them. The former attitude is generally labelled as 'spree spending' and 'squander mania'. It is not unoften that in the anxiety to spend the amounts in some way or other before the close of the year even unproductive schemes are taken up for execution, with the consequence of diverting expenditure from productive to unproductive issues. Also the quick process of incurring expenditure may not always ensure that the money is well spent, as generally 'haste leads to waste'. Referring to this aspect, the Public Accounts Committee pointed out in one of its earlier reports (1934-35): "It is of great importance that in administering public funds the risk of loss through hasty or inadequately justified payments in the closing days of the financial year should be rigorously avoided."[52] Though this has been one of the favourite themes consistently repeated by the Public Accounts Committee and the Auditor-General, the rush of expenditure towards the close of the year is still witnessed often.[53] The primary purpose of such a 'rush' is to avoid the lapsing of grants, and is based on the fear that non-utilisation of amounts may reflect an inefficient[54] administrative set up.

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concurrence was taken. According to the latest procedure only such schemes where the variations are 10% or Rs. 1 crore need be reported to Planning Commission. See PM's statement, in Lok Sabha, 10 August 1961.

[52] *Epitome* of PAC Reports, Vol. I, p. 337.

[53] See the 18th Report of PAC.

[54] The Finance Secretary of the GOI observed in 1937 that "the pulse

The 'rush' of expenditure can be avoided either by careful planning at the earlier stages; or by making continued provision for lapsed grants in the next year so that continuity could be ensured.[55] The Finance Ministry, in its endeavour to avoid this hectic hurry in incurring expenditures, expressed its willingness in 1957 to consider proposals to allot provision for the unexpended amounts either in the original Budget of the coming year or by means of supplementary grants in the year, provided the purposes for which these amounts were orginally included in the sanctioned grants continue to be operative. It is again the duty of the concerned Ministry and the Financial Adviser to arrange for such a provision in a manner befitting the occasion.

While a tendency for rush of expenditure is discernible on one hand, there are, on the other hand, lapses of funds amounting to about 10.2 per cent of the total appropriation. Further, 80 per cent of these savings are accounted by the Ministries exclusively devoted to developmental activities. As, for example, the 1959 Audit Report indicated the following savings.

	Rs.
1. Education	8,12,13,843
2. Agriculture	4,59,55,142
3. Transport	3,93,14,057
4. Atomic Energy	4,63,44,603
5. Steel, Mines & Fuel, etc.	7,16,05,983

The above are only a few examples of the typical surrenders. Commenting on this situation, the Audit Report pointed out that "these large savings by themselves bear evidence to the fact that the plans and programmes accepted by Parliament have remained substantially unfulfilled".[56]

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of expenditure of a department is not an unimportant manner of judging the efficiency of administration", pp. 13-55, Vol. II *Epitome*.

[55] Such a system was prevalent even in the 1930's. In its report for 34-35, the PAC suggested: "If the device of a specific provision in the reserve for the grant of lapses, as on the civil side, is likely to mitigate this evil (rush of expenditure) we should be quite prepared to commend it to Government for consideration." *Epitome*, Vol. I, p. 337.

[56] Audit Report 1959, p. 1.

The causes for these surrenders may stem partly from the fact that the initial estimates are inflated generously, or that there was an absence of proper planning, or even due to the sudden appearance of bottlenecks (e.g. a sudden change in the import policy may prevent larger purchases which were originally planned and may upset the implementation of a scheme). The considerable time lag involved between each administrative phase also contributes in its own way to the non-materialisation of schemes in time. The consequential surrender of funds would not only indicate a slackening of the plan expenditures during the year, but would incidentally obstruct the planned development of the future. If provision is to be made for the same scheme during the course of the next year it is likely that such provision may act as a hindrance on the plan, as continued Budget provision for this scheme might mean that either a scheme already sanctioned is abandoned, or that a new scheme is held up.

To avoid such laspses the Estimates Committee in one of its reports suggested that "the Ministry of Finance should maintain a complete record of instances where due to bad or no planning funds had to lapse and place before the Committee, every year, a statement showing the reasons in each case".[57] These suggestions were accepted by the government and a procedure was introduced under which these matters could be reviewed. Under this procedure, all the schemes for which the initial Budget provision was above Rs. 5 lakhs, and where the excess of surrender is more than 10 per cent of the original appropriation, are reviewed by the Financial Adviser in the month of August of every year. The review is expected to be helpful to him in achieving greater accuracy in the formulation of the future Budgets.

All through these stages the endeavour of the Ministry and the Adviser is to ensure a regular flow of expenditure and to limit the expenditure to the budgetary ceilings.

In addition to these budgetary aspects, there are others, such as the observance of economy in the execution of a scheme, and comparison of actual results with the money spent, which are

[57] 9th Report of the Estimates Committee, 1954, p. 9.

equally important. The study of these aspects brings us to the appraisal and evaluation work done by the Planning Commission.

Control by the Planning Commission

The success of planning depends primarily on the speed with which the plan schemes are implemented; and ensuring such a speedy implementation of the plan is a part of the responsibilities of the Planning Commission.

The Planning Commission, with a view to acquaint itself with the extent of progress achieved in different fields of the Plan, has devised certain procedures. The procedures are so devised as to enable the Commission not only to formulate its impression regarding the extent of progress achieved, but also to enable the Commission to undertake an appraisal of the performance in each field. Appraisal and evaluation are important as they render future planning easy and economical. The methods of work adopted by the Commission in this regard are now enumerated.

Appraisal. In the case of all important projects, the Planning Commission, like the administrative ministries, receives monthly progress reports. In respect of all other schemes, it receives quarterly reviews. In addition the Commission also gets annual administration reports of the State Governments and the different departments at the Centre in which the achievements in their respective spheres are enumerated. These reviews and progress reports are considered by the Planning Commission and necessary action is taken in consultation with the concerned ministries. However, the work of the Commission in this respect was found to be deficient in some respects, and was subjected in the past to the criticism of the Comptroller and Auditor-General himself. He pointed out that "the responsibility for watching the implementation of the Plan vests, at present, in the Planning Commission" but "in view of the multiplicity of the functions which are devolving upon the Planning Commission, it has not been able to devote much attention to this important aspect of its work".[58] He, therefore, suggested that there should be "an evaluation in terms of money at regular intervals, say every quarter of an year. Such frequent reviews of the progress of the

[58] 8th Report of the PAC, p. 29.

plan also help to ensure an even flow of expenditure and avoid the present hasty and injudicious spending in the last quarter of financial year to prevent lapse of funds."

After this criticism and after a self-examination by the Commission of its own procedures in 1956, a good deal of change for the better was effected, and in the early parts of 1957 the National Development Council approved the proposal that the Planning Commission should be made available quarterly reports of the working of the plan, and monthly reviews of progress in major projects, especially in the fields of irrigation and power, industry and mineral development and transport and communication, in consultation with the Central Ministries and State Governments. Since then the 'progress reports' became a regular feature. The reports relating to important projects contain information relating to (*a*) the programme of construction work, (*b*) the programme of output benefits, (*c*) key materials and equipment, (*d*) manpower requirements and (*e*) estimates of expenditure. These monthly reports are received in respect of about forty projects. With regard to other schemes, quarterly reports are received, in a summary form, and these are finally consolidated in the annual progress reports of the Commission. These reviews, apart from the fact that they help in the assessment of the progress made in different fields, enabling judicious recommendations for "the adjustments of policy and measures that such appraisal might show to be necessary," are also helpful in formulating the next year's annual plan. The shape of the future is always conditioned by the circumstances of the present and this is equally true in the case of the formulation of the annual plans.

The Commission has also its own agency of Programme Advisers who visit important projects and submit their findings to the Commission. There are 3 such Advisers since 1952. One of their duties is to watch the progress of the plan and to attend to the problems of implementation of the plan. Towards the fulfilment of this objective, the Advisers undertake periodical visits to the States, and they look in particular into the working of the projects which are financed by loans and grants from the Centre. The reports of the Programme Advisers lay a special emphasis on the problems relating to the bottlenecks arising out

of the non-availability of steel, technical personnel, allocation of foreign exchange, procedural delays in the approval of schemes, etc. The suggestions of the Adviser as well as the deficiencies pointed out in these reports are brought to the notice of the ministries by the Planning Commission, to enable the ministries to take remedial action. These reports of the Advisers supply an essential link in control and coordination. A significant aspect of these reports is that they are concerned not only with the progressive expenditures on a scheme, but also on its physical achievement, and on the adequacy of such an achievement. It is this emphasis that distinguishes the Advisers' reports from other administrative procedures described earlier.

Evaluation. The successful implementation of a planned economic programme requires a continuous control in the execution of a work, as also an agency to evaluate the work after the work has been completed. Quite often, certain aspects which might otherwise have led to economy, may not be detected during the course of the work, and may appear at a later stage. Similarly, even an examination of the results obtained from an expenditure with the outlay itself, might lead to new conclusions. Comparison of the results are useful for policy making purposes also.

Such a comparison of the results can be undertaken in two ways: (*i*) investigation into and inspection of the work with a view to assess the performance and to suggest ways and means which can lead to economy; and (*ii*) evaluation of the work already completed. The process of investigation may be either overall and complete or specific in that it may measure only the deviations,[59] from the original expected results. In any case the need for such an investigation in a planned development where the expenditures are on a gigantic scale, requires no emphasis. Aware of this need and conscious that it has to supply an administrative machinery to meet this purpose, it was decided by the government to set up a high-power committee towards this end. Proposing the establishment of such a committee, the Finance Minister observed in the course of his Budget Speech

[59] This is known as "control by exception". *Budgeting in Public Authorities* (1959), p. 190.

in 1956: "We have been in consultation with the Planning Commission and thought it better to set up a special high-power committee of the Ministers and the Deputy Chairman of the Planning Commission at the Centre to organise a thorough investigation, including inspection in the field of the important projects on hand, both at the Centre and in the States, through specially selected teams. These teams will be composed both of officials and non-officials. As the results of each committee are received, the high-power committee will examine and obtain the orders of the Cabinet or guidance from the National Development Council. Such proposals may include setting up economy units in the Planning Commission."[60]

This statement indicates the genesis of a body which has come to be known at a later stage as the Committee on Plan Projects (COPP). This Committee was appointed in September 1956. The important functions of the Committee are: (*i*) to organise investigations, including inspections in the field of important projects, both at the Centre and in the States through specially selected teams; (*ii*) to initiate studies with the object of evolving suitable forms of organisation, methods, standards and techniques for achieving economy, avoiding waste and ensuring efficient execution of projects; (*iii*) to promote the development of suitable machinery for continuous efficiency audit in individual projects and in agencies responsible for the execution; (*iv*) to secure the implementation for their execution; and (*v*) to secure the implementation of suggestions made in reports submitted to the Committee on Plan Projects and to make the results of studies and investigations generally available. Since its inception, the Committee was engaged in specialised technical

[60] It may be pointed out that a similar suggestion, though not so concrete in its form, was made by the Taxation Enquiry Commission in 1953-54. The Commission stated: "During a phase of intensive development effort, when targets in terms of expenditure also assume a certain degree of significance, there is likely to be, even within the development sector of expenditure, some loss in effectiveness and possible room for economy and avoidance of waste. We are ourselves impressed with the need for thorough and careful enquiry both in the Central Government and in the States into the whole question of public expenditure and suggest that such enquiries should be undertaken and entrusted to sufficiently high powered bodies." Vol. I, p. 34.

inquiries and its labours resulted in the production of valuable reports, prominent among them being that on 'Community Development and NES'. The Committee has also been simultaneously making studies in the application of new methods of investigation. In an administrative process involving huge expenditures, economy should be inherent in the procedures, plans and the technical aspects of the construction, rather than being imposed in the nature of a spasmodic, off the cuff, unrelated cuts at the budgetary stage. The primary purpose of the Committee has been to make suggestions which can lead to a 'built-in-economy' and it is now acknowledged that the work of COPP had led to 'significant economy in many directions'.[61] The extent of economy achieved on the implementation of the Committee's suggestion, a few years ago, was of the order of Rs. 1.48 crores, out of which more than Rs. 1.8 crores was on the construction of godowns only.[62] Notwithstanding this valuable work, it has been argued from time to time that the studies undertaken by COPP at occasional intervals are not adequate to the requirements of a planned economy. The Estimates Committee pointed out that "even though the Committee on Plan Projects has been doing valuable work through the appointment of various teams, by its very nature, this method would be successful only for specialised studies to be made at regular intervals. It will not be possible through this method to assess the progress of all the projects continually."[63] The Committee therefore suggested "for the purpose of making a continuous evaluation of the various projects that are being implemented through the States, it would be necessary to supplement the present agencies with a machinery like the programme evaluation organisation".[64] An expansion of the activities of COPP to enable it to undertake regularly periodic surveys appears to be in order.

Evaluation

The evaluation aspect of the Commission's work is undertaken by the Programme Evaluation Organisation (PEO). This

[61] Dr. Deshmukh in a personal discussion with the author.
[62] Estimates Committee, 21st Report, p. 24.
[63] *Ibid.*, p. 24.
[64] *Ibid.*

organisation was established in 1952 to undertake a systematic and continuous evaluation of the methods adopted and the results obtained from the Community Development Programme and to point out the efficacy of the extension methods. The activities of the PEO are now spread over all plan activities, in particular, agriculture. The utility of the PEO in the context of the overall plan is questionable, but its utility in respect of its specified field of agriculture and Community Development is unquestionable. There have been pleas, such as those advanced by the Estimates Committees for the extension of the activities of the PEO to other fields as well. The appraisal and evaluation work is undertaken, as would be observed from the preceding paragraphs, on behalf of the Commission, rather than by the Commission itself. The Commission considers the reports of these two specialised agencies and ensures action, but it is not itself actively involved in a regular assessment of the plan implementation. Even the work of a Committee like the COPP, as pointed out earlier, is not of a regular nature but is mostly *ad hoc* and no periodicity of survey is observed. In a planned economy, appraisal and evaluation have to be regular and concurrent with the execution of work. While considering this aspect, the Estimates Committee suggested that "it would be a distinct advantage if the members of the Planning Commission played a more direct role in the evaluation of plan projects," and recommended the setting up of two types of evaluation machinery in respect of the various plan projects: "(*i*) there should be a continuous evaluation of projects under it as well as in a State in respect of works in the State .... in order to ensure uniformity in evaluation; the Programme Advisers should guide and direct the internal evaluation machinery and (*ii*) there should be an external evaluation machinery under the Planning Commission which should continuously and independently evaluate the progress made in regard to various projects under the Central Government and the State Governments."[65] So far, these recommendations have not been accepted by the government, but the need for such a machinery hardly requires emphasis.

[65] 21st Report, p. 26.

*Control at the Project Level**

A description of the systems of control will be incomplete, if it does not include the machinery installed in a 'project' itself for the exercise of control. In each multipurpose project, there is a chief Accounts Officer who also acts as a Financial Adviser. His role as a Financial Adviser is slightly different from the role of a Financial Adviser in a Central department. The Financial Adviser in a project is essentially an accounting officer and, important among his duties are (*i*) scrutiny of contracts with reference to the specified rates, etc.; (*ii*) technical examination of the bills before payment; and (*iii*) examination of the contracts to avoid uneconomic deviations from the original contract. His control is of a regular nature and is more related to the pre-audit of bills, etc., than to the financial issues or even to the results of an expenditure as in the case of a Financial Adviser in an administrative department. In recent years the Public Accounts Committee has suggested the introduction of an 'administrative audit system'[66] in these projects so that the scope of activities of the Accounts Officer could be enlarged and extended to include other controls as well. These recommendations were not implemented, for the Government thought that these functions could be effectively discharged by amplifying the functions of the 'cost control units' already installed in these projects.

IV

Conclusions

A very wide field has been covered in this chapter making the statement of some conclusions imperative. The conclusions specified here are mainly those which emphasise a change in the procedure. Other aspects are eliminated. The conclusions may be stated as follows.

(1) Administration of a long-term Capital Budget which is the instrument of developmental expenditures requires constant

* The projects considered here are the multipurpose irrigation and power projects only.

[66] *Epitome* of PAC Reports, Vol. II, pp. 184-6.

vigilance on the part of the administrative ministries and the Planning Commission. It requires constant attention not only from a budgetary angle but also from the economic aspects of balanced utilisation of available resources and also in ensuring a reasonable contribution to the gross national product. Such attention, however, is feasible only if up-to-date data are available. Towards this purpose, a forward looking accounting machinery has to be installed in each Ministry to provide the Financial Adviser with an apparatus which can enable him to make an appraisal of performance at each level in terms of physical achevement. The Financial Adviser has also to convene expenditure control meetings, as in the States, specifically devoted to review the plan expenditures.

(2) The appraisal undertaken by the Planning Commission, or on behalf of it, should be more frequent and if possible concurrent with the execution process.

(3) The budgetary system may have to be revised in such a manner as to avoid the annual changes which frequently take place with a view to circumvent the lapses of funds, etc. These marginal adjustments which result in the diversion of funds to subsidiary purposes, have to be avoided and facilities which can remove the sacrifice of long-term objectives in favour of short-term expendients, should be created. In the Swedish system, which is famous for its flexibility, this is facilitated through the system of 'extended grants'.[67] (Under this, the amounts for a purpose are specified and limited, but are available for utilisation during a period of three years beyond the Budget year. These grants are exclusively concerned with works equipment, construction, etc. and all of them are included in the Capital Budget.) A similar experiment in the Indian context may yield fruitful results.

[67] UN, *Government Accounting and Budget Execution*, p. 63. It is of interest to note that a suggestion was made by the 'Economy Committee' in 1949 for the creation of 'non-lapsable development funds'. (See Chapter IV.) The Committee observed that the Ministries of Works, Mines and Power and Industry and Supply should be permitted to create development funds out of the amounts appropriated in any year for their development schemes instead of permitting the unspent amounts to lapse (Report on the Ministry of Finance). This recommendation was not accepted.

Chapter Six

CENTRAL ASSISTANCE TO STATES—ASPECTS OF CONTROL

IN A FEDERAL CONSTITUTION, the sharing of tax proceeds between the Central and State Governments is inevitable. Similarly in a process of planned economic development, where States are the main executive agencies for the implementation of a major part of the plan schemes, Central assistance to the States in respect of schemes included in the Central as well as State plans, becomes equally inevitable. Both these considerations are applicable in the present-day Indian context, and these considerations, in a nutshell, explain the financial relations between the Centre and the States.

The devolution of financial resources and the sharing of certain tax proceeds between the Centre and the States are governed by the provisions included in Part XII (Article 264 *et seq.*) of the Indian Constitution. In accordance with these provisions of the Constitution, a Finance Commission is appointed once in every five years which makes recommendations regarding the process of sharing of taxes, as also the principles to be adopted in making the statutory grants-in-aid (Articles 273, 275 (*i*), etc.) to the States. A study of these aspects, however, appropriately falls within the purview of a study of 'Federal Finance', and is therefore excluded here.

The scope of the present study is confined only to the Central relations with the States in the sphere of grants given to the States for purposes other than those that come within the ambit of the recommendations of the Finance Commission. Relations of this nature are not by any means new nor is their existence necessitated only by the imperatives of a planned economy.

The system of giving grants to the States for *ad hoc* developmental purposes came into greater prominence in the post-war

era. Grants to the States for developmental purposes had its origins in India in the reconstruction work started in the post-war period. Further, it had been a part of our constitutional history that the Central Government was always having larger and elastic sources of revenue than the States. The Centre had great powers, and greater responsibilities in matters affecting defence, foreign policy, communications; and to these there must be added the economic policy, which in the post-war years had emerged as an important factor in the nation's life, while the State Governments remained all along the main executive agencies. Such a setup necessitated a dependence of the Centre on the States for the execution of developmental activities initiated by the Centre. This dependence of the Centre was reciprocated by the dependence of the States on the Centre for finances for its developmental activities. The resources of the States, meagre as they were, were hardly adequate to finance the developmental activities and what little they had they spent in offsetting the periodic liabilities inflicted by floods, famines, and droughts.

We had seen in the earlier chapter the efforts made during the early 1940's for development and reconstruction. We also noted that during this period, simultaneous progress was being made in the States also. All through these years grants were given by the Centre to the States for developmental purposes.

These post-war developmental grants were related to specific schemes and were conditional to the effect that generally half of the expenditure was to be met by the concerned State Governments. In certain cases, however (Orissa, Assam and Punjab), these conditions were waived and the entire expenditure in this regard was met by the Central Government. Besides these grants, the Central Government gave grants for specific purposes such as the Bengal Famine, etc. In all, during a period of three years ending in 1945-46, the Centre gave a total grant of Rs. 18 crores for developmental purposes and in respect of the post-war development schemes, it gave an amount of (within a period of three years starting from 15 August 1947 to 31 March 1950) Rs. 38.32 crores. In addition to these grants, large amounts were being spent on the 'Grow More Food Campaign' in the States,

through the Central grants. Under this scheme, specific allocations were not made to each state as the objective was "to produce the maximum quantity of foodgrains at a minimum cost irrespective of regional considerations". It was, however, ensured that "a fair share of the total block allocation was received by every State".[1]

The post-war development grants, however, were stopped from 1950-51 onwards. All the same, the specific schemes formulated and working under the various administrative ministries, and the scheme of "Grow More Food" continued, and grants were given to the States. The advent of the First Five Year Plan did not mean much change in these systems, for the reason that the First Five Year Plan consisted mostly of the post-war development programmes, with additional new items like the Community Projects and the National Extension Service. This necessitated the confinement of Central assistance to the schemes which were already in operation such as the large-scale irrigation and power projects and such other schemes to which commitments were already entered into with the different State Governments.

However, before the close of the First Five Year Plan period, many administrative puzzles involved in Central assistance to the States came up to the surface and evoked considerable thought on these matters, important among which were the budgetary classification of Central grants to the States, and the problem of payment of the Central grants to the States. Both these aspects are of an accounting or a budgetary nature. These two issues may briefly be considered here as they help us in appreciating the problems involved in Central assistance.

The classification of grants had always been a problem. The grants given to the States included those in the revenue and capital accounts (e.g. of grants in the revenue account for 'Grow More Food Campaign', the rehabilitation grants, National Extension Service grants). Technically, only such expenditure[2] which is incurred with the object of either increasing concrete assets of a material and permanent character or of extinguishing

[1] Report of the First Finance Commission, p. 93, 1952.
[2] General Financial Rules, Vol. II, para 310.

or reducing recurring liabilities, can be included in the capital part of the 'annual financial statement'. Viewed from this standpoint, the Central grants did not constitute any material assets for the Central Government, though they constituted a permanent asset as also a recurring liability (for future maintenance of the assets) for the State governments. However, prior to 1951 the practical considerations had a lead over the technical considerations and the developmental grants were charged to the capital section of the Budget, "largely as a matter of budgetary convenience in the context of many deficits on the revenue account".[3] This situation was reversed in 1951, and having regard to the fact that Central grants do not constitute any material assets for the Central Government, it was decided to include these items in the revenue account of the Budget. This change in classification hardly continued for three years and in 1954 it was restored again to the old pattern for the same considerations, namely budgetary balance and stability for the revenue budget, which, earlier, were the factors responsible for the inclusion of the grants in the capital Budget.

Introducing this change the Finance Minister stated [4] that "the proper allocation of expenditure is always a matter of some difficulty, particularly against the background of the large development programme, which is in the process of implementation and which takes into account the resources of the country as a whole". He also clarified that "an exception has to be made in the case of expenditure which, in the broad national interest, is incurred at a faster pace than would be justified by the amount of revenue that can be raised" and an expenditure, "which technically does not create any tangible assets to the Government". The Finance Minister felt that "it would be proper to meet the expenditure from capital. But as the expenditure does not create any tangible assets to the Centre, I propose that it should be written back to revenue over a period of years so that ultimately all that expenditure is met from Revenue." It was expected that this measure had the advantage of "securing

[3] Budget Speech of the Finance Minister for the year 1951-52, Lok Sabha Debates, 28 February 1951.

[4] See Budget Speech for the year 1954-55, Lok Sabha Debates, 27 February 1954.

a measure of stability to the revenue budget, while at the same time outlay on developmental schemes is not held up by the mere size of the revenue resources concurrently available".

Thus the temporary problem that cropped up in the first year of the Plan was successfully solved during 1954 and since then, the same classification has been continuing. It must, however, be admitted that the classification is not really a problem of any considerable magnitude, though it should be recognised that the classification has to be so arranged that the amounts spent became fully accountable. These changes in the classifications were always carried out in consultation with the Comptroller and Auditor-General (no accounting changes can be made except in consultation with him).

The second problem, which again is of an accounting nature, that arose during these years related to the reimbursement of the Central share of the total expenditure incurred by the States. The principle that was in practice was what was called as the 'principle of recoupment'. Under this principle the initial outlay towards the total cost of a scheme has to be met first by the States from their own resources and the Centre's share was recovered by the Accountant-General of the State, after ascertaining the actual expenditure incurred under a scheme and aid promised by the Centre. This procedure had certain inherent disadvantages, which are discussed in the following paragraph. Notwithstanding these disadvantages this system which was in existence before the First Five Year Plan was continued even during the Second Plan. Another contemporary feature of the Centre's grants was the prevalence of the system of 'matching grants'. Under this system each Central grant for a scheme was given on the condition that a corresponding share of the total expenses was met by the States. The 'matching grant' system was evolved to emphasise the complementary roles of the Centre and the States in the overall developmental efforts.

The combined impact of matching grants and the process of reimbursement of the State's entitlement on the 'recoupment' basis was considerable. First, the State governments were not in a position to meet their share of the expenditure on these schemes as their limited and comparatively inelastic revenues were already tied up to the inescapable expenditure on the

implementation of their plans. At the same time, they could not refrain from accepting the schemes of the Centre, as that would have meant facing a steady volley of public criticism that the government were not taking advantage of these schemes. Consequently, "most of them accepted the schemes and ran into revenue deficits".[5] Secondly, because of the shortage of resources, and in the absence of any advance assistance from the Centre,[6] the plan projects got held up. The delay in the *recoupment* further impaired the capacity of the States to undertake works with enthusiasm and zeal. The working of these two forces was largely responsible for the slow or non-implementation of certain of the plan projects during the First Five Year Plan and in the early years of the Second Five Year Plan.

There was no doubt an awareness of these problems in the Planning Commission, but somehow the attention that they deserved was not paid to them. Meanwhile the suggestions for improvement came from another quarter—a quarter which is the accounting and the auditing authority of both the Central and the State governments. These suggestions were what were then called 'Chanda Proposals,'[6a] which were first submitted by the then Comptroller and Auditor-General designate.

It was observed by him during the course of his report that "Whatever may be the applicability and suitability of the matching principle elsewhere, it is retarding the fulfilment of the plan under Indian conditions." The non-availability of resources at the States level and the built-in-delay involved in the working

[5] Report of the Second Finance Commission, 1957, pp. 68-9.

[6] Though generally the reimbursement to the States was done on the 'recoupment basis' only after the expenditures have been incurred, there was an exception made in 1947. Liaquat Ali Khan, the Finance Member in the Interim Cabinet, stated (see Proceedings of the Central Assembly, 28 February 1947): "We are making advance payments to the Provincial governments to cover the whole of expenditure incurred by them on approved development schemes... We have not considered it practicable for next year to insist on a specific proportion of the total expenditure being contributed by the provinces, since some Provincial governments have at present practically no accumulated funds available for the purpose."

[6a] They are reproduced as an 'Annexure' to the 8th Report of the PAC, 1957-58. A number of these suggestions are repeated in A. K. Chanda's *Indian Administration.*

of the *recoupment* method was already causing a slackening in the tempo of development. As an alternative to the existing situation, Shri Chanda suggested that "in lieu of the Centre rendering financial aid to the States, for a proportion of the expenditure on all the approved schemes, they should accept full financial responsibility for a specified number of schemes, up to an equivalent amount". He added that the schemes chosen by the Centre were to be directly implemented by the Centre and that Programme Advisers should be required to report that the remaining schemes have been undertaken by the States out of their own resources. Whereas the existence and continued practice of outmoded administrative and accounting devices revealed one extreme situation, the suggestions made by Shri Chanda represented another.

In a federal setup, where the respective jurisdictions and fields of activity have been laid down, an unduly direct active role by the Centre is likely to undermine the role of State governments and, to that extent, the intentions and objectives of a federal setup are at stake. It may be argued that the Centre and the States are assigned complementary roles in the national development, and that the complementary role assigned to the Central government can be fulfilled equally well, if it were to choose its own schemes in the State field and implement them by itself. Shri Chanda argued that such direct implementation by the Centre would be better. He stated: "It is much better for the Centre to show some concrete results obtained through its assistance and efforts rather than share the discredit on unsatisfactory performance." The implementation of these recommendations was fraught[7] with grave repercussions,

[7] It is interesting to note that this suggestion of Chanda was commended by Paul H. Appleby also. He stated: "The recent proposal of the Comptroller and Auditor-General that where expenditures are matched, the Centre should make all of its expenditures without waiting for matching deserves consideration. However, it might be wiser for the Centre to advance only 40 per cent of the cost rather than its entire 50 per cent." *"Re-examination of India's Administrative System with Special Reference to Administration of Government's Industrial and Commercial Enterprises"*, Cabinet Secretariat, p. 32, Government of India, 1956. Apparently Prof. Appleby was referring to the suggestion of Chanda contained in the 1955 Audit Report, but interpreted the suggestion as

both political and constitutional. Besides, its implementation may throw up some of the following problems and, in the final analysis, instead of becoming a solution to the existing problems, it would have tended to become a problem in itself. (*a*) The schemes chosen by the Centre which are obviously selected having regard to the amounts at the disposal of Central Ministries for being given in the form of grants or loans may not necessarily fit into the 'immediate need pattern' of the State. (*b*) The selection of the schemes for action by the Centre is a very delicate operation and requires a statesman's care. (*c*) It is likely to blur the demarcation of responsibilities between the Centre and the States.

The government naturally did not accept the recommendations of Shri Chanda. It stated that the "acceptance of the suggestion that the Centre should take the responsibility for meeting the cost of selected individual schemes rather than a share of expenditure on all the schemes of an agreed type might result in the blurring of the State Government's responsibility for execution and might create problems in the matter of selection of individual schemes to be financed by the Centre".[8]

The procedures therefore continued as they were. The schemes of assistance that were formulated under the Second Five Year Plan contained the same basis as the earlier schemes. The principle of matching grants continued. The fact that no change was made in the procedures of assistance may be attributed to the factor that the formulation of the schemes to be included in the Second Plan started even in 1954,[9] at a time when the full implications of the working of the matching grant systems were not very clear and had not yet reached alarming proportions. Meanwhile, the process of formulation of the State's plans had undergone a change. In addition to the consultation (with the Planning Commission) at the initial stage of the formulation of the plan itself, the preparation of the annual

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related only to 'advance' contributions, which was not the real objective of Shri Chanda's suggestion.

[8] 8th Report of the Public Accounts Committee, Annexure II, 1957-58.

[9] "The active work in connection with the Second Five Year Plan started in February 1954." 21st Report of the Estimates Committee, Lok Sabha Secretariat, 1958, p. 28.

Budgets of the State government was done, since the second year of the Second Five Year Plan, in consultation with the Central Planning Commission. Such consultations gave an opportunity to the Planning Commission to review the annual progress under different heads, and to fix the next year's physical targets as also the monetary ceilings under each head, in the light of the working of the various schemes.

Second Five Year Plan. The Second Five Year Plan included many schemes which *inter alia* provided for assistance from the Centre. These schemes were divided and classified into various groups depending on their nature. The schemes were classified into two groups: (*i*) Centrally assisted and (*ii*) Centrally sponsored. The former covered those schemes which are initiated by the State governments and are included in their plans, while the latter covered the schemes which are included as a part of the Central plan but are executed by the States, with the Centre bearing either all or a part of the expenditure. The type of activities covered by these schemes included Agriculture, Community Development and National Extension Service, Irrigation and Power, Village and Small Industries, Transport, Publicity, Education, Health, Labour, Housing, Scientific Research and Local Works.[10] The Central assistance under these schemes was generally matched by an equivalent contribution by the States, though in certain cases, the rates of contribution varied. The assistance as such was divided into grants and loans, and the composition of each scheme varied depending on its nature. The schemes soon became complex and in certain cases needlessly so as the Central aid for each scheme was a watertight compartment in itself, and did not allow any flexibility to the State governments. Therefore attempts to simplify these complex phenomena were initiated immediately. Significant among these attempts or rather the culmination of these attempts, was

[10] In addition to these categories, general assistance, not pegged to any specific schemes but covering a group of schemes, is also given in the form of Miscellaneous Development Loans. This assistance is intended to fill up the gap in the financial resources necessary for the execution of schemes included in the State plan, the gap being measured on the formula: total expenditure on these schemes—the resources available with state = miscellaneous development loans.

the discussion of the State Finance Ministers and Secretaries in a conference held in the later part of 1957. The general lines in which assistance was sought to be channelled as a result of these discussions, may be summarised as follows: (*i*) "To simplify patterns of Central grants and loans so as to bring together individual schemes which can be grouped together." The intention was that the total amount of assistance should be made available for the group rather than for individual schemes. The system was expected to enable the State governments to make adjustments within groups, without making any change in the composition of the total assistance to the States. (*ii*) The amount due to the States in the form of grants and loans were to be advanced by the Central Finance Department to the State Finance Departments. This sought to avoid the inherent risks involved in the *recoupment* methods. Behind these two premises was the general assumption that no new[11] projects not originally included in the plan or the Budget of the year are included during the course of the year.

While these considerations and attempts were going on, the recommendations of the Finance Commission that 'matching grants'[12] should be abolished were also made available. It should also be pointed out at this stage that even before final action could be taken in pursuance of the general objectives referred to in the preceding paragraph, the Public Accounts Committee who were then considering the suggestions of the Comptroller and Audit-General, were also seized of the question of Central assistance to the States.

The inquiry of the PAC proved to be beneficial from many angles. It brought to light certain problems and attitudes. For example, as to the suggestion of grouping the schemes so that minor adjustments could be made by the State governments within a group without altering the composition of the assistance, the Committee pointed out that if the schemes within a group lay in different demands for grants, reappropriation of funds between those schemes would mean reappropriation from one

[11] 8th Report of the Public Accounts Committee, 1958, Annexure III-A, pp. 36-9.

[12] These have since been abolished. The current schemes which include matching grants are, however, allowed to continue.

demand to another, which would require legislative approval, and therefore may not solve the difficulty which the Planning Commission were trying to solve. An attitudinal factor revealed by the Committee was the argument for continued retention of the 'matching grants'. It was argued before the Committee that the implementation of the awards of the Finance Commission would considerably augment the resources of the States and therefore there might not be any difficulties in the continuation of the *recoupment* practice, as also the matching grant system. The Committee, however, thought otherwise and on this question they suggested that "in the first year the Central grants towards schemes ... should be placed at the disposal of the State governments in advance at the commencement of the financial year with the condition that they should be utilised only on the schemes accepted for assistance, and in subsequent years, the grants to be made should be regulated with reference to the States performance in the previous year in fulfilling its own part of the programme as was contemplated while making the grant".[13]

These different studies by different groups brought to light certain of the problems which may be stated as follows: (*i*) The practice of 'recoupment' method has resulted in placing considerable hardship for the State governments. (*ii*) There is a good deal of concentration[14] of power at the Centre and the Provincial governments are made to look to the Central government not only for financial resources but also for the approval of schemes, etc. (Approval of the schemes by the Planning Commission has been discussed in the earlier chapter.) (*iii*) The grouping of schemes and the attendant budgetary and accounting procedures, allowed little or no opportunity to change the

[13] Lok Sabha Secretariat, 8th Report of the Public Accounts Committee, p. 56.

[14] 21st Report of Estimates Committee, Lok Sabha Secretariat. "The Committee would suggest that for the purpose of getting schemes approved for Central Assistance, the procedure should be so revised that the State governments should approach directly the Ministries concerned. The Ministries should take decisions on all such matters in consultation with the Planning Commission and the State governments concerned." The Committee felt that the replacement of the extra step of consultation with the Planning Commission by the above system would not allow any 'justifiable feeling of dissatisfaction to remain'. *Ibid.*

composition of schemes or even to divert funds from one scheme to another within a group, when such diversion was considered necessary.

These handicaps were recognised and conceded by one and all, and to avoid these bottlenecks the government revised the procedure of assistance in such a manner that it provided both the built-in flexibility in the schemes as also a regular flow of advances from the Central government to the State government so that plan schemes could be taken up for implementation as early as possible. This revised scheme came into existence in May 1958[15] and was made applicable to loans and grants payable during the year 1958-59. The important features of this revised scheme, considered from the points of view of provision of flexibility and reducing the extensive dependence and consultation of and by the State governments on and with the Central Planning Commission, were: (*a*) the procedure in practice of the Central Ministries issuing specific sanctions for schemes included in the State plans was given up. Hereafter such schemes should be sanctioned by the State governments under their normal procedure except in regard to new schemes relating to Irrigation and Power Projects, Industrial Housing and slum clearance, cooperative development, farming and training, and such of these schemes which come within the purview of the *ad hoc* bodies like Handloom Board, Small-Scale Industries Board, Handicrafts Board, etc. which have been set up for specific purposes of development. (*b*) The development schemes were re-arranged in groups and the total amount of Central assistance was to be calculated—either in regard to loans or grants—with reference to the financial composition of each individual group. It was further provided that the Central Ministry concerned should be consulted, and the Planning Commission informed whenever it was proposed to cover the total expenditure under a group by making reductions in another group. This procedure was applicable only for schemes which were included in the State's plan proper and for which Central assistance was assured. (*c*) In respect of the schemes included under the Central

[15] Letter No. Plan 15/2/1957, 12 May 1958, from the Planning Commission to the State Governments.

plan, the arrangements were slightly different. Under these revised arrangements, in respect of schemes which entail a total cost of Rs. 25 lakhs over the plan period or of Rs. 10 lakhs during a year, Central Ministries could accord their approval on the basis of a statement from the Administrative Department concerned in the State to the effect that the schemes have been accepted for financial sanction by the State Finance Department. In respect of schemes whose estimated cost was more than the above amounts, the Central Ministries were to intimate their approval after necessary scrutiny. The features of the revised system in regard to the release of Central assistance to avoid the defects of the 'recoupment method' were: (*i*) a substantial portion of the Central assistance either for the Central plans or for the schemes included in the State plans would be made available to the State governments as lumpsum ways and means advances by the Ministry of Finance. Three-fourths of the amount would be released in nine equal monthly instalments on or about the 15th of every month. (*ii*) These advances were interest free, but when a part of the advances was converted into a loan, after readjustment of the entitlement of the States with the advances paid by the Centre, it would carry the normal rate of interest. (*iii*) The final release of funds was calculated with reference to the proportion of assistance under loans and grants intimated by the State government. These payments were to be authorised by the Central Ministries concerned through the issue of the payment sanctions to the Accountant-General.[16] (*iv*) Release of funds during the second

[16] The final adjustments which might reveal the need for more grants or even conversion of a part of the assistance into a loan, is done by the Department of Expenditure who issue a single consolidated sanction covering all the demands and adjustments to the Accountant-General concered. The procedure in force prior to 1958 was that the expenditure on the Developmpent Schemes is initially incurred by the State government from their own resources. The expenditure is subject to usual audit by the AG, as in the case of other expenditure incurred by the State governments. Only so much of the audited expenditures, as incurred on schemes approved by the Government of India, is then reimbursed by the AG to the State government concerned by debit to the Central government. This ensures that the grant is actually spent by the State governments on the objects for which it is sanctioned.

and the third quarters of the year would be regulated in accordance with the trends and progress of expenditure for every quarter, as also the cumulative expenditure. The release of assistance for the last quarter would be based on a realistic estimate of the 'expenditure requirements'. These payments would be subject to final adjustment on the basis of entitlement and the assistance pattern and on the basis of actual expenditure[17] for the year as a whole and these adjustments are made in the following year. Where the advance payments are revealed to be more (generally such cases are rare) than the entitlement, the differential amount would be treated as a loan to be adjusted subsequently. But where the accounts reveal further amounts payable to the State, such amounts are paid by the issue of a single consolidated sanction by the Department of Expenditure.

The implementation of the revised system brought a change in the picture, for they contributed to the avoidance of some of the earlier bottlenecks. But certain problems remained. For example, the grouping of the schemes which generally implied that Budget Provision is made in different 'Demands' made the reappropriation difficult for no reappropriation could be made by the government between 'Demands'. All the same it should be conceded that the revised system reduced the degree of dependence of the States on the Planning Commission and allowed them some elbow room and flexibility. The monthly release of funds towards the Central assistance to the States also considerably reduced the dimensions of the problem.[18]

The grants from the Central government are spread and distributed over the entire gamut of the Budget demands of the Central government. The grants received by the State governments are also equally widespread and consequently the bud-

[17] The figures of actual expenditure are those certified by the Accountant-General. One might argue that the final adjustments should be made on the basis of 'audited' expenditure. In fact now the final sanctions are to be made on the basis of audited actuals.

[18] The Comptroller and Auditor-General felt that even this method might cause delays. He suggested that a 'revolving fund' may be created for the purpose so that delays might completely vanish. This suggestion was endorsed by the Public Accounts Committee. But so far, the suggestion has not been implemented. See the 18th Report of PAC, 1958-59.

getary flexibility of the schemes is limited. The rigid grouping of schemes made the operations tight and the activities were straitjacketed between 'Demands'. At the same time, the grants given by the Centre (being adjusted under the respective major heads of accounts of the State governments) presented an inflated picture of the receipts of the State which in conjunction with the Central demands presented a grossly inflated picture of the total expenditure of the Central and State governments together, in any particular field.

Keeping these factors in view and also having regard to the need for a centralised control, the government decided to change the accounting structure. The first part of these changes were introduced during the financial year 1961-62, while another part of the reorganisation has come into effect during 1962-63. The features of these changes are: (1) All the grants-in-aid, including those which are of a statutory nature are amalgamated and included under one major head, 'XLIX-Grants-in-Aid from Central Government to the State Governments' and '61-Grants-in-Aid to State Governments'. (2) All grants (for the developmental purposes and given as part of either the Central or the State plans) to the States would be included in a 'composite demand' under the control of the Ministry of Finance. This demand would include the grants shown under separate subheads "according to the subjects to which they relate and portions thereof placed at the disposal of the administrative ministries concerned".[19] These changes were introduced to synchronise with the Third Five Year Plan period. Introducing these revisions, the Finance Minister stated: "This arrangement will give at one place the total of these grants from the Centre to the States and will also facilitate integrated control on the utilisation of these grants."[20] A similar arrangement is made for having all the grants under a composite demand in the case of the State governments also, and the reappropriation between 'Demands', so far as developmental grants are concerned, is now facilitated as all the grants are now under a single

[19] Explanatory Memorandum on the Budget of the Central Government 1961-62, pp. 4-5.

[20] The Budget Speech of the Finance Minister for the Year 1961-62, 28 February 1961.

accounting head. Also the final release of assistance is now done with reference to the total approved outlay under a head rather than on the basis of the pattern of assistance for each scheme.

Aspects of Control

We have so far considered the process and techniques of Central assistance to States. We may now consider the aspects of control of the expenditures met out of such assistance.

The control of such expenditure met out of the Central assistance presents certain new issues. Control in this regard is required both at the Centre and in the States, and the controls exercised by those two different authorities together ensure the smooth working of the system. Further, the control of the Centre is dependent on the control exercised by the States and on the promptitude shown by them in furnishing the different progress reports, etc. to the Central government. The control of these expenditures is at two levels, viz., at the Central government level and at the level of the State governments. The control at Central level may be further analysed into (*i*) control by Planning Commission and (*ii*) control by the Administrative Department concerned. In considering these matters, it should be recognised that in its nature the Central control is one of review only since the powers and responsibilities of execution of schemes are vested in the State governments. The review is, however, not in the nature of examining the propriety of an action or even the economy in a transaction for such a review would presuppose the existence of a Central government with powers of review of the actions of the State governments. In a federal constitution such as ours, a high powered Central government is likely to distort the federal relations. As such, the review involves only a verification of the progress of outlay and the fulfilment of the physical target assigned for such an outlay. The other aspects such as the propriety and economy in a transaction are to be ensured by the Finance Departments of the State.

The objects of control have been stated at length in the preceding chapter. The control exercised by the administrative ministries at the Centre is not of any significant order and there is no specific machinery devoted for this purpose. The control itself is exercised by obtaining periodical reports from

the State governments. The State governments send a monthly report in respect of each important project addressed to the Planning Commission with copies to the Ministry of Finance and the Administrative Ministry concerned. The State governments also send a quarterly report indicating the progress made in various developmental fields. These reports are considered by the administrative ministries either in the quarterly expenditure control meeting or in the usual departmental process, more often in the latter. Though the quarterly expenditure control meeting provides an opportunity for reviewing the expenditure under the plan schemes either in the sphere of the States or the Centre, yet the utility of such a review is doubtful, for within the limited compass of a meeting, it is generally not possible to review the progress of expenditure under the Central grants to the States. (See Chapter V for the limitations of this meeting). Besides, it is also to be recognised that the expenditure directly incurred under the aegis of the Central government is itself considerable and generally much time is spent on that expenditure itself.

The other way of ensuring the control is contained in the departmental process. This consists in reviewing any matter which is considered important, and taking necessary action thereon. The important points that arise in a report are considered at the respective levels in a Ministry and where the matter is of a serious nature (such as exceptional variation from the original estimate, abominable slackening in the tempo of the execution of a project, presence of bottlenecks which were not foreseen earlier, etc.) necessary action is initiated (if such action rests with the Central government) and the Planning Commission is also consulted. If, however, the matter is of such nature that the action called for rests with the State government, there is not much that can be done by an Administrative Ministry at the Centre, except to inquire from the State government concerned, as to the causes that led to the slackening of tempo, etc. These matters receive the due and timely attention when there is proper coordination between the concerned departments at the State and the Centre and when there is a proper demarcation of responsibilities. The Estimates Committee in one of its reports suggested that there should be regular contact and coordination

between the departments at the Centre and in the States.

The Committee also gave a plan for such concerted action in a specific activity.* The Committee stated (in regard to the execution of health plans) that *(i)* the Central Ministry should at regular intervals review the progress of different health schemes and devise measures for an organised approach to accelerate the pace of progress; *(ii)* in cases where the planned expenditure of a particular scheme is not likely to be incurred, funds may be diverted from one scheme to another so that there is maximum realisation of targets; and *(iii)* such a review will help the Ministry to find out the position of the plan provision which it cannot usefully spend and, which, in consultation with the Planning Commission, can be diverted to other purposes."

The implementation of these suggestions of the Committee naturally requires a regular liaison between the Central and the State Departments. The absence of regular contact between the Ministries at the Centre and in the State renders such a liaison comparatively difficult.

In any case, so long as the Centre is dependent on the States for execution of schemes, it is perhaps imperative that the role of Centre (once the amounts are sanctioned) is reduced to that of a passive agent confined to watching the progress of expenditure in a helpless way for it cannot certainly prod the State departments in the same way in which it does the attached and subordinate offices. The control of expenditure in these matters is one which is linked with inter-governmetal relationship, and like any other inter-governmental relation, it is a delicate one, where any extra move in any direction is likely to be misconstrued. Thus of necessity the control within the Administrative Ministry on the grants given by it to the State governments, is not considerable.

In the field of control of Central assistance to the States, there is also a role for the Finance Ministry. The Department of Expenditure whose representatives are accredited to or associated with various Ministries, perform the reviewing functions along with the administrative ministries in the expenditure control meetings; and to that extent, the role of the Department of

* See the 37th Report 1958-59 on Public Health, Part I.

Expenditure should be treated as an integral part of the overall functions of an Administrative Ministry. The control functions relating to 'financial assistance to States' and control of Capital expenditure are, however, performed by the Planning Division of the Department of Economic Affairs of the Ministry of Finance. As indicated earlier, this Division is responsible for the preparation of Capital Budget, monthly release of Central assistance to States and the control of expenditure thereof. The process of control in this Division once again is one of review only. Like the administrative ministries, the review is done through the regular departmental process. The Planning Division is empowered with certain tools, which though rarely employed, still possess potential use. The Planning Division like the Administrative Ministries and the Planning Commission, receives the progress reports from the State governments. But this Division does not have any direct interest in the reports, for it does not have any schemes of its own except for the miscellaneous schemes. Its functions lay in ensuring that each monthly advance is expended before the next one is given, and in that way it ensures a steady flow of expenditure. The important tool of control that it has in its hands is that whenever an advance remains uncleared, a proportionate cut is made in the next monthly advance. The intention in making such a cut or reduction is to see that there is no immobilisation of resources. But the process of control of the Planning Division is really related to the flow of expenditure rather than to the purposes and problems involved in the incurring of such expenditure and to an itemised review of expenditure. Appropriately, the responsibility of itemised review is within the duties of the Administrative Ministry. Further, the 'control' is also impersonal and detached to a certain extent for the cuts are made, not with reference to any scheme, but with regard to the total expenditure only. Thus this 'control' cannot really be treated as any 'control' at all.

An important function is performed by the Planning Commission, in matters relating to appraisal of the Central assistance. This appraisal involves the twin aspects of review and evaluation. If review ensures the smooth execution of a scheme, evaluation indicates, though after the scheme has been imple-

mented, the pitfalls encountered in the execution, and makes such suggestions which with advantage can be implemented when undertaking similar schemes in the future. The working of the Planning Commission, viewed from these aspects, may be categorised as follows: (1) review through the (*a*) reports—monthly in respect of important schemes, quarterly and annual progress reports and (*b*) reports of the Programme advisers; (2) evaluation through (*a*) committee on plan projects and (*b*) Programme Evaluation Organisation. The activities under these different branches have already been briefly discussed in Chapter V. This aspect of the coordination of the Planning Commission is of considerable help in maintaining the tempo of the execution of plan projects. The progress reports enable the Planning Commission to realise the merits of the progress achieved and to suggest alternatives and diversion of resources to other productive projects if certain projects are found to be unproductive or not timely. This review helps in achieving 'control', or in fulfilling the object of 'control' in a broader sense by obtaining a maximum utilisation of resources in the circumstances.

The second part of the 'control' consists in evaluation. The utility of evaluation is always to be found in the future rather than in the immediate present. This evaluation is acquired through the two permanent wings of the Planning Commission—viz., Committee on Plan Projects and the Programme Evaluation Organisation. The latter organisation is specific in its scope. (The various aspects of these organisations have already been considered in the earlier Chapter.)

We have so far seen the 'control' exercised by the Central government on the grants given by it to the State governments. Allied to the above types of control are the audit control and the parliamentary control, which also merit a consideration here, before we turn our attention to other issues.

Audit Control

The main purpose of audit is to ensure that the grants given are spent for the purpose for which they are intended. As, however, the grants given by the Central grants form part of the receipts of the State government, the regularity of expenditure

and other aspects are ensured by the Accountant General of the State. The Accountant General is also responsible for adjusting the final claims of the State government based on the actual expenditure against the advances given by the Centre. The irregularities and such other defects in the execution of all the plan projects including those which are financed from out of the Central grants, are included in his audit report which is submitted to the State legislatures and considered by the State Public Accounts Committees. The *ex post fact* control of the Audit Department helps in establishing that the amounts are spent for the purposes for which they are intended.

Parliamentary Control

The control by Parliament is exercised by its 'two eyes'—the Public Accounts Committee and the Estimates Committee. While the activities of the Estimates Committee mainly consist in reviewing the activities of each Ministry, the PAC considers the annual accounts and the audit report submitted by the Accountant General. The Central PAC has been devoting considerable attention to the question of Central assistance to States. But its interest is mainly concerned with the techniques of Central assistance rather than with the utilisation aspect of Central assistance. The utilisation comes within the jurisdiction of the State Public Accounts Committee. Nevertheless there had been a significant awareness[20a] on the part of the Central PAC

[20a] At one time there was even a suggestion from one of the Members of Parliament, that a separate Parliamentary Committee or Commission should be appointed to watch the utilisation of the Central assistance to States. The Finance Minister, referring to these suggestions, in the course of his reply to the debate on the Demands for grants of the Finance Ministry, observed: "Shri Tulsidas (Kilachand) also made a very interesting suggestion that we should have a Parliamentary Committee or Commission to watch the utilisation of expenditures incurred by the States out of the Central assistance given to them by way of loans and grants.... At first I was inclined to think that perhaps an arrangement of this kind might be useful.... I do not think we ought to take a decision in the sense suggested by him until we see our way clear. There are audit arrangements made by the C & AG and there are progress reports of the Planning Commission" and considering these steps as adequate, he rejected the suggestion. See the Proceedings of Lok Sabha, 17 April 1954. This suggestion was repeated again in the House by the same Member in

of these matters. The 8th Report and the 18th Report of the PAC (mentioned earlier) deals with the techniques of Central assistance. This Committee also published a documentary study on the 'Central Assistant to States'.[21] However, the actual consideration of the utilisation aspect rests with the State PAC's only. The importance of the role of States PAC's, from this point of view, has often been stressed by the Speaker of Lok Sabha also. The Speaker once observed: "In the context of the scheme of Central assistance, the roles of Central PAC and States PAC, will have to be supplementary. In case of a loan or a grant the Central PAC should obviously look to the State PAC to ensure that the money has been applied for the purpose meant."[22] Again in his address to the conference of the Presiding officers,[23] emphasing the need for scrutiny of the grants given to the States, in accordance with Proviso (1) of Article 275 of the Constitution, the Speaker noted: "In my opinion there should be some scrutiny over the utilisation of these grants also. The Financial Committees of the State have an effective role to play in this regard."[24] The Public Accounts Committee of the State scrutinises these aspects in the same manner in which they scrutinise the other expenditure of the States.

Perspectives

The preceding paragraphs give an account of the different

April 1956. Referring to this suggestion the Finance Minister observed that the States have their own Legislatures and that it would not be desirable to underestimate them. The utilisation aspect is generally ensured and checked by the Comptroller & Auditor-General. He added: "So far as the physical check on schemes is concerned, I cannot see how Parliament or any of its Committees can keep and carry on this check. This has to be done by a body like the Planning Commission which is charged, among other things, with the duty of watching over the actual implementation of the plan." Proceedings of Lok Sabha, 17 April 1956.

[21] April 1959, Lok Sabha Secretariat.

[22] *The Journal of Parliamentary Information*, April 1959.

[23] See *The Journal of Parliamentary Information*, April 1960.

[24] One of the recent reports of the PAC (23rd Report, 1960), also emphasised that measures should be devised to bring the grants given under article 275(i) within the audit purview. Their comments arose out of a grant given and left unutilised to a *Samiti* organising a certain developmental activity in the village donated to the gramdan movement.

aspects of the working of the Central assistance to the States. During the last decade, the system has revealed many a deficiency as also a flexible nature to adapt itself to different requirements. Among the deficiencies, which owe their existence more to other factors than to this system, were the considerable lapses in funds for one reason or the other. The Audit Report of 1955 observed that "these lapses of funds indicated that the plans and programmes of government, considered essential both for the defence of the country as well as for its economic development, were being unduly retarded to the detriment of both national security and prosperity". The position revealed up to 1956[25] was very gloomy, though with the introduction of the revised system since 1958 there had been a change in the picture and a steady tendency for better and greater utilisation of the grants is now descernible.

The working of the system also revealed that there is little or no control (as distinguished from review) by the Central government. If these revealed the financial aspects of the working of the system, the administrative aspects were rather of an entirely different kind. The administrative aspects are associated with the relations between the Central government and the State government. It has often been felt that the State governments have been reduced to the status of subordinate agencies, by excessive dependence on Central finances, as also for the approval of the various schemes and changes in the schemes, by the Planning Commission.[25a] Apart from the fact that this made the State officials come to the Central metropolis many a time during a year to have consultations with the Central

[25] The percentage of savings in the Civil Capital grants in 1953-54, 1954-55 and 1955-56 were 25, 41.50 and 41.12 respectively. See p. 11 of the 8th Report of the Public Accounts Committee.

[25a] The awareness of these has led the Third Finance Commission to recommend that the developmental assistance given to the States, should be brought within the purview of the Finance Commission's work. This majority recommendation (there was a minute of dissent by the Member Secretary) was not accepted by government on the consideration that such arrangements would be devoid of the flexibility inherent in the existing system of annual plan reviews and fixation of assistance. Third Finance Commission's Report, 1961.

government, the situation also revealed an absence of delegation of powers and responsibilities to the State government. Delegation as an administrative technique is of vital importance in the administration of a vast country. It is true and reasonable that for the management of a national plan, a certain direction from the Centre is necessary. (It is, however, difficult to define this 'certain direction'.) In any case the continuance of the present system which has been called as a 'vertical integration'[26] of the Centre and the States is a matter of serious discussion. It has also often been suggested by Parliamentary Committees and academicians that a plan which needs planning from below should also be executed from below. The Estimates Committee suggested[27] (21st Report) "that the broad distribution of the Budget provision under the plan should be perceived by the Centre within which the State should evolve its own systematic Budget in consultation with the Central Ministry". The Committee also suggested the establishment of planning commissions at the State level.

It has also been increasingly felt that the grants have been attached to specific schemes and were allowed little variation. Also the successful utilisation of the Central grants under the present system implied an effective, and a 'level to level' coordination between the Central government and the State government. In practice, quite often, the State governments found that their suggestions for alterations in schemes took a long time to be accepted at the Central government. It is argued that an absence of coordination may bring even an otherwise smoothly working unit to a halt.

Added to these issues was the procedure of reimbursement, which[28] some of the State governments felt was not working to

[26] K. Santhanam, *Union and State Relations in India*, Chapter V.

[27] *Ibid.*, p. 30.

[28] While the assistance pattern is based on the 'Composition of a Scheme', the final assistance is calculated on the basis of the formula:

$$\frac{\text{Actuals}}{\text{Approved or Budgeted}} \times \text{Grants/loans due for the Budget Outlay.}$$

This formula is applied to the total of all the schemes grouped together and not schemewise. Also, the assistance payable is subject to the overall ceilings of all the schemes. The assistance, even in cases where it works

their advantage. It has also been argued time and again that the actual responsibility of execution should be delegated to the States, with only the review functions entrusted to the Central government. A former official[29] of the Planning Commission has observed that "conditions differ from State to State; so it may be more advantageous to make the States responsible for administering these grants. The funds assigned for the purpose may be placed at the disposal of the States so that each State could plan the working in its own way. The function of the Central Body should be primarily to set standards, watch achievements and where necessary to effect improvements." The present tendency of frequent lapses and surrenders of Central grants to States reveals incidentally a certain amount of bad planning. It has also been argued that the limitation of the grants on an annual basis does not allow the departments to work in a continuous way. No doubt the plans are prepared in advance and are approved in advance. Nevertheless it is not infrequent that many a variation takes place in a scheme before its implementation and in certain cases the final schemes do not bear much resemblance to the original schemes at all. It is also to be noted that even in the financial estimates, quite frequently, variations take place. These variations may be due to the changes contemplated in the schemes or changes in the price level and, quite often, political pressures are also responsible for changing the scope of a scheme. To the extent that these varia-

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out to be more than the ceilings, is restricted to the ceilings. In cases of shortfall of expenditure there is a proportionate fall in the assistance also. There has been a suggestion that since there is a downward revision of assistance, when there is a shortfall of expenditure, there must be an upward revision also—even beyond the ceilings—whenever there is an upward trend in expenditure. But the implementation of such a suggestion will make ceilings meaningless. The above formula does not consider the excesses or shortfalls under each group and is concerned with the total outlay only. Some States, however, feel that they would be in an advantageous position if the calculations are made with reference to schemewise pattern of assistance than with reference to the total outlay. A change has been introduced recently (Third Plan period) and now reimbursements are to be made on the above formula, with reference to the groups composition, subject to ceilings, and not with reference to total assistance. The formula is, however, under constant review.

[29] P. P. Agarwal, *The System of Grants-in-Aid in India.*

tions are due to political factors, remedies ought necessarily to be of a political nature. As for the 'lapses of funds' which have been mentioned earlier, quite often they are due to the fact that the implementation of schemes has been taken up only in the last quarter of the year, having devoted the better part of the year to consultation, etc. It may, however, be argued that lapses indicate the extent of the remaining work to be done, and therefore that it should be continued in the next year. Naturally in a process of planned development, budgeting ought to be a continuous process. It should also be recognised that each expenditure incurred for development involves future commitments also. A school started today as a part of the plan, requires annual maintenance expenditure tomorrow and to that extent enough safeguards should be provided for such expenditures also. The process technically known as the 'Forward Looks' is not practised in the present system. But the need for such 'looks' needs hardly any emphasis. Thus whatever has 'lapsed' today will have to be provided for tomorrow. Alternatively, 'non-lapsable' grants should be evolved.

Thus the major problems in the Centre-State relations are connected with the delegation of more powers with freedom in the management of their affairs, and the financial composition of the schemes. The consideration of these issues in the implementation of a plan is of utmost importance. Any system that is evolved should avoid the preceding problems. A nucleus of such a system is attempted below: (*i*) It would be better if the scrutiny of schemes by the Planning Commission is confined to a pattern where only the nature of the schemes and the monetary implications involved are considered. Scrutiny on these lines is essential to ensure that the schemes adhere to the broad priority pattern laid down by the Central Planning Commission and also to ensure that the financial implications of the schemes are not an undue burden on the slender resources. The working of the details should be better left to the State governments. (*ii*) The grants given by the Centre should be in the nature of an 'obligational grant'.[30] These grants which are given every year should not be allowed to lapse at the end of every year

[30] 'Obligation' may be defined as commitment of money appropriated.

but should be allowed to continue. The grants given over a period (5 years, to run simultaneously with the plan period) should be so phased and adjusted that the overall amount does not exceed grant initially agreed to. (To help accounts management, a separate 'Demand' can be opened for this 'Head' and the accounting should be kept open until the entire grant is exhausted.) (*iii*) The schemes initiated by, and included in, the Central plan should be schemes which are in the nature of a demonstration, pilot schemes and inter-State schemes and schemes for which lumpsum provision is made until broken up among the states. One hundred per cent of these schemes should be financed by the Centre and as far as possible it might be advantageous, if schemes with lesser periodicity are taken up.

The above three phases render the State governments as independent units in themselves and would also help in retaining the essential control and direction in the hands of the Centre. It can, however, be argued that the second premise requires an amendment of the constitution.[31] It may also be argued that such a procedure undermines parliamentary control and would complicate matters in accounting procedures. Sufficient it is to realise here, that the Constitution was framed at a time when the administrative implications of a plan were not very clear, and therefore it should not be considered sacrilegious if a provision is amended to suit the requirements of the day. The parliamentary control is also not lessened, for these grants which form part of a plan are already, by implication, approved by the Parliament. (The Parliament has divided itself into many Committees to consider the Second and the Third Five-Year Plans and it is after such a consideration that the plans are approved by the Parliament.) These grants are fully accountable, for they are considered by the State PAC's—the only difference being that they become accountable at a later date than the normal demands. The accounting procedures also—systematically evolved in 1937[32] are slightly out of date and do not adequately meet the modern requirements. These considerations

[31] Article 112 of the Constitution.

[32] Explanatory Memorandum for the Budget, 1961-62.

make the change imperative and therefore an effective and useful change is a necessity.[33]

[33] The Prime Minister, in a statement placed on the floor of Lok Sabha on August, 1961, observed that hereafter the discussions of the Planning Commission in regard to the Annual Plans of the State will be confined to the 'more important Projects and Programmes'. He also added that "the pattern of assistance to schemes both centrally sponsored and state sponsored, are also being simplified". The exact nature of simplifications is not, however, indicated.

Chapter Seven

CONTROL OVER GRANT-AIDED BODIES

THE term 'grants-in-aid' has different applications. It is generally understood to be the medium through which 'grants' are made by the Central government to the State governments and by the State governments to the Local bodies. The purpose of such grants may be either to balance the State or local budgets or to stimulate a specific activity. The mechanics of such grants, in so far as they are given to States, have already been considered in Chapter VI. This chapter is devoted to the study of 'grants-in-aid' given either to a corporate body or institution, under the authority or the control of government, or to an institution which is independent of government. The study is divided into two sections (*i*) the trends in 'grants-in-aid' and (*ii*) the control over grant-aided bodies.

Trends

The 'grants-in-aid' given to private institutions, independent of government control, and to corporate bodies set up either by statute or by a resolution in Parliament, has reached a significant magnitude only during the last decade. The reasons for giving grants-in-aid to these bodies may be said to arise from the following factors: (1) Certain service functions can be better carried out by private or corporate agencies than by government. This is particularly applicable to the field of social welfare services. (2) In other fields also, where initiative in the public sector is limited, or is not forthcoming in the required degree, grants-in-aid are the only means of financing the bodies specially created by government to perform functions of public importance, but which for administrative and other reasons are not performed by the government itself (e.g. specialised research

agencies like the Council of Industrial and Scientific Research, Institute of Public Administration, School of Town and Country Planning, Indian Council of Medical Research etc.). (3) Certain fields may not be suitable for government participation on a large scale and the role of government may have to be confined to financing these bodies, leaving the considerations of policy formulation and day-to-day administration to them. The pre-eminent example in this regard is the University Grants Commission which stands between the universities and the government without encroaching on the independence of universities (which would have followed if the normal pattern of control associated with other moneys spent by the government is followed) and at the same time ensuring accountability to the governmental grants, and enjoying the confidence of both. (4) The grants may also be used to foster development of 'Arts'—a development that requires finances which are not generally forthcoming to the extent required. This is a field where indirect participation and control of activities by government is not often welcomed, and therefore their development has necessarily to take place through special agencies set up for the purpose (e.g. Lalit Kala Akademi). (5) The system of grants-in-aid also affords an opportunity for a most convenient and economical way of supporting a service which is independent of government, but one which requires its support in the national and public interests. Grants-in-aid, in these circumstances, offer the most practical way of helping such institutions as the Administrative Staff College, the National Council of Applied Economic Research, etc.

Thus the system of 'grants-in-aid' offers a medium through which grants may be given by government for specific or general purposes, and affords an opportunity to the government to overlook the alternative of taking over these functions for direct financing and execution, which may prove to be too costly and even impracticable. If reliance were not to be placed on these bodies and if, instead, the government alone were to render them, it would be obvious that government may have to undergo a considerable expansion in its staff, etc., and even with such an expansion, it may not after all be able to render those services effectively in an administrative atmosphere encumbered with

red-tape and inertia. Thus on considerations of economy and efficiency, the system of grants-in-aid is always generously resorted to by government.

Practices

During the first and second five-year plans, increasing reliance (as it ought to be) was placed on the system of 'grants-in-aid', for rendering specific services included in the plan which were not directly administered by government. In fact, a major portion of the Budget demands of some Ministries, such as the Ministry of Education, are devoted to the grants[1] allotted to various agencies, both private and corporate. Also, the total amounts provided for these 'grants' have increased during this period. The grants given to individual institutions do not fully represent the general patterns; and therefore, in a study of the trends of grants, it is necessary that we confine ourselves to the aggregates.

The practical experience gained during the last decade reveals three broad tendencies; (*i*) a phenomenal increase in the total amounts of 'grants-in-aid', (*ii*) an increase in the total expenditures because of (*i*) and (*iii*), a tendency for an increasing reliance on governmental 'grants', often resulting in an abandonment of an organised attempt to pool the cotributions from charitable and philanthropic sources. The important questions that arise from these three factors are—what are the means at the disposal of government to ensure that the grants given are spent for the purposes for which they were intended and within the stipulated time period, and that the grants from government have not been a positive factor responsible for the drying up of private charities? While an answer can be found for the former aspects, we have to content ourselves, in the absence of data, with a few generalisations in respect of the latter.

The 'means' or the methods used in government to verify if the amounts of grants have been spent on purposes for which they were intended, constitute the very process of control itself and may be studied from four angles. (*i*) Administrative control

[1] Report of the Estimates Committee, 1959, April, p. 8. About 60 per cent of the Education Ministry's budget provision is absorbed in the disbursement of grants-in-aid. The number of grants-in-aid schemes sanctioned by the Ministry has risen from 40 in 1955-56 to 92 in 1957-58.

—control by the Ministry which is responsible for giving the grants; (*ii*) Financial control—control by the Ministry of Finance; (*iii*) Audit control—control by the Audit Department and (*iv*) Parliamentary control. Each one of these spheres of control is independent in itself, but together they ensure that the grants have been well utilised. These spheres of activity may now be considered in detail.

I

Administrative Control

The grants given by the administrative ministries are of many kinds. The terminology used for the 'grants' is also at times confusing and complicated. The different terms[2] used to indicate this mode of financing are 'grants', 'grants-in-aid', 'direct grants', and 'grants and donations'. The payment of obligational charges to international bodies like the UNO, UNESCO, etc., are called 'contributions'. 'Contributions' to these international bodies, however, are generally distinguishable from the other grants (a detailed study of these 'contributions' is made towards the end of this section).

Though the terminology is different, yet the nature of all kinds of grants, with the single exception of 'contributions' to international bodies, is the same, and therefore may be considered hereafter under the term 'grants'. A grant may be 'conditional' or 'unconditional'. Where the grant is given for a specific purpose it is 'conditional'; and where no objective is specifically laid down but is intended for general improvement, it is 'unconditional'. The grants may be recurring or non-recurring and may be in cash or in kind. A grant is in 'kind' where machinery or equipment is given the monetary equivalent of which is included in the 'Demands for grants' of the Ministry. These grants, as stated earlier, may be given, both to corporate bodies set up by

[2] The Estimates Committee, in its 24th report (1958), recommended (p. 13) the need for laying down a uniform nomenclature in this regard. It is significant to note that a similar recommendation was made by the UK Estimates Committee, in its 2nd report, in 1954. That Committee observed that "the use of words 'contribution', 'loan', 'grant' and 'grants-in-aid' appears in some cases both haphazard and illogical."

government and to private institutions. In the case of grants to corporate bodies set up by the government and working under its control, the grants are, in a way, transfers from one government agency to another. Generally, these 'corporate bodies' are created for specific purposes with a view to enable them to work in an independent way, untrammelled by the routines and procedures which characterise the work of a government department; and towards this purpose, these bodies are given a certain amount of autonomy. As, however, these bodies are largely financed by government, it has greater control on such bodies than on those which are essentially 'private' in their origin and functioning. Thus the extent of control exercised by the Ministries has two aspects: (*i*) Control in the case of private bodies which receive grants from the Ministry and (*ii*) control in the case of corporate or non-corporate autonomous[3] bodies set up by government. The government's control has many aspects and differs in degree from one case to another depending upon the purpose, size, nature of the grant, and the nature of the receiving body.

Control in Regard to Grants Given to Private Institutions

The control exercised in these respects by the Ministries may be examined from two angles: (*i*) before the grant is given and (*ii*) after the grant has been made.

The first phase is essentially related to the examination of the needs, the economic capacities and the administrative capacities, i.e. capacities to administer the programme and spend the amounts of the granting body. The second phase is primarily

[3] Bodies, which are set up by the government in the ordinary course, without recourse to a Statute, cannot have any separate legal status and are considered only as limbs of the government until such time as they are given such status. This fact has been demonstrated in the case of the Central Social Welfare Board. The Audit Report for the year '57 observed thus: "The S.W.B. (Social Welfare Board) has been constituted by a resolution of Government. It is neither treated as a government department nor has it been incorporated by or under any statute. Accordingly, the S.W.B. has no Juristic Personality, and as such is not competent to hold or dispose off property. It has to be treated as a departmental agency, the department being responsible for all its acts of omission and commission and responsible for removing the irregularities."

concerned with the object of ensuring that the grants have been well utilised and spent for the purpose for which they were given. Those two phases may also be termed as 'Pre-budget Scrutiny' and 'Post-budget Vigilance' on expenditure.

Pre-Budget Scrutiny

The extent of scrutiny in the Pre-budget stage is dependent on the nature of the grant. In certain cases, grants are prescribed in 'Statute' and in other cases they are of an *ad hoc* nature. Where they are prescribed in the Statute, the scrutiny by its very nature is limited. Where 'grants' are of an *ad hoc* type, the extent of scrutiny is larger and more elaborate. The procedure of scrutiny runs on the same lines as the scrutiny of any other 'estimate' (described in Chapter II). Briefly, the procedure of scrutiny may be stated thus. The grant-receiving institutions send their estimates to the government some time in November when the Budget for the ensuing year is under preparation. Like the estimates of the government departments, these estimates are based on past experience, future expectations and special programmes, if any, proposed to be included in the coming Budget. The main issues of examination for the government at this stage are to assess the actual requirements of the body with reference to the programmes offered, etc., and its managerial capacity to spend the amounts. However, no assessment is possible except on the basis of its experience of the institution. To enable itself to have a clear perspective of the abilities and requirements of the institution, the government insists on[4] "having an audited statement of the accounts of the body or institution concerned", which would enable it "to see that the grant-in-aid is justified by the financial position of grantee and to ensure that any previous grant was spent for the purpose for which it was intended". In the case of small institutions which cannot avail of the services of the auditors, the audited statement of accounts is not insisted upon, and "the sanctioning authority may exercise its discretion of exempting any such institution from the submission of accounts audited in this fashion".

[4] General Financial Rules, Vol. I, para 207(3), p. 65.

On the basis of these statements, the Department concerned is expected to estimate only for such an amount as is likely to be expended during the year.[5] Defective estimates may lead to surrenders and non-utilisation of grants, shortages on one hand, and a partial fulfilment of the needs of the grant-receiving body on the other hand. Thus, a proper estimation of the requirements in cases other than those where grants are pegged to specific purposes and where the cost aspect of the purpose and programme are calculated in great detail, is a delicate and difficult exercise. However, this process of studying the past history and the background information of the grant-receiving body with a view to fixing up the grant, may not always be helpful in certain cases. The utility of this process of examination is restricted in the case of bodies whose functions cover a wide range and are not static. Where the grant proposed is in respect of an altogether new activity, such an assessment is rendered difficult. Besides, the past of an institution can be of little guidance in judging its new activities. Further, in cases where grants are given to 'Arts' councils, the applicability of the normal methods of estimation is limited. In fact, in Britain the Treasury receives the assistance of an "assessor' in fixing up grants to the 'Arts Council.'[6]

Post-Budget Vigilance

A grant settled through all this rough and tumble is then included in the Budget and after acceptance by the Parliament,

[5] In certain cases, very few indeed, this canon is abandoned and grants are made in excess of the requirements. See, for example, Annexure XIII, Volume II of the 15th Report of PAC 1954-55. The Education Ministry, which has made certain payments in excess of requirements, have justified such payments as they considered strict adherence to the rules in certain cases would have defeated the very purpose of the grants. The Ministry stated that in 'genuine and unexceptional cases' a deviation from the prescribed procedure of the General Financial Rules may not be considered an irregularity, provided always that the necessity of such a deviation has been carefully examined and concurred in by the rule making authority." p. 53. Cases of this type are likely to occur where the government is more anxious than the grantee for the development of certain fields.

[6] J. W. Grove, "Grants-in-aid to Public Bodies"—1952, *Public Administration.*

an expenditure sanction is issued by the appropriate Ministry, putting the amounts at the disposal of the grantee. The expenditure sanction may be issued for the entire amount or a series of sanctions may be issued over a period for each instalment of the grant. This procedure depends upon the fact whether the entire amount is to be given in a single instalment or in a number of instalments over the year. The expenditure sanction so issued specifies "clearly the time limit within which the grant is to be spent, and also the object for which it is given and the conditions attached, if any, to the grant". The intention behind this procedure is to ensure that there is at no time an accumulation of balances with the recipient and that only amounts which do not exceed the requirements are given. The specification of the objective in the sanction is helpful in assessing,[7] at a later date, the performance achieved from the grant. A phased programme of grants or the paying of a grant in instalments is equally helpful in modifying the amount of grant or in short issuing the future grants in case utilisation of the first grant has not been satisfactory. These sanctions have two implied conditions,[8] (*i*) that the grant will be spent upon the object within a reasonable time, and (*ii*) that any portion of the demand which is not ultimately required for expenditure upon that object shall be duly surrendered to the government.[9]

After the issue of the sanctions, the important concern of the administrative department is to ensure that the amounts given are spent for the purpose for which they are given. But in ensuring this objective, any exercise of detailed control on the

[7] It is necessary that this expenditure sanction is always issued early, as otherwise the utilisation of the grant is affected. The Estimates Committee recommended (24th Report) that a suitable time limit of two months for issuing expenditure sanction should be laid down.

[8] General Financial Rules, Vol. I, p. 66.

[9] The UK experience is slightly different. There, a grant-in-aid is considered as exempted from the condition that the money must be expended within the financial year. (Notes for the Use of Accounts Branches of Government Department, p. 7. Fourth Edition, HMSO) Durrell observed on the aspect thus (p. 200): "When money is voted as a grant-in-aid, Parliament dispenses with the condition that any amount issued to the grantee but not finally expended within the financial year shall be surrendered."

organisation is avoided as to do so would be contrary to the object of using a grant-aided body[10] for the specific purpose. Thus, post-budget vigilance essentially consists in the operation of an administrative machinery, which can render the grants accountable without subjecting the grant-aided bodies to a detailed control of the department in respect of its expenditure. The accountability is ensured through the following methods: (*i*) The grant-aided bodies are required to submit progress reports. These periodical reports indicate the expenditure on each of the objects as detailed in the scheme for which grants are given, and are helpful in noticing the variations either in the cost of the scheme or in the scope of the plan in its implementation, and also in ascertaining unauthorised diversion of funds for other purposes. (*ii*) Inspection of the grant-aided bodies by the officers of the Ministry in order to report on the progressive utilisation of the grant, and (*iii*) Representation of the Ministry on the management of the grant receiving bodies. (This is generally resorted to in case of institutions where the entire or a major part of the expenditures are borne by government or in the case of institutions, where the distinction between private finances and government grants in its total budget is hardly noticeable.) Such representation enables the Ministry to obtain first hand information regarding the management of the affairs of the grantee, as also to shape the policies to be followed by the institution.

These procedures which have been in operation for quite some time, have been revitalised with the recent implementation of the recommendations made by the Estimates Committee in its 55th[11] report. The Committee, emphasising the need to review the benefit that accrued out of these grants, as also to realise the actual use to which these grants are put to, suggested that the "concerned administrative Ministry should obtain annually a performance or achievement report from the grantee in respect of each grant, and with the assistance of some leading officials interested in the object of the particular grant review annually its utilisation so as to regulate the payment of grants-in-aid in

[10] Treasury Memorandum to the UK Select Committee on Estimates—2nd Report 'Grants'. This is true in the Indian context also.

[11] 'Department of Expenditure', p. 7, 1959.

future". The Committee also suggested "that a review on the utilisation of the grants-in-aid specifying in detail the achievements vis-à-vis the amounts spent should be included in the annual report of the Ministry concerned". The acceptance and implementation of these recommendations have greatly enhanced the objectives of control. It should, however, be recognised that control, in these matters, is essentially a 'review' of the achievement with a view to regulate the future grants on the basis of the past record. The grants, during an year, would be susceptible for such regulation only if the grants were divided into instalments payable on different dates. Thus a phased grant system has certain more advantages over a lumpsum block grant inasmuch as the former enables a stricter control even during the year, while the latter's utility is confined to its being merely a guiding point to the future. A phased programme of payment of grants is therefore preferred generally to the lumpsum grants.

The procedure of review is, however, different in the case of local development works, undertaken under the aegis of the Community Development, where grants are given to the village Panchayats and other voluntary agencies. Those are only accountable through the local fund audit conducted by the State Accountant General. The progress in respect of schemes is conveyed to the Central Government by the State Governments through detailed statements and quarterly reports. The State[12] governments have their own agencies—liaison officers, etc., to review the progress made by the agencies. However the addition to the number of channels—voluntary agency, State Government, Central Government—make the review at Central Government level ineffective and even unrealistic. The remote situation of Central Government, and the absence of an intimate contact with the voluntary agency are factors which liberally

[12] It has been noticed by the Estimates Committee (24th Report, p. 10) that the Ministry of Education were dealing directly with the applications of individual private institutions. The Committee suggested an increasing utilisation of the expertise of the State government in this matter and also recommended that the "Centre should invariably inform the State governments concerned of the extent and purpose of assistance given to such institutions."

contribute to the ineffectiveness of the review. An important factor which helps the Ministry in assessing the performance of these agencies is the certificate given by the Audit Officer to the effect that the grant has been utilised for the purpose for which it was given.

Grants to Corporate Bodies

It has been indicated earlier that specific bodies, with or without a corporate status, are created by various Ministries to render specific services which would otherwise have remained unrendered. The control on these bodies, both in the pre-Budget stage and the post-Budget review, follows the same trends as are found in the case of corporate bodies, which enable the government to be more intimate with the corporate body without trenching on the autonomy of that body. The autonomy of these bodies, as in any other case, consists in the management of their own revenues and in administering a given policy. However, as a major part or the entire revenues of the corporate body owe their origin to government, it is natural and proper that the government keeps itself in general awareness of the activities of the body with a view to take necessary remedial action, if required. What the UK Treasury has stated in a different context, is applicable in this case also. The UK Treasury observed: "Where the contribution made is small in comparison with the proportion put up from outside resources, a lighter control is more appropriate than in cases where almost all the finances are provided from public funds."[13] The control in these cases is ensured, in addition to the general methods enumerated in the preceding paragraphs, through the following means. (*i*) The powers of these bodies in regard to the creation of high level posts (Rs. 2,000 and above per mensem) have been deliberately limited. The creation of such posts can be undertaken only with the prior approval of the Ministry concerned. (*ii*) Generally, there is nomination of government representatives on the governing bodies of the institution. The representatives may be either from the Ministry of Finance or from the concerned administra-

[13] 2nd Report of the UK Select Committee of Estimates on "Grants-in-aid".

tive Ministry. (*iii*) The submission of audited statements c accounts and the budget estimates for the ensuing year to th government. (*iv*) These bodies are, as a convention, audited b the Comptroller & Auditor-General. In the case of a few orga nisations, the following further safeguards also exist: (*i*) th prior approval of government is to be obtained for large scheme of capital expenditure exceeding certain specified limits (*ii*) certain powers are retained by the government to issue directions to these organisations in regard to some matters; and (*iii*) the government also retains a right to inspect these bodies. Though these controls are generally acceptable to all, two of them relating to the nomination of representatives on the governing body of the institutions and the right to issue directions, are likely to be controversial and have in fact been much debated.

The question of government nomination on these corporate bodies is one which is rather complicated and for which there can be no definite answer, for any answer is a reflection of a point of view which has its own rationale, logic and reasoning. All the same a few answers have been supplied. On the one hand, it is argued that nomination of government representatives on these bodies would reduce them to the status of an extended wing of the secretariat. On the other, it is argued that senior officers of ministries, who are concerned with advising government on matters of policy, should not be associated with the day-to-day execution of the policy, for such a combination of different functions is more likely to result in the blurring of responsibilities, in the maintenance of a split personality and consequent indecision. This point of view has been repeatedly emphasised by the Estimates Committee in most of its reports. The same Committee, however, took a different point of view in its 15th Report[14] and recommended that a representative of the Ministry of Finance should be nominated on the Management Board of the School of Town and Country Planning, as the institution is solely managed on government contributions. This recommendation was made despite a statement by the

[14] 15th report—2nd Lok Sabha, p. 24.

These views were expressed in regard to the government's relations with public enterprises. The above is an extension of the committee's reasoning, in respect of 'grant-aided bodies.'

representative of the Ministry of Finance to the effect that it was not their policy to nominate representatives on such boards.[15] A different point of view can be that the nature of the bodies set up for these specific purposes should be that of an advisory body or a departmental committee with a government officer as a chief executive officer under the control of the Ministry. Such an arrangement is likely to thwart the very purpose of setting up these bodies, and it would appear to be advantageous to prefer a system of having corporate bodies with a degree of autonomy while retaining some essential powers in the government, rather than choosing the risky alternative of converting every wing of activity into an arm of the government. A departmentalised administration in these fields may be a poor substitute to a flexible and autonomous body. Policy making is the forte of the government and it is undesirable to delegate these functions to other subordinate agencies. It is inevitable also, in the case of bodies wholly financed from government grants, "that there must be some degree of interference by the Treasury and the parent department in the policy of that body".[16]

A related aspect of these questions, is one concerning the control exercised by these corporate bodies on the grants given by them to other subordinate agencies in the field. These corporate bodies are big in themselves and in their own turn give grants to other agencies or other institutions who require such grants, e.g. the University Grants Commission gives grants to the universities and the Social Welfare Board to the voluntary agencies. There are many other similar bodies who disburse grants to other agencies. While the control of government is confined to the grant-receiving body only, the objective of control in the corporate body extends far beyond to reach the final grantee. Thus, the control by the corporate bodies on these agencies is as essential as the control of government on these bodies.

The control by the corporate bodies runs on much the same lines as the government's. But the process of control is more elaborate[17] and is channelled through long and detailed codes

[15] P. 24, *ibid.*

[16] J. W. Grove, "Grants-in-Aid to Public bodies"—1952, *Public Administration.*

[17] In certain cases, it was found, that the corporate bodies had no

which lay the criteria for receiving grants, conditions to be fulfilled before the release of the grant and submission of progress reports, etc. For instance, the Central Social Welfare Board and the UGC have elaborate codes in this respect. The application of these codes helps in determining the total amount of commitments in the form of grants in a given year, and in ensuring that the commitments so entered into are fulfilled economically and that the total commitments have not been exceeded.[18] The control exercised by these corporate bodies supplies an essential link and supplements the control by the government.

It is proper at this stage to study the impact of the grants on the private charity. An increase in the number of grants and in their magnitude is likely to result in the private contributions receding backwards. While this tendency cannot be treated as a strict 'law', yet experience confirms the prevalence of such a tendency. The government grants seem to make the people rely more and more on government for more and greater grants, rather than to explore the avenues of private charity. The PAC of UK remarked in its 3rd report "that there is a tendency for government assistance to result in drying up rather than in stimulating voluntary financial effort". These opinions have been further echoed by the Indian Estimates Committee who, following the lead of the UK PAC, have in their 24th report stated, "in fact the grant-in-aid should provide for a stimulus for voluntary contribution and not dry it up".

It is, however, lamentable that even in those cases where government grants are given on condition that private efforts should be pooled to a specified extent, the experience has been wholly disappointing. As for example, in the case of the Central Social

machinery of their own to know the progress and evaluate the achievements. For example, the Estimates Committees in its 5th Report recommended that the Natak Akademy should have machinery to watch the implementation of grants given by it (such a machinery did not exist before), p. 9.

[18] Notwithstanding these codes, irregularities do happen. The incidence of such irregularities may be ascribed to a faulty implementation of the rules rather than to the system. The 1957 Audit Report (p. 70-2) cites many instances of defective control over release of grants-in-aid to voluntary welfare institutions and their utilisation by the Central Social Welfare Board.

Welfare Board, "In 1954-55, out of an expenditure of Rs. 7.33 lakhs the projects raised Rs. 1.88 lakhs from the public in cash and kind; this was 25 per cent of the total expenditure." In as many as 77 of the 17 projects, however, for which audited accounts were available, there was no contribution[19] from the public as required in terms of the grant with the consequence that "the basic principle of self-reliance which was regarded as essential to the success of the projects was ignored in starting many of the projects".[20] In these cases it became inevitable for the government to finance the schemes, for essential projects should not be stopped on the ground that private donations were not forthcoming. This is one of the economic compulsions in a developing economy; on the other hand, continuous and extended application of this system may result in making public reliance on government excessive. It is needless to say that such a situation is unwelcome. How should this voluntary effort be stimulated? What is the extent to which governmental grants should go? These are some of the questions to which answers have not been attempted here, for the answer lies not in the administration of government or in pegging the grants to an equal-matching voluntary effort but on the attitudes, behaviour, social awarenesses, economic capacities and above all, on the innate urge to contribute to the public good of a nation.

Contributions to International Organisations

As stated earlier, another important channel through which the government's grants flow is their contributions to the various international organisations of which the government is a member. Payment by the respective member governments is called a 'contribution' as distinguished from a 'grant'. In the case of the former it is obligatory on the part of its members to pay their subscription, while in the case of the latter it is always discretionary. The contributions from the government to these bodies generally vary with the nature of the organisation and with the policy of the organisations. In some cases the amounts payable

[19] Audit Report—1957, p. 69.
[20] *Ibid.*, p. 70.

are fixed and in others they vary depending on the programme of the agency concerned.

These contributions have been increasing steadily during the last five years. In 1955-56,[21] the principal contributions amounted to Rs. 1,37,27,971. During the same year contributions of less than Rs. 1 lakh but exceeding Rs. 20,000 aggregating Rs. 2,32,009 were paid to 6 other international organisations. During 1957-58[22] the principal contributions amounted to Rs. 1,60,92,229 while contributions of less than Rs. 1 lakh but exceeding Rs. 20,000 aggregating Rs. 3,40,064 were paid to seven other international organisations. During 1959-60 the total[23] amounts paid in the form of contributions (including annual subscriptions) were Rs. 2,01,99,000. These amounts have since been showing a rate of increase.

The increases in the amounts paid to the international organisations do not any more increase the need for greater control than does a stable expenditure; nor can a decrease in the amounts reduce the magnitude and dimensions of the control. The tendency for an increase is perhaps inherent in the activities of the international organisations and the preceding statistics have been given to illustrate this aspect.

The estimates of contributions to these organisations are not susceptible to close scrutiny, for the amounts are generally fixed, and where there are variations, the variations are dependent on the changes in the scope of the budget of the organisation which should have already been approved by all the members. The contributions, so fixed, do not lend themselves for any control. Once the pro-rata contributions are fixed by the organisation they will have to be paid by the member countries. The alternative for the Ministry is either to accept the policy of the organisation concerned and pay it on its terms or if it is not satisfied with the performance of the organisation, it may cease its membership. It cannot call for any progress reports, as it does in the private and corporate institutions and will have to rely on the periodical deliberations of the organisation and the progress reports published of its own accord. Thus the

[21] Audit Report—1957, p. 65.
[22] Audit Report—1959, p. 63.
[23] Explanatory Memorandum to the Budget, 1961-62, p. 271.

control in the case of international organisation is almost insignificant and in this respect it presents a contrast to the other institutions which receive grants from government. There is, however, one similarity. Both the international organisations and the other institutions offer their programmes in advance and it is only on the basis of these programmes that the government becomes either a member of the organisation or decides to give a grant to the body. The difference between the two arises mainly in respect of post-Budget vigilance. Since these international organisations are a form of government in themselves, the control by the member governments becomes limited. But each government keeps itself abreast with the latest developments in the activities of these organisations through its own representatives on the Board of the organisation concerned.

This comparative administrative complacency which is almost inherent in the system is apparently not acceptable to all. As for example, the Estimates Committee recommended that in regard to such payments (payments to international bodies) also, the administrative ministry concerned should attempt a periodical review of the benefits flowing therefrom in its annual report.[24] Such an inclusion of benefits, in the annual report, will indeed explain the utilisation of the contributions made by each department. But in the assessment of the benefits three factors are to be recognised: (*i*) The benefits may not always be commensurate with the amount of the contribution. An application of the rule that benefits should strictly be in accordance with the amount of contributions would in the international sphere only result in the maintenance of existing inequalities and under-development. The application of this principle would also result in the richer countries (for they contribute more) getting more benefits. Such a principle is hardly conducive to the ideal of economic development of the under-developed nations. (*ii*) In certain cases, it may not be possible to quantify the benefits from a contribution. As for example, the contribution of a specific amount included in the 'Demands' for grants of the Ministry of External Affairs for United Nations Emergency Force can hardly be said to be resulting in a benefit to the

[24] 55th Report—April 1959, p. 8.

contributing country. Contributions in these fields are based more on the objectives and policies of the government concerned, rather than on the 'benefit' principle. (*iii*) Activities of certain organisations are confined to certain areas (e.g. malaria control). Such limitation of activities to specific zones leads to a situation where most of the countries may not derive any benefits.

These factors are important in enumerating and in assessing the benefits. The basic truth is that contributions to international organisations are obligational payments, based more on the objectives of government than on the 'benefit' principle.

II

Financial Control

The second important aspect of 'control' is the one that is exercised by the Ministry of Finance. In the process of exercising this control the Finance Ministry supplements the control exercised by the administrative ministries. Since a part of the work of the administrative ministry is done through the Financial Adviser who is a representative of the Ministry of Finance, it is natural that financial control should intermingle with administrative control.

Up to 1958,[25] the administrative ministries were not delegated any powers in respect of grants-in-aid even when provision for the purpose was made in the Budget. Grants could be given only with the specific concurrence of the Ministry of Finance. This position underwent a change in 1958 when revised arrangements for budgeting and financial control were introduced and enhanced delegation of financial powers made.[26] Under the newly delegated powers, the administrative ministries were given full powers to sanction grants-in-aid provided that the patterns of assistance, the rules and principles governing the grants have already been approved[27] by the Ministry of

[25] 'Book of Financial Powers'—1952—GOG

[26] See Chapter IV.

[27] Such approved patterns exist in the case of Ministries of Health, Education, Scientific Research and Cultural Affairs, and Community Development.

Finance. Where, however, there is no such approved pattern grants can be given only after they have been approved by the Finance Ministry. The delegation of powers to administrative ministries did not dispense with the control of the Finance Ministry; on the contrary, it increased the responsibility of the Ministry of Finance at the pre-Budget stage.

The control by the Finance Ministry may, like the administrative control, be analysed from two angles: (*i*) Pre-Budget scrutiny and (*ii*) Post-Budget responsibilities.

All proposals received by the administrative ministries for grants-in-aid are included by them in their Budget estimates and these Budget estimates in their turn are presented to the Ministry of Finance for their acceptance. At this stage, the Finance Ministry is concerned with the size of the grant and the policy of the grant and like the administrative ministries it tries to ensure "that the object for which the grant was proposed was a proper and valid object and that the grantee deserved the grant".[28] In order to acquaint itself with the purpose and object of the grant, as also its likely beneficial utilisation, the Finance Ministry studies "the position of the institution and its past records, etc."[29]

After such a scrutiny and having regard to the availability of resources, necessary amounts are provided in the Budget. The amounts so included in the Budget can be sanctioned as grants-in-aid by the Ministries without any further reference to the Finance Ministry, if such grants fall within the scope of the 'approved pattern of assistance' and where it is not so, it can be sanctioned in consultation with the Ministry of Finance.

The post-Budget responsibilities are essentially a part of the duties of the concerned administrative ministry. But in the performance of these functions the administrative ministries consult the Ministry of Finance. As for example, creation of high level posts in the corporate bodies, variations in capital expenditure, or in a case where the grant has to be spent for a purpose other than the one for which it was originally intended to, or when a reappropriation has to be made to provide for

[28] 55th Report of the Estimates Committee, p. 7.

[29] Minutes of Sittings Relating to Fifty-fifth Report of the Estimates Committee, p. 17.

an increase in a grant which was not foreseen earlier are matters which require consultation with the Finance Ministry. In addition to these regular contacts, there are certain specific issues in which the Ministry of Finance is interested and about which it ascertains the correct position from the Ministry through its representative accredited to that Ministry. These issues are: (*i*) utilisation of the grant and timely surrender of unutilised portions; (*ii*) variation in the issue of grants with variations in the progress of the schemes; and (*iii*) maintenance of the assets created out of government grants. As indicated earlier, one of the implied conditions of grants is that the unutilised amount should be surrendered to government. Such surrenders may still occur despite an accurate estimation of the grants. The Finance Ministry ensures from the administrative ministry whether such surrenders, if any, are made or not. The budgetary aspect of surrenders is supplemented by equal care and attention in regard to the utilisation aspect also. (It is, however, primarily for the administrative ministry to satisfy itself regarding the utilisation). The Ministry of Finance also tries to ensure in the cases of phased payment of grants, that an instalment of the grant is released only after the first instalment has been completely utilised. The obejct of control as stated earlier, is to ensure that there is no accumulation of reserves by the grant-aided bodies. Thus the payment of grants, or the 'cash issues' of grants, are always watched by the Ministry of Finance with a view to ensure that the grant-aided bodies do not, at any time during the year come into possession of large funds in excess of their requirements. The third aspect of this control is in regard to the maintenance of the assets created with or from the grants made by government. It is quite natural that a number of assets are created by the grant-receiving body. The review of achievement by government, as indicated earlier, is confined to the utilisation of grants only. But it is equally important to ensure that the assets created out of the grants-in-aid, are not squandered or misused. Keeping these aims in view, the Ministry of Finance has recently institutionalised the pattern of maintenance of assets and governmental control over them. Under this procedure there would be provision for the maintenance of an audited record of all assets acquired "wholly or substantially

out of government grant." It has also been laid down that "in respect of grants to non-government or quasi-government bodies or institutions," a condition may be laid down that the assets should not, without the prior sanction of government, be disposed of, encumbered or utilised for purposes other than those for which the grants were sanctioned.

It would thus be apparent that by and large the financial control acts as an essential supplement to the administrative control and while so functioning it probes deep into certain fields which are imperative to the efficient maintenance of government property.

III

Audit Control

The main purpose of the audit undertaken by the Comptroller and Auditor-General in this respect, is to ascertain whether the money expended has been applied for the purposes for which the grant was given, and whether the unutilised amounts have been returned to government at the end of the financial year or not. This process of control is useful in estimating and assessing the actual utility of a grant-in-aid. The usefulness of such audit in moulding and directing the future policy hardly requires any emphasis. This audit control may be studied in two different stages: (*i*) process of audit control up to the end of 1956 and (*ii*) since the beginning of 1957.

The year 1957 marks an important change in the scope and nature of audit control in respect of grants.

Up to 1956, this consisted of the audit of (*i*) the original grant itself,[30] and (*ii*) the expenditure subsequently incurred from it by the grantee. The audit of the original grant received the same attention as any other expenditure from the consolidated fund. It mainly consisted of an examination to ascertain the extent of observance of rules and regulations that govern the expenditure[31] from the consolidated fund and in respect of grants-in-aid, in ascertaining whether the expenditure sanction

[30] See Article 193, *et. seq.* Audit Code, Vol. I.
[31] See Chapter X.

was issued by the proper authority, and whether the conditions like the scrutiny of the audited accounts of the grantee prior to the issue of the grants have been performed or not. The second aspect is concerned with an examination of the utilisation of the grant, i.e. the expenditure incurred from out of the grant. The verification by audit in this regard is dependent on the nature of the grant, whether it is conditional or unconditional. In case of conditional grants, it is the responsibility of the audit to ensure that the grants were expended only on the purpose for which they were given. Where no conditions are attached the audit is in no position to comment on the manner in which the grant was spent. To obviate this difficulty the audit mainly relied on the method of obtaining a certificate from the concerned Ministry to the effect that the grants have been utilised for the general purposes for which they were given. This certificate, which is required to be given at regular intervals, is admitted in audit. Before recording this certificate, the Ministry is expected to satisfy itself regarding the proper utilisation of the grant. The certificates given by the administrative departments, though generally admitted in audit, are at times submitted to a test check[32] with a view to examine the adequacy of the procedure observed for obtaining the assurance on which the certificate is based. Thus, the audit until 1956 remained essentially dependent on the certificates produced by the administrative authorities. This procedure had undergone some change in 1956[33] during which year increasing stress was laid on providing an independent means to the Comptroller & Auditor-General in order that the grants, especially in those cases where they form the bulk of the revenue, are spent for their intended purposes. A realisation of the need for an independent check resulted in the evolution of a new system initiated into practice in January 1957. According to this procedure "grants-in-aid in excess of Rs. 1 lakh per annum recurring and Rs. 5 lakhs non-

[32] Audit Code, Vol. I, Article 193 (C).

[33] It is significant to realise that developments of this nature have taken place, a few years earlier in UK in 1951. On a suggestion by the PAC, the Treasury conceded that where the grant forms the bulk of the grantee's income, the inspection of the Comptroller & Auditor-General should be accepted—J. W. Grove, *op. cit.*

recurring should normally be sanctioned by the competent authorities with the specific condition laid down in the sanctioning orders that the accounts of the institution receiving the grant should be open for a test check by the Comptroller & Auditor-General at his discretion." This procedure opened new horizons in audit control and the comparative low ceilings of grants indicated in the revised procedure brought a major section of the grant within the control of the audit. This device of test audit "is a compromise between full authority by the Auditor-General and no kind of inspection of the accounts at all."[34]

The audit exercised by the Comptroller & Auditor-General may be analysed under the following further heads:[35] (*i*) Bodies which receive grants-in-aid from the government but which account in detail to the Comptroller & Auditor-General. In this category may be included the various universities and other corporate bodies which were set up by the government. In entrusting the audit to these statutory bodies, enough care was taken not to impinge on the autonomous character of the institutes as conferred upon them under various statutes. In these cases where provisions relating to audit were not specifically included in the statute, the question of accountability and audit were conveniently solved by making consent audit arrangements with the Comptroller & Auditor-General—a process which consisted in the autonomous bodies themselves asking for the audit arrangements. In certain cases, where possible, a specific provision to the effect that the audit would be done by the Comptroller & Auditor-General, was incorporated in the statute. An instance is the Indian Institute of Technology, Kharagpur Act of 1956. Similar arrangements exist for the UGC and other bodies as well. However, an exception was made in the case of the Indian Statistical Institute on the plea that it is a scientific institution in the evaluation of which more emphasis should be laid on the performance rather than the usual audit,[36]

[34] J. W. Grove, *ibid.*

[35] This analysis is greatly influenced by the UK Select Committee's 2nd Report—1954, p. 74.

[36] Initiating the Debate on the Bill the Prime Minister observed that audit of the type done by the Comptroller & Auditor-General is more relevant to Government administration than to scientific institutions. He

(*ii*) Bodies which do not account in detail to the Comptroller & Auditor-General but whose accounts are open to his inspection. Most of the private institutions which receive grants exceeding an amount of Rs. 1 lakh recurring and Rs. 5 lakhs non-recurring under the 1957 procedure are included in this category, and (*iii*) Contributions not specifically treated as grants-in-aid to international bodies whose accounts are not maintained by the Comptroller & Auditor-General and are also not open for his inspection. As stated earlier, contributions stand altogether on a different footing so far as control is concerned and are not comparable to the usual grants. However, information in regard to all these grants is included in a separate section in the Audit Report under two headings: (*i*) contributions exceeding an amount of Rs. 1 lakh (given in detail) and (*ii*) the total amount of grants varying between Rs. 20,000 and 1 lakh.

The audit authorities strive to reach the different corners of a grant and render accountability of grants complete. It is, however, a moot point, whether it is legally entitled to undertake this test audit at all. The functions of the Comptroller & Auditor-General,[37] as adapted by the constitutional order of 1947, are the same as those laid down in the Audit and Accounts order of 1936 and no provision was made in this order to enable the Comptroller & Auditor-General to undertake test audit in respect of grant-aided bodies. This lacuna can be avoided by bringing about comprehensive legislation, specifying the activities and responsibilities of the Comptroller & Auditor-General as desired in the constitution.

It is, however, important to note that whatever be the legality of the test audit, this audit by the Comptroller & Auditor-General has brought to light many deficiencies and, time and again, focussed the attention of the administrative authorities on the need to observe the rules and regulations more carefully. These findings of the audit have also been useful to the Public Accounts Committee of the Parliament.

added: "It is better for such institutions that the Comptroller & Auditor-General be not charged with the audit of these institutions See L. S Debates of 14th December 1959.

[37] See Chapter IX.

IV

Parliamentary Control

The control of Parliament in this respect is exercised, as in the case of other financial matters, through acceptance of estimates presented by the Ministries and then examination of the reports of the Comptroller & Auditor-General at a later stage. There is, however, one important difference that distinguishes its control on grant-aided bodies from other financial matters. These grants form an exception to the general rule that money voted by Parliament must be accounted[38] for in detail to the Comptroller & Auditor-General. But as indicated earlier no grant-in-aid is accounted for in detail. This feature is inherent in the system of grants-in-aid. Nevertheless, ways and means and procedures have been devised by which the Parliament can be appraised of the progress of work financed from the grants-in-aid. These procedures may be classified into two groups: (*i*) parliamentary discussion and acceptance of budget demands and (*ii*) parliamentary supervision through its financial committees.

Discussion

The general attitude of Parliament is that it does not welcome the principle of voting money without maintaining control over it. As such, it is generally of a conservative bent. But in the Indian context, however, this has certain limitations. In an economy which is expanding grants-in-aid both through the efforts of government and private agencies are to an extent imperative. Though the Parliament is aware of the compulsions of a planned economy, the Parliament, as a body, has been very conscious of its rights and privileges. The Indian Parliament, while on occasions[39] welcomed the grants, also insisted on a better degree of parliamentary control.

[38] The PAC of UK observed in 1896: "grants-in-aid furnish an exception to the general rule that the expenditure within the Parliamentary votes must be accounted for in detail by the Accounting Officer."

[39] See, for example, the discussions of the Lok Sabha on 14 Dec. 1959 on the Indian Statistical Institute Bill. Members of Opposition also welcomed the need for such a bill.

The 'Demands for grants' of the Ministries presented to the Legislatures, include the amounts provided for grants. These are discussed in the Legislatures, although only generally. The traditional instruments of moving 'cut motions' are equally applicable to the grants-in-aid but, more often than not, these cut motions are moved to ventilate grievances rather than to limit the supplies. In regard to the contributions to international organisations (as these amounts are not susceptible to reduction) the alternatives before the Parliament are either to confirm the decision of the Government to remain a member of an organisation by voting the subscription or to compel the Government to resign from the body by withholding the necessary funds. The discussions by Parliament at the stage of voting the supplies is a healthy step and is an extremely useful device in the hands of the Parliament in controlling the 'grant-aided bodies'. In respect of autonomous bodies which though set up by the Government but are financed by grants-in-aid, the Members are allowed to move resolutions to discuss the affairs and programmes of the grant-receiving institutions.[40]

In addition to the procedures mentioned the Parliament also exercises control in other ways. These are related more to the structure of powers of the executive and its dependence on the Parliament for supplies and the audit provisions incorporated in the statutes through which specific *ad hoc* bodies have been set up. The structure of the financial powers of the executive is such that it cannot increase, in any circumstances, the amount of the grant-in-aid by reappropriating the savings available under other sub-heads of the vote. It has to approach the Parliament for a supplementary grant. This measure restrains the executive from spending more amounts than granted. Secondly, in the case of a few institutions which account in detail with the Comptroller & Auditor-General, the audited accounts are submitted to the Parliament along with his report. These reports provide an opportunity to the Parliament to ascertain the progress made out of the grants. To enable the Parliament to discharge these functions, it is supplied with detailed informa-

[40] Such a resolution was moved once to discuss the progress of the Indian Institute of Public Administration.

tion in respect of most of the grants. For example, the details regarding the contributions to international organisations are shown in great detail in the "Explanatory Memorandum of the Budget." Similarly, when a new legislation is under way for the setting up of an institution information regarding the method of financing and the amount of grants payable from the consolidated fund is given.[41]

Control through Committees

The two financial committees of the Legislature are the Public Accounts Committee and the Estimates Committee. The Public Accounts Committee scrutinises and comments on the audit report submitted by the Comptroller & Auditor-General. As indicated earlier the audit reports, which include the results of the test check undertaken by the Comptroller & Auditor-General, serve as the basis for the examination of the Public Accounts Committee.

The Public Accounts Committee takes, as its working in the recent years would indicate, a critical attitude on the procedures adopted by the Ministries in making payments of grants-in-aid. Irregularities that occur in the non-observance of the rules and regulations are looked upon by the Committee with serious concern.

The Estimates Committee is the other Committee of the Legislature. This Committee, by its very nature, cannot go either into the accounts of the body receiving grants-in-aid or make a study of the management of the institution itself as it does in the case of the Ministries. Notwithstanding these structural handicaps the Indian Estimates Committee has made a useful contribution not in verifying whether a grant was spent

[41] The Estimates Committee (24th Report, p. 13) has recommended that in the case of recurring grants a note should always be attached to the 'estimates' stating that the grant-in-aid is a series of grants-in-aid and setting out the amount already granted and the further amount to which Government are committed. The Committee desired that a note on these lines should be included in the Explanatory Memorandum: It may be stated here that information in respect of the grants given during the preceding two years is generally included in the Budget. The grants-in-aid for the future are not always precise and therefore it becomes difficult to include the "commitments."

for the purpose for which it was intended—which essentially is a function of the Public Accounts Committee—but in devising administrative checks to ascertain the utilisation of the grants. Important among the studies made in this regard by the Committee are the 24th report, and 55th report of the second Lok Sabha. The suggestions of the Committee have already been considered in the earlier sections.

Conclusions

We have so far been concerned with a description of the system. The questions that would arise from such a study are: (*i*) Does the system ensure a smooth working? and (*ii*) Is the control adequate? The merits of the system of grants-in-aid are dependent on the answers to these questions.

The process of examining a system with a view to assess whether the machinery is operating well or not, has necessarily to consider the point of view of both those who administer and those who are administered. In other words, it should reflect the attitudes of both the parties. Viewed from one angle the attempts of the administrative ministries in taking precautions before making a grant should be considered essential and justified. It is only natural that safeguards are taken before amounts are given. But these safeguards are not always appreciated by the grantees. The grantees often allege that there is considerable delay in the issue of expenditure sanctions,[42] and that even when the sanction is issued there is considerable delay in making the grant available. Such deficiencies are likely to hamper the effective utilisation of the grants-in-aid. They have led one writer to say that "the system of grants-in-aid as it exists today does not seem to serve fully the purposes for which it is intended."[43] The generalisation is, however, sweeping, for the deficiencies enumerated are more due to other fundamental factors than to anything connected with the system of grants-in-aid. It is not a good system of grants-in-aid that is the need of hour, for it already exists. What is required is an efficient

[42] The 24th report of the Estimates Committee concedes this (p. 13).
[43] P. P. Agarwal, *The System of Grants-in-aid in India.*

working of it. Any assessment of the system of grants should take cognizance of this basic distinction.

The second question is related to the adequacy of control. The methods and process of control, described at length, offer many checks and balances and retain sufficient power in the Ministries to ensure the proper utilisation of a grant. Despite these safeguards there have, however, been many lapses. These lapses as revealed through successive audit reports are: (*i*) Grants made without verifying the capacity to spend thereby resulting in large surpluses with the grantees, (*ii*) Grants made without specific budget provision even where the new service concept was attracted, (*iii*) Unexpended grants not called back, leaving room for their utilisation for other purposes, (*iv*) Lack of evidence in many cases that the audited accounts of the grantees had been examined administratively by the concerned ministries, and (*v*) inordinate delay in the submission of the utilisation certificates to audit.

These defects again are not due to the system but due to the non-observance of the rules and regulations and should therefore be treated as lapses, more due to human failures than as failures of the system. In conclusion we may consider some criticisms that are generally levelled, viz., (*i*) that it reduces parliamentary control, and (*ii*) that the grants help the creation of 'domains' of patronage.

The inadequacy of parliamentary control in regard to the grants has been the subject of many a study in the United Kingdom. Two representative opinions of this school of thought may be cited here. Prof. Ivor Jennings has observed,[44] "The establishment of separate funds for quasi-independent authorities and fed by grants-in-aid is part of the process of taking the subject matter 'out of politics; being out of politics, being out of control'." In the same vein the Select Committee on Estimates observed: "Your Committee clearly understand the advantages existing in grants-in-aid, but they fear that as their number and size increase, so parliamentary control over public expenditure must deteriorate."[45] It added that "any slackening of this control

[44] *Parliament*, p. 339.

[45] 2nd report on 'grants-in-aid', 1954.

would be a retrograde step and might lead to abuse" and with a view to prevent this the Committee addressed itself to the task of reducing the size and number of grants. They suggested that the Treasury should exercise greater vigilance in considering new grants. These considerations are important in themselves. But they are not very relevant to the Indian conditions, the distinguishing feature being that in a developing economy an overwhelming role of the Government in all spheres is not desirable. It is this factor which necessitates reliance on autonomous organisations to render useful services. Thus an increasing utilisation of the grants-in-aid as a device for promoting development is essential. Further, the Parliament as a body is not interested in the detailed accounting. The object of parliamentary control is fulfilled through the administrative and other financial checks exercised by the administrative ministries, Ministry of Finance and the Comptroller and Auditor-General. A proper functioning of these three controls, incidentally, ensures a reasonably good parliamentary control too.

The second aspect relates to 'patronage'. It is often felt that when large grants are given they enable the Head of the institution to create a "domain of patronage." Needless to say "the basic safeguard against the waste of public funds by grant-aided bodies of this sort lies in the capacity and integrity of their governing Boards and officials."[46] But to avoid any misapplication of funds, etc., the Government ensures before giving a grant, that adequate legal provisions exist in the by-laws of the body to prevent any mishaps. For this purpose, elaborate codes and rules and regulations are required to be prepared by each of these agencies.

It would, therefore, appear that the control exercised is fairly adequate and if it errs at all, it errs contrary to the normal opinion and belief on the excessive side. The comprehensive checks and balances go to make the control more stringent than liberal.

[46] J. W. Grove, *op. cit.*

Chapter Eight

ASPECTS OF EXPENDITURE POLICY

"Would you tell me, please, which way I ought to go from here?" asked Alice.

"That depends a good deal on where you want to go to," said the cat.

THE PRECEDING CHAPTERS were concerned with a description of the administrative machinery employed to control the finances and the various methods used by them for such control. This chapter is devoted to a study of the expenditure policy of the Government—the problems faced at different stages by the government and the ways devised for tackling them. A major part of the study is devoted to problems that arose after independence. To ensure continuity in the study and to provide a background against which the present policy can be better appreciated, certain landmarks in the expenditure policy of earlier periods are also considered. These landmarks are related to the problems that cropped up during the early years of the history of Indian financial administration. The study is broadly divided into three parts: (*i*) the characteristics of Indian public expenditure; (*ii*) the course of policy; and (*iii*) a perspective for expenditure policy.

Indian Public Expenditures: Characteristics and Growth

A basic principle observed by every individual in spending his monetary resources is to ensure that the utility derived from every rupee spent by him is the same. His resources are so apportioned among different goods as to give him the same marginal return for all of them. It is generally known that in the case of individuals (private finance) their expenditure is limited by their income. These considerations, however, do not hold good in the case of 'public finances' or governmental finances.

The financial administration of a country is carried on by a group of officials (civil and political) who have their own judgments for every public expenditure incurred. The operation of 'public expenditures' is the result of a series of 'value judgments' arrived at by these officials. The government 'expects them' to exercise the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of expenditure of his own money.[1] Though this general principle is helpful as a guiding star, it is not always possible to exercise the same prudence—prudence based on the marginal utility theory in all public expenditures. The individual, in the process of making a comparison of the different utilities derived from a rupee spent on as many commodities, is helped by the normal market mechanism. In the government, however, the process is quite different. Primarily, the decision-making process of a government is essentially political and the government by virtue of its coercive powers always enforces the decisions it has made. Secondly, the absence of precise market values renders the assessment of the merits of each public expenditure difficult; besides, the measurement of utility of each expenditure in a government is also impossible. A complete balance of such equi-marginal satisfaction may be possible only when "a community were literally a unitary being with the government as its brain".[2]

The governmental expenditures are incurred in accordance with a set pattern of objectives—a pattern which reflects the social and economic needs and requirements of a community. These needs which are reflected in the objectives of a budget grant are translated into action in the form of programmes, plans and schemes. The objectives of a budgetary grant of an expenditure programme may not always be the exact reflection of a community's wishes and demands, and quite often they might be the result of a compromise arising from conflicting political forces. It is the interaction between the political and social processes of a country that define the range and character of its national objectives. The objectives so arrived, may not

[1] General Financial Rules, sub-para (i) of para 10, p. 3.
[2] A. C. Pigou, *A Study in Public Finance*, p. 31.

always be implemented in the same form. They are liable to undergo certain changes in the process of decision-making and functioning of government. The decisions of the government are, in certain fields, made in an atmosphere of uncertainty. For example, foreign policy and defence are some of the fields where generally the unpredictable happens. Further, the decision-making process of government is itself a complicated one, involving different levels in a hierarchy. Government decisions, as indicated earlier, are the product of an organisational machinery where each level carries a particular degree of responsibility. There are certain important factors to be recognised in the process of decision-making, such as (*i*) expertise, (*ii*) communication and responsibility.[3] The expertise consists in the measurement and comparison of alternative public outlays; the communication function, in hearing the views and the representation of different groups; and the responsibility function, in testing the realism of proposals in relation to the requirements of these groups.

In the Indian governmental system, the first function is performed by the civil service, and latter two functions by the political executive. All these elements merge in the process of making a decision and together they give rise to a decision based on the values thrown up by an integration of expertise, communication and responsibility. In this process of decision-making "facts and values are no longer compartmentalized; facts shape values and values shape facts."[4]

The objectives of public expenditures are always determined by the existing requirements of the community and the political ideology of the party in power. Experience in this regard is complete. For example, during the early years of the 18th century when *laisser faire* was the slogan of the day, public expenditures were treated with positive contempt. They were considered to be unnecessary and were deemed to be at the expense of private spending. This philosophy yielded its place in due course to another. With the growth of an ideology which pleaded for a positive interference and extensive control by the

[3] Jesse Burkhead, *Government Budgeting*, p. 56.
[4] *Ibid.*

State, a new light was shed on public expenditures. The subsequent occurrences of economic fluctuations and frequent 'depressions' brought to light many aspects of public expenditures which were not hitherto given any attention. Each one of these stages has had its influence and impact on the nature and course of public expenditures. But, by and large, the expenditures were moulded, shaped and guided by the economic requirements, contemporary social philosophy, and the political ideology of the government. Notwithstanding the obvious differences between the objectives of public expenditures in one period and another a general pattern of the objectives of public expenditures can always be formulated.

It is important, however, to recognise that specific situations always require specific objectives and more specific remedies. The formulation of a specific objective can always be done by applying the general objectives to specific purposes. The general objectives are: (*i*) to provide a minimum of certain services for the physical, social and economic security of the nation; (*ii*) to promote the most effective utilisation of human and other resources; (*iii*) to protect the welfare of the majority even where certain public expenditures are devised to further the welfare of a particular class of people; and (*iv*) to stabilise the factors that shape the economy of a country.

Growth of Expenditure

The implementation of these objectives during the last century has led to a tremendous growth in public expenditures in almost all the countries. A statement of the factors that led to an increase in expenditure is in order at this stage.

Adolph Wagner, the famous German sociologist, stated in the later part of the 19th century, after making a study of public expenditures of many nations, that the activities and the functions of governments were regularly increasing. He called this tendency, the 'law of increasing activity'. This increase in expenditures, though primarily due to urbanisation and industrialisation, was the result also of the constant addition of new functions and the more efficient and complete performance of both the old and the new functions. This law in fact indicated the future trend of public expenditures.

The expenditures of the period that followed reveal a consistent and secular trend of 'increase'. These increases in public expenditures during the last two decades were the results of different forces working in multiple directions. The main factors, however, were[5]: (*i*) the expansion of public wants (*ii*) the rise of the 'modern state' with its emphasis on service to the citizens; (*iii*) the two global wars which proved to be costly and continuous international tensions; (*iv*) the rapid growth of population; (*v*) the impact of the industrial and social revolutions of the 19th and 20th centuries with the resultant emphasis on new efforts at social progress; (*vi*) the rising levels of public consumption; (*vii*) the direction of public expenditures towards economic development and stability; and (*viii*) the rising prices.

All these factors are equally discernible in the Indian public expenditures also. The gradual change of attitudes in the foreign rule from a stage when they were primarily concerned with the maintenance of law and order to the setting up of famine relief funds, construction of irrigation projects (though obviously for the purpose of increasing the revenues thereby) and eventually to a stage where increasing expenditure on social services like education, medical amenities, etc. were spent conclusively indicates the pattern of the growth of Indian public expenditures. Finally, the replacement of a foreign rule by a democratic government wedded to a policy of economic reconstruction has led to a significant change in the direction of public expenditures.

The term Indian public expenditures broadly refers to the expenditure of the Central Government, provinces[6] and princely states, etc. However, the data given in the following paragraphs are related to the Central and State governments only. The trends of Indian expenditures can be better analysed by dividing them into four phases, viz. (*i*) trend of expenditures up to 1922; (*ii*) between 1922 and 1936; (*iii*) during and after the Second

[5] See the author's review of Francis Bator's book in *The Indian Journal of Public Administration*, Jan.-March, 1961, Vol. VII, pp. 116-17.

[6] After independence, and especially after the States reorganisation in 1956, these units of administration were reorganised into three distinct units: (*i*) Central Government, (*ii*) Union Territories and (*iii*) State governments.

World War and up to independence; and (*iv*) post-independence period. An almost similar division of periods is also adopted for reviewing the expenditure policy of government. At this stage, the study is concerned only with the direction and composition of expenditures during the above periods. No attempt is made here to discuss these periods exhaustively. The classification of the past into these periods helps a proper understanding of these issues. What is attempted here is a picture of the 'tendencies' over a century and a general 'running commentary' of the salient features of the expenditures all through these few phases.

The following table gives the different categories of expenditure, as also the amounts spent under each category of the Central Government for four decades after 1890.

TABLE I

(in lakhs of rupees)[7]

Expenditure	1891-92	1901-02	1911-12	1920-21
(*i*) Debt Services	3,60	1,73	88	12,07
(*ii*) Military Services	23,58	24,24	29,33	87,33
(*iii*) Collection of Revenue	5,90	6,77	9,57	16,09
(*iv*) Commercial Services (Rly., Irrigation, P & T)	1,34	—Shown as Net Revenue only.		
(*v*) Civil Services	21,25	21,83	36,81	52,59
(*vi*) Famine Relief	1,26	1,32	1,50	1,50
(*vii*) Provincial adjustments		1,48	1,45	86

It would be observed from the above table that the important items which occupied a larger share in the total volume of expenditure were the Military Services, Debt Services, and Civil Services. The amounts spent for famine relief up to 1878, were either raised specifically or surpluses were diverted for the purpose. In 1878, this system was changed and a system by which specific amounts were appropriated was introduced. But this was not strictly adhered to until 1881, from which year an annual amount of Rs. 1.50 lakhs was provided in the Budget and appropriated. This explains why the amount was static under this head. The debt services, which were heavy owing to commitments entered into during and immediately after the

[7] V. Anstey, *op. cit*

Sepoy Mutiny, appeared to be reducing towards the latter part of the 19th century. But the expenditure on civil public works and the First World War, necessitated the raising of new loans. There was thus an increase in the debt services. It would also be observed that expenditure on the 'Social Services' has not received any attention during this period though the expenditures on Defence Services rose to such an extent that in 1920-21 nearly 51 per cent of the total expenditures was devoted to Defence. This tendency is understandable but the years that followed the end of the war were not happy either. The failure of the monsoon, the incidence of an influenza epidemic and the onset of a trade depression in 1921 reduced the possibilities of incurring expenditure on 'Social Services'. In addition, the difficulties on the legislative front where the Swarajya Party was refusing to consider any fresh levies aggravated the contemporary situation. The impact of all these forces was considerable. The continued prevalence of Budget deficits, during the last two decades in particular, allowed no room for diversion of expenditures to productive purposes.

The decline in the expenditure on 'Defence Services in the immediate post-war period' was to an extent compensated by an increase in the 'debt services'. The following table gives the details of expenditure on Debt Services, Defence Services, Civil Administration[8] and on capital account in the post-war years:

TABLE II[9]

(in lakhs of rupees)

Year	*Debt*	*Civil administration*	*Defence services*	*Capital outlay*
1922	16,00	9,41	69,81	25,22
1923	16,16	9,94	65,27	21,59
1924	17,33	9,34	56,23	16,70

[8] 'Civil Administration' represents the wages, salaries, payment for goods and services and also developmental expenditures like education, medical and public health, ports, pilotage, etc.

[9] Compiled from the 'Banking and Monetary Statistics'.

The absence of expenditures during this period on social services was criticised on different counts. Dr. B. R. Ambedkar pointed out that "progress" has been sacrificed to "order"[10] while Prof. Kale observed that "the obvious preoccupation of war was not a sufficient excuse for marking time in the expansion of education, improvement and sanitation and the promotion of industries". While this was the case in respect of the Centre, there was a noticeable improvement in the Provinces. The introduction of the Montford Reforms helped considerably the resource position of the Provinces. Provincial autonomy which was a part of the 'Montford' reforms not only gave new resources to the States but also certain fields of activity where more expenditures were to be incurred. Table III indicates the trend

TABLE III[11]

(in lakhs of rupees)

Year	*Debt services*	*Security services*	*Social services*[12]
1922	1,02	27,18	15,39
1923	1,29	27,40	15,18
1924	1,86	27,35	15,36
1925	2,44	28,78	16,64
1926	3,28	28,96	18,53
1927	2,95	29,59	19,72
1928	2,89	30,04	20,33
1929	2,92	30,89	21,71
1930	2,80	31,61	22,35
1931	2,75	32,46	22,10
1932	3,31	31,50	20,19
1933	3,84	30,55	19,07
1934	3,78	29,91	19,52
1935	3,15	29,76	19,76
1936	3,58	30,65	20,39

[10] Quoted from V. Anstey, *The Economic Development of India.*

[11] Compiled from the 'Banking and Monetary Statistics' (RBI), p. 875.

[12] Expenditure under this head includes education, medical and public health, agriculture, industries, civil aviation, ports, pilotage, etc.

of Provincial expenditures during the period from 1922 to 1936.

During these years, the total expenditures of Provinces were also increasing while the total expenditures of the Centre were steadily declining. This growth and decline was the result of contemporary constitutional reforms. The growth and decline in these expenditures may be observed from Table IV.

These Provincial expenditures increased so very rapidly that by 1936 they maintained a level of near parity with the total expenditures of the Centre. This may be observed from Table V.

With the outbreak of the Second World War there was a great upsurge in the expenditures of both the Centre and the States. The following table gives an indication of the growth of public expenditures during the Second World War.

TABLE IV[13]

(in crores of rupees)

	1921-22	1936-37	1938-39
Centre	109.93	80.92	82.03
States	70.12	76.69	80.53

TABLE V

(in lakhs of rupees)

	Total expenditure of Centre	*Total expenditure of States*
1934	80,12	85,76
1935	83,23	85,25
1936	83,09	88,56
1937	80,89	91,40

[13] Taxation Enquiry Commission Report, p. 35.

TABLE VI[14]

(in lakhs of rupees)

	Total Central expenditure	*Total States expenditure*
1939	85,11	85,76
1940	94,57	89,12
1941	114,18	95,27
1942	147,26	103,54
1943	288,87	118,49
1944	439,86	153,44
1945	496,25	204,35

These figures speak for themselves. After the end of the war the increased expenditure on military services, slowly gave place to developmental expenditures. The expenditure on Defence Services, was maintained even after the war, though at a reduced level. But increasing attention was being paid to the developmental expenditures also. As new resources were becoming available, they were increasingly diverted for developmental purposes. The plans for post-war reconstruction as indicated earlier (Chapter V) were initiated during the latter years of the war.

The post-war period witnessed many an important event. Among them are the partition of the country, sporadic troubles (Kashmir, etc.), the merger of Princely States, the inauguration of a new constitution, and the setting up of the Planning Commission. The culmination of these attempts at reconstruction and economic development came with the launching of the First Five Year Plan. Already by this stage, even before expenditures under the plan came up to the surface, there was a large increase in the expenditures which "was mainly due to expansion of governmental activities in serveral directions, includ-

[14] Compiled from the 'Banking and Monetary Statistics of India'.

ing the formation of new ministries. The working of democratic institutions in itself enhances the costs of administration; and this is equally true of the States".[15] Yet another factor contributing to the increase in expenditure was the administration of various regulatory measures, particularly in respect of Labour and Industry.[16] Besides, the growth of population increased the responsibilities of the government at all levels. A result of the interplay of these forces was the increase in public expenditure. In the latter years the necessities of development brought about a change in the components of the structure of expenditures. Table VII gives the changing composition of public expenditures.[17]

TABLE VII

EXPENDITURE OF CENTRAL GOVERNMENT ON REVENUE ACCOUNT

(in crores of rupees)

	1921-22	1936-37	1938-39	1950-51	(R.E.) 1953-64
Non-Development	104.03	74.94	76.02	295.02	331.78
Social Services	2.31	1.74	1.62	14.62	21.21
Economic Development	3.59	4.23	4.39	26.23	35.79
TOTAL	109.93	80.91	82.03	335.87	388.78

The tendency to devote a significant part of the total expenditure for development purposes became steady during the plan periods. Table VIII gives an indication of the expenditure incurred on developmental purposes, at the beginning of the First and Second Five Year Plans and at the close of the Second Five Year Plan. Starting with 48.1 per cent in the First Plan,

[15] Taxation Enquiry Commission Report, Vol. I, p. 37.
[16] *Ibid.*
[17] Taxation Enquiry Commission Report, Vol. I, p. 35.

the developmental expenditures reached a proud position of 67.3 per cent of the total expenditures in the last year of the Second Five Year Plan.

TABLE VIII

DEVELOPMENTAL AND NON-DEVELOPMENTAL EXPENDITURE OF THE CENTRAL AND STATE GOVERNMENTS

(in crores of rupees)[18]

	1951-52	1955-56	1960-61	1961-62	1962-63 R.E.	1963-64 B.E.
Total expenditure	998	1470	2563	2808	3440	4157
Development expenditures*	480	884	1727	1872	2203	2502
Non-Development expenditures†	518	586	836	936	1237	1655
Development expenditures as percentage of total expenditure	48.1	60.1	67.3	66.6	64.1	60.1
Non-Development expenditures as percentage of the total expenditure	51.9	39.9	32.7	33.4	35.9	39.9

* Includes revenue and capital expenditure on development heads, loans and advances (net) and Railways and P & T expenditure on expansion, renewals and replacements, excludes working expenses of industrial and commercial undertakings.

† Excludes appropriation for reduction and avoidance of debt, transfers to special development fund and capital outlay on State Trading.

The preceding survey, as already stated, is not intended to be anything more than a narration of important tendencies of these

[18] *Economic Survey* of each year.

periods. The objective has been to illustrate some of the broad trends in the growth of public expenditures—their composition and the direction of such expenditures. But all through these years there arose a number of problems which influenced the direction and the composition of expenditures. A study of the problems faced in incurring these expenditures and the impact they had on the formulation of an expenditure policy is made in the following section.

II

The Course of Public Expenditure Policy

The guiding principle of the expenditure policy of the Indian government, since and during the later part of the nineteenth century, may be said to have consisted in a search for 'economy'.[19] If achievement of economy were the sole objective, the favourite hobby horses in the earlier decades on which the axe of economy was grinded, were mostly expenditures on military services and to a lesser degree on assistance to the states. In recent years the latter has given place to 'economy in personnel'. There were other avenues also in which economy was sought to be achieved, but these were the main and important channels. At every stage during the last century there were different forces at work which made the achievement of 'economy' an absolute necessity and an imperative in government programming and budgeting. Viewing broadly, the forces that required the achievement of economy may be said to have been the following: (*i*) the upsurge of national patriotism and opposition to the

[19] The term 'economy' has two different connotations. In one sense it represents a reduction in the aggregate of total expenditure or even parts of expenditure. In another, it means a spcific way of the best and overall utilisation of resources. As Burke said, "Here parsimony is not economy, and great expense may be an essential part in true economy, economy is a distributive virtue and consists not in saving but in selection. Parsimony requires no providence, no sagacity, and no power of combination, no comparison, no judgment. Mere instinct may produce this false economy in perfection. The other economy has larger views. It demands a discriminating judgment and a firm, sagacious mind." Quoted from *The Political Economy of National Security*, by James R. Schlesinger, 1960, p. 229. The term is used here in the first connotation.

increasing debt incurred towards the payment of British forces maintained in the country to ensure 'law and order'; (*ii*) in heavy expenditures and the continued post-war deficits. (*iii*) The existence of inflation in the economy and the persistent need to keep it under control through reduced public expenditures. (*iv*) The need to reduce expenditure on non-developmental purposes with a view to divert all the available resources for expenditure on developmental projects. These forces, incidentally, reveal the different phases and facets of expenditure policy. The change in the nature of the forces reveal the changing background and behind this changing background the swift undercurrent of Indian history can also be observed. It may also be added that the forces which sought to achieve economy worked in three different spheres and where economy was achieved it was the result of the combined impact of these three forces. These three forces were: (*i*) The Ministry of Finance which exercised its typical control to ensure economy in each Budgetary Demand; (*ii*) The special *ad hoc* bodies: Among the bodies appointed for the specific purpose of achieving economy and proposed to be dealt with in the following paragraphs are: (*i*) The Royal Commission on expenditure, 1896; (*ii*) The Inchcape[20] Committee of Retrenchment, 1922-23; (*iii*) The Central Economy Committee, 1949. The Parliament, in addition to providing a platform to voice the popular feeling against the increasing burden of unproductive debt and 'oppressive' taxation in the initial years, also took an active part since 1924, in the form of Standing Finance Committee to screen and examine all proposals for new expenditure.

Out of these, the nature of the control exercised by the Finance Ministry needs no explanation and the control exercised by the SFC is reserved for a detailed treatment in Part III. Therefore this study is confined to the *ad hoc* bodies mainly and in a lesser degree to the other forces as well. For the sake of convenience the working of these forces may be studied in three different phases: (1) prior to Independence; (2) after Independence and up to 1951; and (3) 1951 and afterwards.

[20] So called after its Chairman Lord Inchcape.

Pre-Independence Era

It is not possible, within the limited compass of a section, to survey comprehensively the trends of public expenditures and the measures taken each year to counteract the tendency of increasing expenditures for every year in detail. Of necessity, therefore, the following paragraphs deal with certain 'landmarks' in different fields. Incidentally, the study of these landmarks throws enough light on the contemporary financial compulsions and the solutions offered to achieve them. The first 'landmark' in the nineteenth century is the Royal Commission on Expenditure.

Royal Commission on Expenditure

The period prior to the appointment of the Committee was one which witnessed a tremendous increase in military expenditure and public debt. The Mutiny of 1857, followed by other frontier and international wars, necessitated frequent increases in military expenditure. Since these expenditures could not be provided from out of the existing sources of revenue—inelastic as they were—and since the political climate did not allow any fresh taxation the government resorted to the raising of debt which consisted partly of the rupee loan raised in India and the sterling[21] loan in England. These two factors, despite the repeated attempts of the Secretary of State to prevent further increases in expenditure, were responsible for the contmporary growth of public expenditure. D. E. Watcha summarised the existing position succinctly in his evidence before the Commission in 1896 thus[22]: "The Secretary of State writes imperative despatches for strict economy, and for exercising utmost care in public expenditures for the danger of increasing the burdens of taxation has to be borne in mind. These warnings seem to fall on deaf ears and Secretaries of State do not enforce what they enjoin and the despatches remain only pious intentions. At any rate, the Commission must have noticed how, in spite of them, expenditure has grown apace. Since 1892, taxation to the

[21] Vera Anstey states: "It was these debts which led to the complaint that India was burdened with Payments that ought properly to have been debited to England's account," p. 384.

[22] Quoted from R. C. Dutt, *The Economic History of India*, Vol. I, p. 429.

extent of about 3 crores (two million pounds sterling) has been added while the military activity beyond the frontiers was even greater in consequence of the acquisition of Gilgit, which ultimately led to the growth up to Chitral at a cost of 1½ crores (1 million pounds sterling) and the permanent annual charge of 25 lakhs (£ 166,000). The State Secretary as originating party to this kind of expenditure is himself silent, it may be . . . that the despatches were practically of no effect and that both the Secretary of State and the Government of India must be held equally responsible for that expenditure."[23]

The growing feeling of discontent of the public over the rapid and secular rise of military expenditures and public debt, backed by the financial justice to India in the House of Commons, led to the appointment of a Royal Commission on Expenditure in 1895 with Lord Welby as the Chairman of the Commission, "to inquire into the administration of management of the Military and Civil expenditure incurred under the authority of the Secretary of State or of the Governor-General of India and the apportionment of charge between the Governments of the United Kingdom and of India for purposes in which both are interested".

This Commission so appointed deliberated for a period of two years and took oral evidence from all groups representing the public opinion and submitted its final report in 1900.[24] The findings of the Commission were generally disappointing. "It has not touched," as R. C. Dutt observed,[25] "the really larger questions of reduction of the Indian debt, reduction of the Home charges and of taxation and the reduction of military expenditure"; instead it has frittered away its energies in suggesting reductions on what seemed to be smaller issues, which did not give any significant relief to the people. Among those recommendations which brought some financial relief, were the sharing of expenditures in respect of civil charges, employment

[23] "It is of interest to note that Sir Charles Trevelyan stated in 1873: 'two conflicting policies prevailed in India. One, the policy advocated by me, of reduction in expenditure; the other, which was the favourite at Calcutta and in England, increase of Taxation'." Quoted from Dutt, *Ibid.*, p. 446.

[24] A minority report of the Commission was also submitted.

[25] P. 421.

of Indian troops at Aden, Naval charges and Army charges in which respect they suggested that the UK Government should share a part of the total expenses. The contemporary issues were the growing public debt and the rising military expenditures. The main reason for resentment was the collection of charges towards the maintenance of British troops stationed in India for the maintenance of 'law and order' in India. The people felt this was unjust and agitated for a reduction in these expenses. The Commission proved of little assistance in bringing about 'economies' although the agitation was for that purpose alone!

All in all, the Commission failed to bring any radical economies in expenditure and this proved to be a severe blow to a nation which was being swept away in the tidal wave of a severe and widespread famine. But, in retrospect, it cannot be denied that the appointment of the Commission was in itself a 'milestone'. What is lamentable is the failure of the Commission to rise to the occasion and deliver the goods.

We may skip a few years, as nothing eventful occurred—excepting for wars (national and international) and diversion of resources for investment in railways and irrigation and power projects—and reach the period of 1922. During the years between 1900 and 1922 there was an increase in the expenditures on military services, which had further gone up with the outbreak of the First World War. As Vera Anstey[26] observed, "the outbreak of war caused a short financial panic in India, which was soon successfully stemmed, followed by a period of strain and anxiety, in the financial as well as in other spheres". The rapid expansion in the expenditure on military and other administrative expenditures led to continuous deficits in the Budget. The post-war period witnessed, instead of a reduction of expenditures and lessening of deficits, continued deficits owing to an "extensive failure of the monsoon and a terrible influenza epidemic". Added to these were the expenses incurred on the Afghan war and trade deficits due to an international trade depression. Even the introduction of the financial reforms as a part of the major constitutional overhaul undertaken

[26] *Ibid.*, p. 395.

on the basis of the Montford suggestions, which induced an element of elasticity in the revenues of the Provincial governments, could not stave off these deficits. Table IX gives the trend of revenues and expenditures from 1914 to 1923.

TABLE IX

(in lakhs of rupees)[27]

Year	*Total revenue*	*Total expenditure*
1914	101,59	98,12
1915	94,33	97,00
1916	99,18	100,96
1917	118,80	107,58
1918	139,72	127,59
1919	153,80	159,53
1920	163,67	187,32
1921	170,67	196,68
1922	81,19	108,84
1923	89,30	104,31

These increasing deficits required the enforcement of economy in all directions. The Legislative Assembly also indicated its 'concern' at the growing deficits and sought to remedy the situation by imposing 'cuts' in the budgeted amount. These 'cuts' were, in certain cases, disproportionate and were not accepted by the government. For example, the *ad hoc* 'cuts' made by the assembly in 1921 and 1922 to the extent of Rs. 129 and 95¾ lakhs respectively, were accepted by the government. A cut of Rs. 114 lakhs made subsequently in the Budget,[28] was restored by the Governor-General on the plea that they were required for the provision of railway amenities. The antagonism

[27] Compiled from the "Banking and Monetary Statistics in India".

[28] Simon Commission Report.

of the Parliament and of public opinion to the increasing deficits underlined the need for a thorough survey of the needs of administration. The result has been the appointment of the Inchcape Committee, which during the course of its existence of one year, interviewed the representatives of each of the Departments at the Centre. The primary aim of the Committee was to reduce the liabilities of the Central government. The recommendations made by the Committee were specific and related to each Department. Some of these important recommendations may be mentioned here. (1) They suggested that the audit work may be separated from accounts (the latter to be maintained and expenditure met by the States) so that the Centre's share of the maintenance of accounts staff engaged on Provincial Accounts could be reduced. (2) The Committee similarly suggested the abandonment of the Stores Department and made several far-reaching suggestions for reductions in expenditure under 'Health' (these recommendations were not, however, accepted). (3) The Committee also recommended with a view to bolster up the revenue position of the Central Budget that a regular system of contributions from the Railways to the Central Finances be instituted. (4) In addition it has made specific suggestions for reduction of personnel in the Armed Forces and Civil Administration, department-wise. The immediate impact of the recommendations, a majority of which were accepted by the government, was a reduction in the total expenditure as well as in the expenditure on 'Defence Services'. The expenditure under 'Direct Demands on Revenue' and 'Civil Administration' remained almost stable for a period of two years, though the expenditure under 'Civil Administration' witnessed a spurt of increased activity from 1925 onwards due to the change of emphasis from claims of 'economy' to increased expenditure upon production and cultural objects. (The term 'Civil Administration' included developmental expenditures on education, health, etc.) Table X summarises the above position.

The recommendations of the Inchcape Committee, whose immediate impact is clearly discernible from this table, were soon counteracted up to an extent by the increasing expenditure under the 'Developmental' heads. This new trend of increased expendi-

TABLE X

(in lakhs of rupees)[29]

Year	*Total expenditure*	*Direct demands on revenue*	*Civil administration*	*Defence services (net)*
1923	104,31	5,22	9,94	65,27
1924	99,07	3,44	9,34	56,23
1925	97,06	5,37	10,13	55,63
1926	97,57	5,38	10,76	56,00

tures on 'services' was the result of a 'war'[30] between the claims of economy and retrenchment on the one hand and the demand for expenditure upon 'services' etc., on the other. In fact, the expenditure of the following years was characterised by increasing expenditures on 'services' and in this field the States vied with each other.[31] But this 'influence' came almost to an abrupt stop with the onset of the economic depression in 1929.

The policy of the government during the depression was 'extremely orthodox' and no reliance was placed on expenditures as a fiscal tool and as an instrument in the hands of the State to infuse a new life into the economy of a nation. Instead, the depression was allowed its course until it drove itself to extinction. As one writer observed:[32] "No attempt has been made to encourage capital expenditure or to undertake public works in order either to relieve distress, decrease unemployment, improve productive capacity, or tide over the bad years." The policy followed during these years indicated a misplaced 'niggardliness' and an absence of appreciation of the situation. During the years of the depression there was actually a decline in the total expenditures as can be seen from Table XI.

[29] Compiled from the "Banking and Monetary Statistics of India", pp. 872-3.

[30] Anstey, *op cit.*, p. 391.

[31] *Ibid.*, p. 392.

[32] *Ibid.*, p. 402.

TABLE XI

(in lakhs of rupees)[33]

Year	*Total expenditures*
1929	92,82
1930	96,56
1931	97,84
1932	95,40
1933	86,02
1934	80,12
1935	83,23
1936	83,09

However, with the advent of the Second World War, the expenditures again took an upward turn.[34] The total expenditures which were at Rs. 85,11 lakhs at the beginning of the war reached an amount of Rs. 496,25 lakhs at the end of the war. The same tendency is also observed in the expenditures of the states. As indicated earlier, the traditional forms of control of finances were, during this period, kept in the cupboard and for a time again the term 'economy' was allowed to be submerged in the streams of oblivion. Simultaneously with the war effort, development efforts for the economic reconstruction of the country were also set into motion.

These trends brought a new problem into focus. The mode of financing the war and the diversion of the production machinery to war purposes, resulted in Budget deficits and the

[33] Compiled from "Banking and Monetary statistics of India".

[34] It is interesting to note that there was a plea in the Assembly in April 1938 (the total expenditures of government at this stage were Rs. 86,57 lakhs) for the appointment of a 'Retrenchment Committee'. This resolution, which was moved by Shri M. A. Ayyangar (former Speaker of the Lok Sabha) was linked up with the question of constituting an Estimate Committee. Replying to this, Sir James Grigg (Finance Member) observed that there are two types of economies: (*i*) retrenchment in administrative matters and (*ii*) in policy matters. Towards ensuring the former objective, a Retrenchment Committee was set up in that year. The Committee's work had no immediate effect due to the outbreak of the war.

appearance of inflationary pressures in the economy. These pressures posed a problem to the government: (*a*) whether to meet the problem by making a variation in expenditure towards its reduction, or (*b*) to spend more amounts for development purposes so that more goods can be produced to meet the increasing demand. The latter issue was sought to be tackled through the work of the Department of Planning and Development, which was established for the purpose. So far as the former was concerned, while the opinion in regard to a 'variation in expenditure' took no clear form, yet the necessity to bring down the total expenditure to reasonable limits was clearly felt. Towards this end a reduction in the staff was suggested. The great increases that have taken place in the numbers of government employees during the war time proved excessive in the post-war period. Referring to this, Liaquat Ali Khan, the Finance Minister in the Interim Cabinet, observed in the course of his Budget speech: "It may ... be found that certain establishments of the Government of India are susceptible to reduction.... It may also be necessary to see if the Central Government has undertaken any functions[35] or activities which legitimately fall within the provincial sphere beyond what is necessary. Even though the Finance Department in the course of its day-to-day working, conducts an examination of expenditure proposals keeping all these considerations in view, I feel that there might be advantages in an *ad hoc* review at this stage by a Committee consisting of officials and non-officials including Members of the Legislature." But until after independence no Committee was appointed for the purpose. The need for 'economy' was, however, felt both inside and outside government and has been the refrain of the Budget speeches of successive Finance Ministers. In the

[35] The previous experience in this respect was rather disappointing. Even after the 1935 Act which gave new functions to the Provinces, there was very little reduction in the Staff employed in the Central government. The Wheeler Commission reported shortly afterwards: "At first sight it would appear that the advent of Provincial autonomy must mean a substantial curtailment of the work now devolving upon the government of India and it was with some initial surprise that we heard the unanimous testimony of the secretaries to that, that government did not anticipate any such degree of relief." The Commission also came to the same conclusion.

years that followed the considerations of an efficient and ecnomical administration were temporarily pushed to the background for a period, during which the nation and the government alike were concerned with the partition of the country and the problems of Independence.

Before we close this account of the pre-Independence era and move on to the post-Independence urges and policies, it is necessary to realise that the continuing theme of the expenditure policy has been to achieve 'economy'—not in the sense of an efficient utilisation of resources, but of a reduction in the aggregates. But these attempts, both at the level of the government and of outside *ad hoc* agencies, have proved to be of little avail for the reason that they took considerable time and by the time their reports were submitted, new factors requiring an increase in expenditure appeared on the scene. As a later date Economy Committee had observed: "Economy Committees in the past which usually took considerable time to submit their recommendations found these voluminous documents becoming unreal by the time of their submission. This was a natural sequence of the ever expanding work of Government and naturally the problems which such Committees were examining had rapidly changed by the time their reports were finalised."[36]

After Independence

The dawn of independence was accompanied by a bleak economic picture. The ravages of partition brought the problem of rehabilitation of displaced persons, while the division of the country brought a certain amount of dislocation in the structure of resources. In addition were the inflationary pressures of a war which had just then come to an end. These factors on the one hand emphasised the need for the diversion of resources to immediate problems, while on the other hand, the only means left to the Government was to raise more taxes, to borrow or even to reduce the expenditure. The government, however, followed a judicious combination of all these three factors bent as it was upon achieving whatever economies in expenditures

[36] Report of the Economy Committee, Congress Party in Parliament, 1959, p. 1.

it could. As the Finance Minister, Shanmukham Chetty observed: "I am one with the (Parliament) in searching all avenues for economy in expenditure."[37]

Towards this purpose of economising expenditures a Committee known as the 'Central Economy Committee, 1947'[38] also known as 'the Kasturbhai Lalbhai Committee' was appointed in January 1948. Even before the Committee submitted its recommendations, the Finance Minister in anticipation of the recommendations made a lumpsum cut under miscellaneous expenditure in his Budget for the following year. No cuts, however, were made either on 'Defence Services expenditure' or Developmental expenditure' for the circumstances were such (Kashmir war, border defence, etc.) that the Defence expenditure could not be subjected to any reduction. Nor could reduction be made in development expenditure either, as it would have meant a substantial 'retreat' from the promises and objectives of government.

The Economy Committee's terms of reference were[39] to make recommendations for the promotion of true economy in the administration by the elimination of unnecessary, wasteful or extravagant expenditure having regard, among other things, to (*i*) the termination of activities which have ceased to serve any essential purpose; (*ii*) the desirability of reducing or curtailing any functions or activities which may have been undertaken by the Central Government within the Provincial sphere beyond what is necessary. The Committee was also allowed to make alternative suggestions for a reorganisation of the administration of the administrative ministries on an economical basis.

The Committee after due deliberation submitted a general report, as also separate reports on the working of each Ministry. The total economies suggested by the Committee were estimated to yield an economy of Rs. 4½ crores. But the impact of these recommendations on the Budget estimates was not felt until 1951-52[40] and even then the reductions were made mainly on food

[37] Debates of the Constituent Assembly, 4 December 1947.

[38] For quite some time these reports were treated as 'secret'.

[39] General Report.

[40] The Finance Minister, in his Budget Speech for 1950-51, indicated that the recommendations of the Economy Committee "are under considera-

subsidies, expenditures on displaced persons and partition payments, etc. Apart from these, very few recommendations[41] of the Committee were implemented due to the recurrence of the persistent theme mentioned before. The recommendations of the Committee were submitted at a time when the government launched on an all-out effort for economic expansion and reconstruction through huge programmes for national development. Once again an opportunity for the achievement of 'economy' was lost.

However, during the years when the Committee was deliberating, various reductions in respect of different activities were made by the Finance Ministers in the name of 'economy'. The measures included the following: during 1949-50, the developmental grants promised to the States were postponed. During 1950-51, even though there was an increase in the total expenditure, a total economy of Rs. 22 crores was achieved under the old heads of 'Defence' (Rs. 3 crores), 'miscellaneous items', and 'partition payments'. These cuts represented a determination to reduce uneconomical expenditures. Notwithstanding these reductions the trend of expenditures revealed a secular increase, except for the year 1950 when there was a reduction in the total expenditure. (1949 : Rs. 320.86 crores; 1950 : Rs. 317.12 crores.) It should, however, be recognised that there was limited scope for any significant contraction in expenditures. The economic necessities made the increase in expenditures imperative. It has frequently been argued that a little more of austerity in the expenditures during this period which was in fact possible was not practised and that the continued heavy expenditures on defence and civil administration positively accelerated inflation. It has also been suggested that government policy has not been 'disinflationary'.[42] But these arguments, it

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tion" and added that "if their recommendations are accepted *in toto*, the saving will be to a tune of 4½ crores".

[41] C. D. Deshmukh (Finance Minister) observed in the course of a statement made in the Lok Sabha on 10 April 1951: "We (Finance Ministry) were among one or two ministries which carried out the recommendations of the old Economy Committee."

[42] Prof. M. H. Gopal, *Financial Policy of the Indian Union 1947-53*, Delhi University, 1955, pp. 74, 76 and 104.

would appear, ignore certain fundamental propositions such as (*i*) no absolute reduction in the aggregate expenditure is possible in a situation where the government is about to launch on a huge development programme. The total expenditure should be assessed with reference to the direction of the expenditure. Besides, in a developing economy, reduction in the totals can be positively harmful. The attempts during these two years have been to prevent an excessive growth in the expenditures rather than an absolute reduction in the total expenditure. (*ii*) Variation in public expenditures as a solution to fight inflation is of doubtful validity.[43] (*iii*) Certain expenditures cannot be varied to suit predesigned economic purposes, for these expenditures are governed by considerations other than 'economic'. For instance, Defence expenditures during a national emergency cannot be reduced whatever be the economic factors.

It may be added that during this period the efforts of the government were not confined to the appointment of the Central Economy Committee. It was followed by various Departmental Economy Committees set up to suggest economies. Their reports, however, have not been made 'public'. It would thus be observed that a suitable expenditure level was maintained for developmental purposes and simultaneously all avenues of economy were explored.

1951 and After

The year 1951 marked the beginning of a new era in Indian history for this was the year in which the First Plan started. The process of the formulation of the Plan, its execution and the administrative machinery involved in it have already been considered at length in Chapter V. At this stage, the discussion is primarily concerned with certain problems that have arisen

[43] It is to be recognised that it is easier to push up expenditures during a period of deflation than to push down expenditures or even terminate some schemes during inflation; even if major schemes are stopped the normal maintenance expenditure would itself be high. Besides, contraction of expenditures imposes certain sacrifices upon the Community. See "Variation in Public Expenditure" by R. A. Dahl and C. E. Lindblom in *Income Stabilization in a Developing Democracy* (ed. Max Millikan), 1953, p. 362.

during the course of implementation of the First and Second Five Year Plans, and the means and ways devised to tackle these problems.

The expenditure policy of these years was represented by the objectives of the plan for the expenditure budget was the vehicle and the framework in which the plan schemes were adjusted and acknowledged. These schemes, during the First Plan, involved a total outlay of Rs. 1,400 crores.[44] These developmental outlays necessitated a strict watch on the growth of non-plan and non-developmental expenditures. The need for avoiding increases in non-developmental expenditures was particularly significant as the plan was generally based on 'deficit financing'. The imperatives of the situation were that as far as possible, the expenditures should be incurred in a productive manner so that the increase in the production of goods could meet the increasing demand and thereby reduce the inflationary pressures. Although the developmental expenditures have been stepped up to remarkably high levels during the plan period, yet the expenditure on non-developmental purposes also witnessed a steady increase—an increase which absorbed a major portion (110 out of 187 crores[45]) of the increase in revenues. All the same, the percentage occupied by non-developmental expenditures in the total expenditures was on a decline, as may be observed from the following table.

TABLE XII

(in crores of rupees)[46]

	Year 1950-51	*Year* 1955-56
Total expenditure	960	1409
Developmental expenditure	455	758
Non-developmental expenditure	505	552

[44] Planning Commission, *Review of the First Five Year Plan*, 1957.
[45] *Review of the First Five Year Plan*, p. 37.
[46] Compiled from the *Selected Plan Statistics*, 1959.

The fact that the fresh resources were absorbed in expenditure on non-developmental purposes, necessitated an agonising reappraisal of the policies followed in matters of creation of posts, use of stationery, etc. As a result of the appraisal a new machinery to prevent the growth of personnel in the government was instituted. The Economy Unit of the Ministry of Finance was reorganised in 1956 and was given new terms of reference which brought a shift of emphasis from routine inspection to 'work study'. (Aspects of these have already been considered in Chapter II.) At the same time, Economy Committees were set up in each Ministry to scrutinise every proposal for the creation and continuance of posts. (An account of the functions of the Economy Committee is given in the next section.) During these years again, the emphasis was on 'economy'—but this time the economy was not in a reduction of the aggregates but in a better utilisation of the resources and avoidance of wastes and delays. The working of the plans brought about this subtle change in the meaning of the term 'economy'. As the Finance Minister observed in his Budget Speech in 1956: "With the large and growing outlay in the context of the plan, both on the revenue and capital account, the question of securing the maximum possible economy and avoiding wastage owing to delays and inefficiency assumes added importance". He added: "We are keeping a continuous watch over the growth of expenditures and securing economy ... as part of our day-to-day control over expenditure."[47] He also indicated that this work of the Finance Ministry was supplemented by the work done in reassessing the staff requirements by the O & M Division of the Cabinet Secretariat.

The preparation of the Second Plan witnessed once again an exercise of utmost care in the formation of the preliminary estimates for the five-year period of the Plan: In preparing these, the emphasis again was on reducing non-developmental expenditures and accordingly, the estimates for the probable expenditures on non-developmental purposes both in the Centre and in the States took care of the growth in the non-developmental

[47] Debates of Lok Sabha, 29 February 1956.

expenditures.[48] The execution of the plan has, however, revealed that these estimates were very conservative. The increase in the non-developmental expenditures during the plan period was phenomenal. As the 'Economic Survey" for 1958-59, observed: "The proportion of public revenues to national income has gone up from 9.1 per cent in 1956-57 to about 10.1 per cent, but this rise has been absorbed, more or less, by the increase in non-developmental expenditure. In consequence, the reliance on borrowing from the public, from the banking system and from abroad, for financing the plan has tended to increase."[49] Thus a trend which has appeared for the first time during the First Five Year Plan continued unabated with great vigour during the Second Five Year Plan also. The trend, indicated above by the Economic Survey for the year 1958-59, continued in 1959-60 also. This may be observed from the following data.

(in crores of rupees)[50]

	1958-59	1959-60
Expenditure on Civil Administration	48.11	53.25

This increase in the 'civil expenditure' aroused the critical mind and was subjected to severe criticism in the Parliament and the criticism was directed against the heavy increase in 'civil expenditure'; yet one significant aspect of these expenditures was that the term 'civil expenditure' included expenditure[51] on development and social services incurred under the heads: scientific departments, education, medical, public health, agriculture, animal husbandry, cooperation, rural development, industries, aviation, broadcasting and other miscellaneous departments.[52]

[48] See "Papers Relating to the Formulation of the Second Five Year Plan". It was assumed that non-developmental expenditures in the states will increase by 1 per cent per annum, while at the centre it was expected to increase from Rs. 39.2 crores to Rs. 45.2 crores in 1960-61. See pp. 347, 375.

[49] Para 53 of the Survey.

[50] Statement 52 in the "Review of Currency and Finance", RBI.

[51] See "Memorandum on the Growth of Civil Expenditure", May 1959.

[52] The classification of accounts has since been changed, following a recommendation made by the Estimates Committee in its 92nd report (p. 11, para 16). The Finance Minister, in his Budget Speech for 1961-62,

Also, partly, such an increase in the expenditure on personnel was to some extent inherent in the plan itself. However, these increases in the non-plan expenditure caused a separate enquiry to be made by the Congress Party in Parliament.

This Committee, after a detailed study of the various aspects of the growth of expenditure and after finding that the growth was predominant in the 'personnel', recommended that (*i*)[53] all recruitment to categories of 'administrative and executive', 'ministerial', 'skilled' and 'unskilled' be stopped for a period of one year; (*ii*) all posts lying vacant and not filled for a period of six months and over should be abolished; in addition to these recommendations, the Committee also made a few other suggestions relating to the creation of a pool to manage the surpluses of each Ministry and regarding the need for maintaining up-to-date census of the Central Government employees, etc. These recommendations of the Committee were accepted by government and in addition some more restrictive measures were introduced during the year 1960-61 to reduce the expenditure under 'Civil Administration'. Referring to these measures, the Finance Minister stated in his Budget Speech for the year 1960-61: "A continuous watch over the growth of expenditure, particularly non-developmental expenditure, is kept by the Central Economy Board and the Internal Economy Boards set up in the various Ministries."[54] Having regard to the need for utmost economy, "Government have imposed a ban for one year[55] on the creation of fresh posts and for filling up the vacant

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stated: "Apart from the fact that the nomenclature 'Civil Administration' is somewhat misleading, the budget in its present form does not indicate separately the expenditure incurred by government on its administrative activities and on social and developmental activities. To remedy this defect the group head 'civil administration' is being split into two: "Administrative Services' and 'Social and Developmental Services'. The splitting up of group head 'civil administration' will assist honourable Members to assess the growth of administrative expenditure more correctly."

[53] Report of the Committee of the Congress Party in Parliament, "Economy in Civil Expenditure".

[54] Proceedings of the Lok Sabha, 29 February 1962.

[55] The ban is still in force.

posts, unless they are related to plan or are required for security purposes. *Ad hoc* cuts have also been made in the provision of T.A. (Travelling Allowances) etc." These measures of policy have had a considerable effect on the prevention of further growth of non-developmental expenditures.

Growth and Impact of Non-Developmental Expenditures

However, in restrospect one finds that the growth in non-developmental expenditures has been both absolute and relative also. The 'absolute' growth has been due primarily to increasing responsibilities undertaken by the Central Government in administration (Naga Hills Districts, etc. have been brought under the jurisdiction of the Centre), extra expenditure incurred on its employees as a result of the acceptance of the recommendations of the Second Pay Commission, increase in the cost of the tax collection, and increase in the Central grants to the States in respect of schemes which were originally expected to be included in the Second Five Year Plan but subsequently kept outside the Plan. The 'relative' factor has been the initial 'low estimates'[56] of non-developmental expenditure included in the Second Plan, which subsequently increased. The inaccuracy involved in a few of the estimates may be observed from Table XIII.

This growth of non-developmental expenditures has had certain 'diversionary' effects on the Plan. The economic aspects of these effects are (1) an increase in the non-developmental expenditures with the total resources remaining the same. This meant a diversion of resources from productive to unproductive (or transfer) spheres. (2) The increase in the non-developmental[57] expenditures also meant an increase in the inflationary presures.

[56] The Planning Commission admitted this. See 92nd Report of the Estimates Committee, p. 32.

[57] See "Inflation in a Developing Economy". The Merchants' Chamber, Economic Research and Training Foundation, Bombay. "As experience has shown the tendency in the Indian economy has been to divert the traditional resources to non-developmental expenditures rather than for projects under the Plan. Thus all measures of additional taxation and other monetary regulations fail to be anti-inflationary and promote inflationary forces." 1961, p. 63.

TABLE XIII

(in crores of rupees)[58]

1	*Expenditure assured in the plan* 2	*Actual expenditure* 3	*Increase of column no. 3 over 2* 4
(1) Defence Outlay on Revenue Account	1,043.5	1,215.7	172.2
(2) Civil Administration	216.0	233.4	17.4
(3) Currency & Mint	19.0	40.9	21.9
(4) Direct Demands on Revenue	81.0	108.5	27.5
(5) Debt Services	216.0	269.5	53.5

This growth also emphasised the loopholes in the administrative aspects of the control over such expenditures. Though a few items like the Defence expenditure and grants to states are not susceptible to close control, yet the other expenditures by and large can be brought under a closer control[59] and the fact that even those items had undergone a phenomenal increase emphasised the need for close control.

The preceding analysis has been mainly factual. It is, however, necessary at this stage to divert our attention to a few of the general issues that have come up during these years. These issues may broadly be classified into (*i*) those which are connected with the general objectives of the plan, (*ii*) inflation, and (*iii*) 'economy'.

[58] Source: 92nd Report of the Estimates Committee.

[59] A similar opinion has been expressed by the Estimates Committee also. See the 92nd report on the Growth of Civil Expenditure, p. 9. In this regard, a suggestion was also made by Shri Asoka Mehta for establishing a new Statutory Committee on Public expenditures to prevent further growth. He stated: "Unless Parliament sets a new Statutory Committee on Public Expenditure that I have agitated for year after year, no competent body will exist to keep the waste measurements under observation and control." *The Statesman*, 7 March 1961.

The objective of the First Five Year Plan to increase the level of standard of living was given a more substantial form in the Second Five Year Plan. The objective common to both and related to the object of public expenditures is that one which emphasised "the reduction of inequalities in income and wealth and a more even distribution of income". The important role of public expenditures in lessening these inequalities—in income, between regions, and between urban and rural areas—hardly requires any emphasis. It is an essential role of expenditures to make all these fields 'even'. The plans and programmes during both the plans were formulated with this objective in view and significantly, the enunciation of this objective marked a clear departure from the policies followed hitherto.

The second aspect is related to the use of expenditures as a counter-inflationary measure. A counter-inflationary expenditure policy consists in two basic postulates—either (*i*) to reduce the expenditures, or (*ii*) choose only such of those fields where investment will lead to quick results rather than investing in huge projects which are likely to take a long time to reach fruition. However, neither of these postulates can fit into the requirements of a planned economy, for if the former reduces the tempo of development the latter distorts the structure of development. These factors explain why the government preferred large expenditures and increased production of goods at the same time instead of choosing the unpleasant alternative of curbing expenditures. In fact, the problem of a variation of expenditure to fight inflation presents a conflict, unresolved in economic goals. A variation in expenditure to meet the short-term objectives involves a sacrifice of the long-term requirements. As was observed in the Second Five Year Plan,[60] "In a developing economy the basic trend of governmental operations in the fiscal and monetary field is inevitably expansionist. Expenditures could be stepped up and credit made available in ampler measure, should recessionary trends unexpectedly appear. However, the problem in the main is likely to be one of regulating inflationary pressures. Creation of new demands somewhat ahead of supplies is part of the strategy of development. It follows that

[60] *Second Five Year Plan*, p. 38.

a curtailment of public expenditure and other curbing devices can and ought to be used only in the last resort."

The third aspect is related to the achievement of 'economy'. The Budget speeches of every Finance Minister, with the exception of one,[61] included a survey of the attempts made to achieve 'economy' and the extent of 'economy' achieved. The 'economy' process during these years consisted in avoiding waste and delays, than in lumpsum cuts in the overall amounts budgeted for. It was recognised on all hands that the very "tempo of rising expenditure . . . would open up many possibilities of extravagance and waste and it is necessary to keep a still closer watch over such expenditure to ensure that the tax payer gets the maximum benefits out of the plan outlay". Thus the achievement of economy also became a continuous process and towards the fulfilment of this objective various administrative devices such as the Commission on Plan Projects, the Programme Evaluation Organisation, etc. were set up. (A detailed account of the making of these committees is given in Chapter V.) In addition to these bodies working under the Planning Commission, similar agencies were also set up in the administrative ministries. A short resume of these agencies is given below.

Machinery to Achieve Economy

The administrative agencies set up for this purpose are of two different types: (*i*) those installed in the administrative ministry and (*ii*) those in the Ministry of Finance.

Administrative ministry. In 1957, the government decided that each Ministry should have an internal Economy Board "with a view to ensure that the government's financial and other resources are utilised to the best possible advantage",[62] and also

[61] The Budget for 1957-58 was consipicuous in not making a reference to the expenditure aspect. The Finance Minister later observed: "Hon. Members have referred that the budget speech of mine suffers from a serious defect in that I have suggested nothing about economy. I understand that my budget is somewhat unorthodox. . . . If I had made an omission of a serious nature, I would apologise to the House for it." *Speeches of T. T. Krishnamachari*, p. 65, 1957.

[62] See Lok Sabha Debates, Prime Minister's reply to a question in Parliament on 7 August 1957.

for devoting urgent and continuous attention to the maintenance of efficiency, integrity and economy in administration.

The functions of the Board are to review the nature, volume and quality of work done at all levels and also (*i*) to scrutinise their present and projected activities to see whether some of them could be reduced, postponed or abandoned and (*ii*) to review the expenditure on staff and contingencies so that revised and more austere standards might be adopted.[63] The measures taken by these Boards are supervised by a Central Economy Board. (This is an advisory body only, as distinguished from an executive body.) The Central Board, in addition to supervision of the activities of the various Boards, is also to consider (*i*) outstanding issues arising out of the examination in the Ministries of matters relating to efficiency, etc. and (*ii*) to guide the work of the Economy Unit of the Ministry of Finance.

The Economy Committee in a Ministry consists of its secretary and other senior officials, while the Central Economy Board includes the Secretaries of Cabinet, Ministry of Home Affairs, Ministry of Finance (Department of Expenditure) and the Director, O & M Division.

Ministry of Finance. The 'Economy Unit' (SRU) in the Ministry of Finance (discussed in detail in Chapter II) wields a great deal of influence in determining the 'yardsticks' for the appointment of personnel with reference to workloads. This unit undertakes periodical surveys of the methods of work (work study) employed in different units of administration with a view to simplify procedures, reduce the time spent on each matter and thereby reduce the number of personnel. The utility of this unit and the reliance placed on it may be observed from the following statement of the Finance Minister. He said that "Government also intends to rationalise the existing procedures, particularly in executive and operational agencies which are responsible for a large proportion of public expenditure. The results of the work and methods studies already carried out led me to hope that substantial economies can be achieved which will, to some extent, keep in check the mounting costs of administration."[64]

[63] Appendix XI of the 92nd Report of the Estimates Committee.
[64] Proceedings of Lok Sabha, on 30 November 1959.

It is the combined working of these two different units, one in the "Administrative Ministry and another in the Ministry of Finance, that is expected to lead to the achievement of 'economy' in a significant measure". The working of these two agencies are supplemented by the continuous and vigorous scrutiny exercised by the Department of Expenditure at the pre-Budget stage which plays no small a role in the inculcation of a 'sense of economy' as also in the achievement of a substantial economy.

III

Perspectives

The object of the preceding analysis is to indicate some of the broad trends of expenditure policy during the last seven decades. In the course of the review we observed that in the early years the government was primarily concerned with the maintenance of law and order, with provision of such relief measures like famine relief, as were considered absolutely necessary at the time; that from 1925 onwards there was a systematic attempt to divert expenditures to more productive purposes and for provision of social services, and that these attempts though they had a slow progress in the initial years with the difficulties presented by depression and a global war, etc. had a recrudescence after independence, and that these attempts culminated in the establishment of a process of planned economic development. It has also been found that the expenditure policy of the years reflected a growing concern for 'economy' and that new administrative machinery was set up to achieve this 'economy'.

With this as the background it would be in order to analyse some of the important objectives of expenditure policy[65] as a

[65] In this connection it may be stated that an earlier study made on the subject followed a different analysis and as a matter of fact that analysis was more concerned with an examination of the structural contents (elements of public expenditures) of public expenditures than with expenditure policy proper. The reference here is to Prof. Gopal's study *Financial Policy of the Indian Union 1947-53* (University of Delhi, 1955, p. 73). Prof. Gopal was primarily concerned with the assessment of the policy during 1947-53 as an anti-inflationary device. He recognised that the long-run problem of public expenditures is one of an achievement of 'Social Justice' and from this specific point of view, he analysed the quantum and direction of

theoretical postulate and examine their relevance to the Indian expenditure policy. It may be recalled that certain general objectives of an expenditure policy which are applicable to any modern government were set out, though briefly, earlier. In the following paragraphs these general objectives have been reduced to more specific objectives. These objectives arise out of the 'multiple theory of budget determination' formulated by Richard A. Musgrave. According to this conceptual framework, the functions of a State are related to its responsibilities in the fields of (*i*) allocation,[66] the service function of a State consisting in providing for the satisfaction of those individual wants which the market mechanism cannot provide or satisfy adequately; (*ii*) distribution, consisting in ensuring an equitable distribution of income between classes or groups of people; and (*iii*) stabilisation, consisting in the maintenance of a high level of utilisation of the available resources and the value of the currency. From these broad principles, a few more specific objectives may be outlined: (*a*) provision of certain goods and services free of charge to the public by government, either produced by government or other sections; (*b*) to reduce the inequalities of income between groups of persons; (*c*) to reduce the inequalities between one state and another, and maintaining as far as possible, a reasonable parity among them all; (*d*) to reduce the existing inequalities between the rural and urban areas; (*e*) to prevent the economic vicissitudes that occur from time to time through a variation in the public expenditures and taxes, and stabilise the economy; and (*f*) to ensure the maintenance of the highest level of employment. Such of those objectives which are related to the production of goods and services by government investment, etc. involving the consideration of issues which would take into the realms of government investment, etc. and variations in taxes to ensure stablisation, are not within the scope of this chapter. It is, however, essential to realise that in the field of want satisfaction, government under-

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expenditures. It should, however, be recognised here that quantum and direction do not reveal an 'expenditure policy' as much as they reveal the 'general policies' in these specific activities for which funds were spent.

[66] R. A. Musgrave, *The Theory of Public Finance.*

takes plans only in such fields where the control of resources by government promises greater returns than private use or control and the fields which are the most effective means of carrying out government functions and activities. We may now consider the objectives one by one in a more detailed manner.

Inequalities between Groups

One of the important functions of the State is to establish 'Social Justice'. It has also been one of the cardinal principles of Indian Constitution that "Justice, social, economic and political, shall inform all the institutions of the national life". However, one of the evils inherent in the modern civilisation has been the 'maldistribution of wealth'. In such a situation, the need to reduce the maldistribution requires no emphasis. The problem of reducing these inequalities has two aspects: (*i*) in raising the incomes at the lowest levels and (*ii*) in reducing the incomes at the higher level. In achieving a balance between these two both public expenditures and the taxation policy play a significant role.

However, public expenditures can in a way reduce the inequality by directing themselves towards the provision of services to the community whose income is low. The public expenditures cannot often be so specific as to impart benefits only to a specific community. But in certain social service expenditures, such as the expenditure on housing, education, and medical facilities, the direction of expenditure can be geared to the purpose and may be made, and have often been made, available only to certain sections of persons belonging to a specific strata of income. These measures supplemented by progressive taxation on the higher incomes reduce the inequalities of income. But in reducing the inequalities it has always to be ensured that no damage occurs to the productive system as such.

It is one of the aims of the Second Five Year Plan to reduce inequalities of income and to establish a "more even distribution of economic power".[67] The plan, while recognising the need for reducing the inequalities, emphasised the necessity of redistribution of land, progressive taxation, ceilings on income and

[67] *Second Five Year Plan*, p. 24.

formation of cooperatives, etc. The Commission, however, pointed out[68] that "reduction in income and wealth can follow only from the totality of measures and institutional changes undertaken as part of the plan". It added: "The pattern of investment in the plan, the direction of economic activity given by State action, the impact of fiscal devices used for mobilising the resources needed for the plan, the expansion of social services and the institutional changes in the sphere of land ownership and management, the functioning of joint stock companies and the managing agency system and the growth of cooperative sector under state sponsorship, all these determine the points at which new incomes will be generated and the manner of their distribution." It is thus obvious that the emphasis, so far as public expenditures are concerned, is on the increasing provision of social services.

The extent to which these social services expenditures have brought about any reduction in the inequalities is one which is determined by a multiple of factors such as character,[69] nature, content and direction of the schemes formulated by the different administrative departments. Besides, there cannot be any reduction in the inequalities of incomes unless the expenditure on social services occupies an increased share in the national income. Though it cannot be said from the present situation that the expenditures on social services occupy a significant part of the national income, yet the trend during the last decade has been one of increase in the expenditures on social services. The expenditure on these services has been steadily growing, as may be observed from the table (p. 274).

An important question is whether these 'social services' are adequate for ensuring an equality of incomes? It is generally accepted that the redistributive content of the schemes is not considerable. In the advanced nations, social security and expenditure on social services is implemented on a large scale and

[68] *Ibid.*, p. 33.

[69] For example, construction of a medical college is included in the 'Social Services' expenditures. But the lower income groups' 'main interest' is in the medical facilities provided to them and the impact of those facilities has to be seen from the extent to which an individual can divert his 'income' to other purposes after these amenities are provided free to him.

TABLE XIV

THE EXPENDITURE SHOWN BELOW INCLUDES THE EXPENDITURE OF THE CENTRE, STATES AND UNION TERRITORIES

(in crores of rupees)[70]

	1st Plan	2nd Plan	3rd Plan 61-62
1. Education	149.02	273.50	76.94
2. Health	97.85	227.80	55.50
3. Housing	33.48	84.99	21.56
4. Welfare of backward classes	31.84	83.01	14.99
5. Rehabilitation	95.70	64.23	10.80
6. Social Welfare, Labour Welfare and educated Unemployed schemes:	4.02	36.62	6.70
Total:	411.91	770.15	186.49

these measures include unemployment insurance, old age pensions, etc. The social service expenditures in these countries have a larger 'transfer payment' content in them. It is in fact the 'transfer payments' of this nature that carry a more 'redistributive' element in expenditures. The need for such expenditures in the Indian context hardly requires any emphasis.[71]

Territorial Inequalities

Inequalities exist not only between persons or groups of people but also between States or Territories; even within States inequalities exist between one region and another. These differences are more conspicuous where the state includes a set of regions representing delta areas with many irrigation facilities

[70] *Selected Plan Statistics*, p. 134: 1963.

[71] The Taxation Enquiry Commission, reviewing the position in this respect, stated that the attempts to reduce inequalities through expenditures were modest "partly because the total value of public expenditures constitutes a small portion of the total national income and also because the expenditure on Social Welfare or subsidies by way of transfers to the lower income groups is of little significance. Apart from food subsidies and expenditure connected with relief and rehabilitation of displaced persons (which are temporary) industrial housing, and amelioration of scheduled and backward classes, there are hardly any other directly redistributive expenditures of importance in the Indian budget". Vol. I, p. 142.

on the one hand and another set of regions representing 'dry belts'.

It has been a significant feature of the Indian public expenditures that they are varied and used to lessen these inequalities. However, the actual extent to which these inequalities can be reduced depends on the schemes chosen for implementation. For example, it has been suggested early in 1956, by the National Development Council that industrial production should be 'decentralised'. The Council also suggested that the need for developing a balanced economy for different parts of the country should be kept in view while deciding the location of industrial units either of the public or private sectors.[72] A study of these schemes will, however, result in a shift from a study of the 'public expenditures' to a study of the 'schemes of expenditure'. The relevant consideration, however, is that specific grants have been given and continue to be given on the basis of the recommendations of the First and the Second Finance Commission by the Central Government to State Governments, to compensate for the backwardness of a State; these grants were a substantial source of income to the 'backward states' and while it may not have helped these states to lessen the inequalities in comparison with another state, yet they enabled a significant advance in different fields which otherwise would not have happened if a 'uniform criteria' had been applied to all the States. Another significant factor is that while the incidence of taxation is higher in areas of large incomes, the flow of expenditures, however, are distributed evenly on a national basis. The administration of expenditures irrespective of the amount of taxes paid, would imply that areas of larger incomes pay a higher amount for the same services. These two factors have helped, to some extent, the process of regional equalisation. The attempts made so far in this direction represent only a much needed beginning and a lot more remains to be done.

Rural and Urban Parities

Another feature of Indian economy is the inequality between the rural areas and the urban areas. Though these differences

[72] Second Five Year Plan, p 37.

were sought to be remedied during the last decade, yet a criticism is normally made that the plan itself is biased towards urban areas—for a significant part of the over-all outlay apart from funds earmarked for agriculture, is spent in the urban areas. It is not within the scope of this chapter to make an inquiry into these different criticisms. The purpose here is only to indicate that the expenditure policy has not been geared towards this direction.

The plan includes schemes which involve outlays both in the urban and rural areas. But the benefits that would accrue to the rural areas would be less, as the social and economic overheads are more in these areas, with the result that a major portion of the expenditure has to be devoted to 'overheads.' This is so because the basis of formulation of estimates for urban and rural areas is the same and the estimates so framed yield different results in the urban areas as distinct from the rural areas. In the rural areas the administrative overheads are generally more than in the urban areas and the presence of these factors render the expenditures in rural areas less productive and yielding.

The existence of these factors require that the estimation of financial costs for any scheme in rural areas, should bear this factor in view. However, this factor is not often recognised and consequently the gulf between the rural and urban developments becomes not only acute, but also constant. An expenditure policy should take these factors also into consideration.

Stabilisation and Full Employment

Postulates. During the Great Depression and immediately after the war, public expenditures have been used extensively to prevent periodic recessions which are caused by changes in the environment—either through exogeneous factors or through internal factors of changes in the production process. The expenditures incurred to avoid, prevent or control these fluctuations are called as 'compensatory spending' or 'remedial expenditures'. These expenditures have certainly an established utility during a period of depression. But mere expenditures alone cannot be an adequate tool to counteract either an inflation or a depression. These fiscal policies are to be supplemented by necessary

monetary and debt policies also. In periods of depressions specific programmes of public works are chosen to incur public expenditures, so that the economic effects of the expenditures comprising (*a*) the primary effects of spending itself, (*b*) the secondary effects of consumer spending when consumers begin to spend their newly earned income,[73] and (*c*) tertiary effects of new private investment induced by increase in the public expenditure may show a way to prosperity. It is, however, a moot point whether a reversal in the direction of expenditure can cause a contraction of activity in these fields and thereby act as a counter-inflationary measure. For one reason, it is difficult to bring a contraction in public expenditure; for another, even assuming that the public works have been stopped, yet the normal upkeep expenditure itself would be sizable enough to present problems. A government expenditure invariably means that "services are performed, values are realised, administrative organisations developed, expectations expanded, clienteles formed, interest groups created, pressures mobilised and once these are set in motion, they cannot easily be contracted.[74] Thus an expenditure policy during an inflationary phase has not much to offer. Reliance has to be placed on other fiscal and monetary devices to counteract inflation.

Associated with these programmes during economic fluctuation is the objective of maintenance of 'full employment'. In any economy a recession brings about an immediate decline in the levels of employment. It has therefore been one of the objectives of the public expenditures to promote full employment and to maintain it; and in fact, expenditures intended to counteract a recession are as much an instrument for the policy of full employment also. Towards these purposes it has been suggested that the budgets of any nation should contain built-in[75] stabilizers, both for purposes of undertaking productive investment on

[73] (*b*) and (*c*) above are termed as 'repercussion effects'. A. Smithies: "Federal Budgetary and Fiscal Policy", *Survey of Contemporary Economics*, Vol. I, p. 187.

[74] Variation in Public Expenditure," Dahl and Lindblom. *Income Stabilization in a Developing Democracy*, ed. by Max Millikan, p. 362.

[75] *National and International Measures for Full Employment* (1949), pp. 33 to 38.

behalf of the government to counteract the declining investment rate in the private sector or, alternatively, raise government expenditures on transfer payments (pension, subsidies, etc.) so that the purchasing power of the community could be raised and thereby investment attracted into the field.

As indicated earlier, the nature of the problem in India is more likely to be 'inflation' rather than[76] a recession, but the counteracting measure cannot be a reduction in expenditure for such a reduction is likely to spell doom than any benefit in a developing economy. It is therefore imperative that the pursuit should be one to devise the expenditures in such a way as not to aggravate inflationary tendencies, but at the same time would make it conducive to render development with stability. In other words, expenditures must be properly phased so that they may not positively contribute to the rising inflationary pressures. The experience of the First Five Year Plan, however, indicates that a major part of the overall outlay (nearly 60 per cent) was incurred only during the last two years of the Plan. The following table indicates the progress of the plan:

TABLE XV

(in crores of rupees)

	Plan target (Revised)	1951-52 *(Accounts)*	1952-53 *(Accounts)*	1953-54 *(Accounts)*	1954-55 *(Accounts)*	1955-56 *(Accounts)*	*Total for 5 years*
Centre	1389.5	132.1	125.4	181.3	283.6	392.5	1114.9
States	835.0	127.3	142.2	161.7	192.3	274.0	897.5
TOTAL	2224.5	259.4	267.6	343.0	475.9	666.5	2012.4

A slight improvement was noticeable during the Second Five Year Plan, though the basic trend remained the same. The expenditure on central account for developmental purposes was

[76] Periodical price 'declines' are caused in India more through a 'bumper crop' rather than through any other factor.

expected to be about Rs. 1,424 crores during the first three years of the Second Plan leaving a margin of Rs. 1,088 crores to be incurred during the remaining two years.[77] This tendency of incurring expenditure in the last lap of a plan is likely to accentuate inflationary pressures. These expenditures therefore require careful phasing. Recognising this as an issue of importance, the Planning Commission observed that[78] "in a development plan of the dimension and scope of the Third Plan, the correct phasing of projects and outlays is of greatest importance. Without this it will not be possible to implement the plan efficiently, to keep investments in harmony with the internal and external resources available from year to year and to ensure that at each stage in the plan there are a series of projects under execution which will yield results speedily and that there will be continuity both in planning and in the flow of benefits." Following this objective, the Commission recommended that the phasing of projects should be worked out with strict regard to the requirements of physical planning, period of fruition, etc. but has not laid any significant emphasis on the phasing of expenditures as such. The necessity of an expenditure policy which can provide for proper staggering and phasing of expenditures and avoid deviations from policy that take place in the rough and tumble of budgetary process in the context of a plan can hardly be over-emphasised.

In a developing economy recessions are not likely to occur. All the same, in an agricultural economy like the Indian economy, recessions appear imminent at times. These recessions are often the result of 'bumper crops', as a fall in the agricultural prices caused by a good crop can lead to a fall in the other prices also and may thus set in motion certain forces which are not welcome in an expanding economy. The appearance of these factors on the economic scene may often necessitate 'agricultural price support' policies. As for example, when there was a bumper crop in 1954, leading to a fall[79] in the general

[77] Plan Resources and Outlay—A Review, p. 5.

[78] Draft Third Five Year Plan, June 1960, p. 29.

[79] It is important to note that food prices have an additional weightage in the general price level. The consequence is that any fall in the food prices is immediately reflected in the general price level.

price level (during this period the index of food articles came down from 381.6 in April 1954 to 276.1 in May 1955) certain measures for price support were announced by government. As indicated in the Second Plan[80] "expenditures can always be stepped up and credit made available in ample measure, should recessionary trends unexpectedly appear," and this instrument has been well utilised in the plan period. Thus the expenditure policy has shown enough of flexibility in this regard.

As for full employment it may be said in a developing economy, unemployment is only another aspect of development itself. Therefore, variations in public expenditure to achieve full employment as practised in the advanced economies cannot be made applicable to underdeveloped countries. In advanced economies the problem is one of 'restoring' full employment, while in the developing economies, it is one of achieving 'full employment'. Thus, expenditure policy as such cannot be oriented to these purposes. On the contrary it is the purposes and contents of the programmes that are included in the plans that should be 'employment oriented'.

In conclusion it may be stated that expenditures have an increasing role to play in removing inequality of incomes, in ensuring full employment and in countering the economic depressions. But the working in these aspects can be rendered complete only when the expenditure increases and occupies an increasing share in the gross national product. The Taxation Enquiry Commission has pointed out "that the redistributive effects of Public Finance operations in India cannot attain really significant dimensions as long as the ratios of public revenues and public expenditure to national income remain as small as they are at present.[81] The Socialistic Pattern of Society which is

[80] Second Five Year Plan, p. 38.

[81] There are, however, different opinions as to what should be the limit of expenditures in the GNP: Prof. Colin Clark was of the opinion that if expenditures go beyond 25% of the national product, inflation is inevitable. But this thesis has been conclusively proved to be wrong—see p. 44 *et seq.* of Francis M. Bator's book, *The Question of Government Spending, Public Needs and Wants* and also the last chapter of Arthur Smithies's *The Budgetary Process in USA.*

the objective of government, requires greater expenditures and greater share of government expenditure in the national income.[82]

[82] This policy will be in sharp contrast to the policy followed in the USA. President Eisenhower stated his government's objective thus: "By using necessity—rather than mere desirability—as the test of our expenditure we will reduce the share of the national income which is spent by the government . . . government must play a vital role in maintaining economic growth and stability. But I believe that our development since the early days of the republic, has been based on the fact that we left a great share of our national income to be used by a provident people with a will to venture". This philosophy originally included in his 1954 Budget Speech was also included in his 1961 Message.

PART II
AUDIT CONTROL

Chapter Nine

AUDIT

AUDIT, like the judiciary, executive and the legislature, is one of the important ingredients of a democracy. Its primary purpose is to ensure that in the process of expending governmental funds all canons of financial propriety have been observed, that the rules and regulations which govern expenditures are adhered to, that the expenditure has been incurred by the authority which is empowered to incur it and that it has been incurred for the purpose for which it has been appropriated by the Parliament. Audit supplies an essential link between the executive and the Parliament and is helpful in interpreting the actions, in so far as they have a financial bearing of the former to the latter.

In a parliamentary democracy, the actions of the executive are accountable to the legislature; it is the duty of the legislature to scrutinise and examine, if possible critically, each of the activities of the executive and formulate its own judgment in an appropriate manner. Since the examination of accounts and the scrutiny of the technical soundness of the financial transactions is a technical job, the initial spade-work in this regard is done by the Audit Department and its findings are placed before the Legislature for its consideration and then before the financial committees of the Legislature for a detailed examination of the audit reports submitted to it. The initial work of the audit forms the basis for the subsequent work of the Legislature. Thus, audit has a prominent role to play in a parliamentary democracy. The audit functions are discharged by the Comptroller and Auditor-General of India and by the Indian Audit and Accounts Department, of which he is the Head. By a historical coincidence, both the audit and accounting functions are performed by the Comptroller and Auditor-General.

In this chapter, we will be concerned with an examination of

the different functions of the Comptroller and Auditor-General (excluding his functions as Comptroller of issues, which are considered separately in another chapter), the Organisation of the Indian Audit and Accounts Department and the relations that exist or ought to exist between the Audit and the Ministry of Finance on one hand and the Audit and the general administration on the other.

The functions of the Comptroller and Auditor-General are many and varied and cover a wide range of activities. The functions have undergone considerable changes and fluctuations ever since the inception of the office of the Auditor-General. The requirements of the day—political or administrative—were always the primary and most influential factors in moulding the course of events and in deciding the range of activities and the nature of the functions of the Comptroller and Auditor-General.

History

The office of the Auditor-General made its first appearance in 1857, when a major reorganisation was carried out by Lord Canning, under which the accounting offices of the Presidencies of Bombay, Madras and Bengal were brought together and put under the charge of a single Accountant-General—a post which was newly created for the purpose. Until this stage, the system of audit and accounts was wanting in cohesion as each Presidency had its own Accountant-General with a set of functions nowhere precisely laid down. One characteristic was that the land revenue payments were made by the collectors while the accounts were compiled and completed by the Accountant-General of the Presidency. Occasionally, some post-audit was also done in respect of debt and different deposit heads.

The reforms of Lord Canning brought about a good deal of change in this system. Incidentally, the foundations of the present day institution of the Comptroller and Auditor-General were also laid in these reforms. These reforms consisted in (*i*) assimilating the different procedures in the three Presidencies and in setting up a general Department for Accounts & Audit for the whole of India and (ii) a post of Accountant-General, the post which has subsequently become the Accountant and Auditor-General, Comptroller-General of Accounts, Comptroller and

Auditor-General, and Auditor-General of India, was created. As a part of the same financial reform, the organisation of the Accountant-General was made a part of the establishment of the Governor-General, independent of the administration of the Presidencies.

During the same period, a budget system was also introduced. And in 1860, an Audit Board with two members (the Accountant-General of India and the Head of the Military Finance Department) was constituted with the object of conducting a monthly appropriation audit which would form the basis of administrative control. This Board, however, did not last long and in less than five years after its formation it was abolished. The abolition of the Board was necessitated by the fact that an Imperial Military Accounts Department was created in 1861 and in 1864 was transferred to the administration of the Military Finance Department. The creation of this Department meant the identification of the Head of the Military Accounts Department as the Head of an exclusive accounting organisation and as such had no place in an Audit Board whose essential function was audit.

The formation of the Board established that the Auditor-General was the highest authority in audit matters.

The abolition of the Audit Board in 1865 was a part of another major organisational overhaul. Under this reorganisation, receipts were rendered to the executive officers, accounts distributed among the Treasuries, and provincial Accounts Offices established. In addition separate offices were established for Postal Public Works (including Railways) and the Heads of these officers were designated as Accountant-Generals. The post of the Auditor-General was redesignated the Comptroller-General of Accounts, carrying the duties of[1] (*a*) managing the public debt, (*b*) supervision of the accounts of those treasuries which were immediately under offices subordinate to the Government of India and (*c*) the administration of the Central Office of Accounts—covering the duties of the Auditor-General relating to the preparation of appropriation audit. The combination of accounting and auditing functions, whose foundations are laid at this stage, have continued ever since, though there were

[1] *Introduction to Indian Government Accounts & Audit* (1930 edition).

occasional attempts to separate the two in certain areas.

These functions have had substantial additions in the later years. In 1876, the management of paper currency was transferred from the offices of the Mint Department to the Accounts Department and the Comptroller-General of Accounts became the Head Commissioner of the Department of issue also.

The title of the office had undergone a further change in 1880. In this year the 'Appropriation Report', which has in due course become the main instrument of the Comptroller and Auditor-General, was introduced and with the introduction of this change the designation was changed to 'Auditor-General'.

In the subsequent years up to 1914, there was no change in the designation of the office but there were many additions and deletions to the list of the functions of the Auditor-General. Important among the deletions was that the maintenance duty of public debt was handed over to the Bank of Bengal with the general supervision remaining in the hands of the Auditor-General. Among the additions were (1) the maintenance of Railway accounts (the continued retention of the Accountant-General for public works was considered unnecessary with the creation of a separate Railway Accounts Office in 1910 and the P.W.D. accounts were later on amalgamated with the Civil Accounts Offices) and (2) the Audit of the Books of the Government presses, etc.

The regular addition of new functions and the enlargement of the existing functions of the Auditor-General very soon imposed an impossible strain on the incumbent of the post, necessitating a fresh review of the duties of the Auditor-General. After the completion of such a review, the Secretary of State sanctioned the creation of a post of 'Controller of Currency' in 1913, with the primary purpose of relieving the strain, though the relief was only in a small degree on the Auditor-General. From this time onwards the Auditor-General became responsible for audit and accounts only.

The Auditor-General during all these years was subordinate to the Government of India even in audit matters and had no separate and exclusive identity representing the independence of audit or his own. The question of making him an independent and statutory authority was all along on the anvil but for

political and other reasons it never materialised. In the beginning, the proposal to set up an independent Auditor-General was opposed by the Secretary of State chiefly on considerations of cost. The 1896 Royal Commission on Expenditure was more specific in objecting to any further grant of independence to the Auditor-General when it obesrved: "Above all, it is most undesirable to adopt a measure which might suggest to the people of India that the Government of India requires to be checked in the auditing of its expenditure by an independent authority set up *in India.*"[2]

The need for setting up an independent audit was, however, very soon realised and a statutory recognition was given to the Auditor-General in 1919, as a part of the constitutional reforms. Under this Act, the Auditor-General was made an independent authority, "who shall be appointed by the Secretary of State in Council and shall hold office during His Majesty's pleasure. The Secretary of State in Council shall, by rules, make provision for his pay, powers and duties and conditions of employment or for the discharge of his duties." (Article 39(1) of the 1919 Act). The annual appropriation reports prepared by the Auditor-General meanwhile continued to be submitted to the Secretary of State, as he was the fountain of all authority and Government of India was only a subordinate agency exercising the delegated authority of the Secretary of State. The period between 1919 to 1935 was an uneventful one so far as the Auditor-General was concerned.

The duties and functions[3] of the Auditor-General were given added recognition in the 1935 Act. The Act included an article which stated "there shall be an Auditor-General of India who

[2] At the time of the enquiry, the Auditor-General was a high officer of the Finance Department and subordinate to that department. His audit, as it is now, was primarily a test audit. The Committee, after making a comparison of the Indian department with its counterpart in the UK, which was already put on an independent footing under the 1866 Statute, concluded that the departmental audit in India was "well organised and effective". It added that "the object of an independent audit can be satisfactorily attained by the test audit if applied on a sufficient scale", and suggested that "full discretion should be left to the Auditor-General as to the extent of the test which he may consider it desirable to apply". (Italics added).

[3] Article 166 of the 1935 Act.

shall be appointed by His Majesty" (under the 1919 act, the appointment of the Auditor-General was made by the Secretary of State) "and shall only be removed from office in like manner and on the like grounds as a judge of the Federal Court." This recognition ensured a greater amount of independence to the Auditor-General.[4] Regarding his conditions of service the Act stated, that "they may be such as may be prescribed by His Majesty in Council". It also laid down that Auditor-General shall not be eligible for further office under the Crown in India after he has ceased to hold his office. It is significant to note that these provisions of the 1935 Act formed the basis for the provisions in the Constitution of India, drafted and enacted after the independence of the country.

There was, however, a discordant note in the 1935 Act which related to the appointment of separate Auditor-Generals for the provinces. The contemporary objective, based on a desire to build up provincial autonomy, found place in Article 167 in the Act which stated that "an Auditor-General of the Province may be appointed by His Majesty to perform the same duties and to exercise the same powers in relation to the audit of the accounts of the Province."[5] This article was never put in force and no province appointed a separate Auditor-General.

The 1935 Act went ahead of the 1919 Act in specifying the duties of the Auditor-General. Though the detailed functions were formulated at a later date, the 1935 Act itself provided that (Article 168) "the accounts of the Federation shall be kept

[4] A significant change that took place during the intervening years has been the separation of Railway accounts in 1929. After this separation, the Auditor-General was concerned with Railway Audit only and not with its accounts. This function continues to be exercised by him up to date.

[5] Referring to this aspect the joint committee on constitutional reform (1933-34) whose efforts paved the way for the formulation of the 1935 Act, observed " it is desirable both on grounds of economy and for other reasons that the present centralised system of Audit and Accounts should be maintained and it is hoped that the Provinces will realise the advantages of such a course. Nevertheless it would be difficult to withhold if an autonomous Province wants to have its own auditing arrangements." They hastened to add: "Where provinces have taken over Audit or Accounts it is essential that there should be established a uniform general pattern for the Federation and for all British Indian provinces."

in such form as the Auditor-General of India, with the approval of the Governor-General, may prescribe". It also added (Article 169) that the reports of the Auditor-General of India relating to the Accounts of the Federation shall be submitted to the Governor-General who shall cause them to be laid before the Federal Legislature. (We will have much to say about the utility and historical evolution of the audit reports at a later stage in the chapter.) Thus it was that the contemporary practice of placing the audit reports before the legislature was made statutory and legal.

The enactment of the 1935 Act was only a step in the direction of a proper formulation of the functions and the responsibilities of the Auditor-General. The spirit of the Act was extended in the rules formulated under the Act. The rules so formulated are known as the 1936 Audit and Accounts Order. This order which was issued on 18 December 1936, contained the rules and regulations that governed the conditions of service (pay not exceeding Rs. 60,000 per annum), leave eligibility (of office), etc. of the Auditor-General and his duties and powers. It is, however, relevant to note that the order was silent on the administrative powers of the Auditor-General in respect of the day-to-day administration of the Audit Department. It was equally silent on the financial powers of the Auditor-General.[6] But these matters have been settled subsequently by separate arrangements between the Government and the Auditor-General, under the Act. Though the non-specification of the administrative and financial powers of the Auditor-General in the 1936 Audit and Accounts order, made the Auditor-General dependent on the executive in respect of many a matter, yet the Act itself symbolised an important and significant step from two points of view: (*i*) it included provisions which secured the independence of audit in relation to the authorities whose transactions are audited and (*ii*) the act was responsible for a precise and comprehensive formulation of the duties of the Auditor-General.

The functions so formulated continued without any important change until 1947 when with the adaptation of the 1935 Act in the Indian provisional constitution order 1947, the post of Auditor

[6] *Introduction to Indian Government Accounts and Audit* (1940 edition).

of Home Accounts in England[7] was also placed under the administrative control of the Auditor-General.

The period from 1947 to the date of the inauguration of the Constitution is not of great importance so far as the Auditor-General is concerned. There were, however, some important developments during this period which, though they never reached the statute book (there was no necessity to make Statutes as they related largely to the administrative and financial powers of the Auditor-General), went a long way in giving more independence to the Auditor-General. The important development in this direction took place in 1949, when Dr. John Mathai was the Finance Minister. Recognising the need for allowing as much freedom as possible to the Auditor-General and with a view to reducing the dependence of the Auditor-General on the Ministry of Finance for various administrative and financial matters, the Auditor-General was given enhanced administrative and financial powers. His powers to create temporary posts in the department were raised to such an extent that he could create any post, excepting the post of the Deputy Auditor-General of India, in the Indian Audit & Accounts Service for a period of two years; he was also empowered to create any post in the subordinate services on a permanent capacity and in a similar way his powers in other fields also were substantially enhanced. To enable him to exercise these powers the budget of the Auditor-General was not subjected to the usual cuts imposed by the Ministry of Finance, but was decided on the basis of mutual consultations between the Auditor-General and the Ministry of Finance. Also, to allow him a measure of budget flexibility the Auditor-General's budget was allowed to include a lumpsum provision of Rs. I lakh per annum. These measures established the independence on a firm ground and made the independence realistic.

The enactment of the Constitution provided a further opportunity to review the functions of the Auditor-General and to refix them. The provisions of the Constitution were to a large

[7] The origins of this post are to be found in the 1858 Act which provided for an independent audit in London of the Home Accounts of the Government of India. This post which was outside the purview of the Auditor-General continued being so until independence.

extent based on the 1935 Act, though there were some notable exceptions. It is in order, at this stage, to review briefly the provisions included in the Constitution.

Article 148(1) states that there shall be a Comptroller and Auditor-General of India who shall be appointed by the President under his hand and seal and shall only be removed from office in like manner and on the like grounds as a Judge of the Supreme Court. This clause is an improvement over the 1935 Act in two ways: (*i*) the designation of the Auditor-General has been changed to that of the Comptroller and Auditor-General to allow him to exercise control on the exchequer issues also[8] and, (*ii*) it has been stipulated that the appointment shall be under the hand and seal of the President.[9]

The Constitution also stipulated that "the Comptroller and Auditor-General shall, before he enters upon his office, make and subscribe before the President or some person appointed in that behalf by him an oath of affirmation according to the form set out. It has also laid down that the conditions of service of the C & AG shall be determined by the Parliament and that he shall not be eligible for reappointment to any office "under the Government of India or under the Government of any State".[10]

To enable him to be statutorily independent from the executive, it was provided in the Constitution that the administrative expenses of the office of C & AG including the salaries and allowances of the staff of his office were to be 'charged' on the consolidated Fund of India.[11] In matters affecting the conditions

[8] T. T. Krishnamachari, moving an amendment for the change of the designation, stated in the Constituent Assembly: "The function which the draft constitution imposed on the Auditor-General is not merely Audit but also Control over the expenses of the Governments. Undoubtedly the term Auditor-General has all along been used in the 1935 Act to include both these functions."

[9] This part of the article, which was not included in the draft constitution, is the result of the incorporation of an amendment moved by B. Das.

[10] Recently A. K. Chanda, a former Comptroller & Auditor-General was appointed as Chairman of the Finance Commission. This was justified on two grounds: (*i*) that the post of Chairman of the Finance Commission is not a post under the government and (*ii*) that the post is held in an honorary capacity.

[11] The provision that the expenses of the C & AG's office shall be charged

of service of the personnel of the Indian Audit and Accounts Department, it was stated in the Constitution that the applications of the general rules to the IA & AD personnel shall be made by the President only after consultations with the C & AG. The term 'consultation' implied that the advice of C & AG in matters affecting his administration need not always be accepted but can be overruled by the President. This indeed happens rarely, but the provision has been made as most of these administrative matters "hinge on the executive direction of the authorities concerned, as they might affect the principle of parity, with the other services under the Government".[12]

The constitution envisaged him as a 'most important officer',[13] and in making various 'provisions' which govern his relations with the executive, it laid greater emphasis on independence for audit. Such an objective formed a strong undercurrent at the time of the discussion of these provisions of the constitution as was abundantly made clear by Dr. Pattabhi Sitaramayya, who stated: "No matter how perfect your Constitution may be, no matter how numerous may be the checks and balances as safeguards for the right conduct of the business of the future, it is money that counts and we have to deal with huge sums and if all this money is not spent alright and if the people deliver cheap jibes at men like me who count money . . . then there is no government at all worth mentioning; it is an anarchy, it is

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and not voted aroused considerable opposition (particularly from R. K. Sidhwa) from the Members of the Assembly on the plea that it reduced parliamentary control. Replying to this criticism, B. Das, the mover, observed: "Provision for a charged amount has been made only to avoid a clash and deadlock in future in the operation of the responsibilities of the Central executive and the Auditor-General." B. R. Ambedkar, who piloted the Constitution Bill also stated: "The reason why it is made non-votable is a very good reason, because first we do not want the executive to interfere too much in the necessities as determined by the Auditor-General with regard to his own requirements; we do not want a lot of legislators who might have been discontented for some reason or other, or because they may have some kind of a fad for economy, to interfere with the good and efficient administration of the Auditor-General". —C.A. Debates.

[12] T. T. Krishnamachari, Constituent Assembly Debates.

[13] Ambedkar, C.A. Debates.

chaos, it is loot, it is dacoity. And who is to control this? The Comptroller and Auditor-General must be supreme and independent as the Judges of the Supreme Court, perhaps even more so.... He should not, therefore, come under the ire of the government or any party or of the Finance Department.... Till 1921 in this country, we never thought of the independence of the Auditor-General. Later on, we built it up step by step and stage by stage, so that today we have installed him as a supreme master who has his own judgment to look to and who has no frowns or favours to be guided by from outside. The Comptroller and Auditor-General should be the supreme arbitrator of India's finances and then alone our Swaraj will be a proper Swaraj."[14] This statement more than amply represents the approach and attitude of the day.

The important constitutional provisions which contribute to the independence of the C & AG are: (*i*) though appointed by the President, the Auditor-General can be removed from office only on an address from both Houses of Parliament and on the grounds of (*a*) proved misbehaviour and (*b*) incapacity only[15]; (*ii*) his salary and conditions of service are statutory and cannot be varied to his disadvantage during his term of the office; (*iii*) he is made ineligible for any appointment under the Central Government or in the State Government so that he may have no inducement to please the executive of any government; (*iv*) the salaries of the C & AG and his staff of the headquarter offices are 'charged' items only and are not votable and (*v*) lastly, the constitutional provisions have been amply supplemented by the administrative and other financial powers delegated to him by the executive. In fact his administrative powers, in certain respects are larger than the powers of the judges of the Supreme Court, though they are lesser than the powers of the Speaker of the Lok Sabha.[16] His financial powers, however, are greater than all these authorities and in some respects he enjoys even more powers than the Central Ministries. It should also be recognised that independence, notwithstanding all statutory provisions, etc. is an 'attitude of mind', which while it can

[14] C.A. Debates, Vol. I, p. 947.

[15] D. D. Basu, *Commentary on the Constitution of India*, Vol. I, p. 811.

[16] See Recruitment And Conditions of Service Rules of Lok Sabha, 1955.

be hampered, cannot be enlivened by a statute. All the same, statutory safeguards are necessary and these have been provided for in a significant measure in the Constitution.

Before we move on to a consideration of the duties and functions of the C & AG as laid down in the Constitution it may be stated that legislation governing the conditions of service of the C & AG was enacted in 1953. Under this Act, the term of the tenure of the post was fixed at 6 years and suitable provisions were also made regarding his pension, etc.

Duties and Powers of the C & AG

Articles 149 and 150 of the Constitution deal with the Duties and Powers of the Comptroller and Auditor-General. In accordance with Article 149, the Comptroller and Auditor-General shall perform such duties as may be prescribed under any law made by Parliament and till such time he shall perform the same duties as he was performing prior to the inauguration of the Constitution. The functions of the Comptroller and Auditor-General, as stated earlier, are the same as those contained in the 1936 Audit and Accounts order as adopted in the Provisional Constitution order of 1947. It was, however, expected all along that a separate 'exchequer and audit bill' would be presented to the House, as desired in the Constitution, but so far no such legislation has been made though it is likely that it will be made in the very near future. Article 150 states that the "accounts of the Union and of the States shall be kept in such form as the Comptroller and Auditor-General of India may, with the approval of the President, prescribe". This provision makes the Comptroller and Auditor-General responsible to the accounts and audit not only of the Centre but also of the States. This provision has, incidentally, done away with the provision of the 1935 Act under which separate Auditor-Generals could be appointed for each Province. This provision is therefore an important one, for it has made the centralised system of accounting and auditing constitutional.

Article 151 deals with the audit reports to be submitted by the Comptroller and Auditor-General. It states that reports in respect of the union government shall be "submitted to the Persident who shall cause them to be laid before each House of

Parliament" and in respect of States these reports are to be submitted to the Governor who shall cause them to be laid before the Legislature of the State. These reports are in practice submitted to the Ministry/Department of Finance, which on behalf of the President/Governor presents them to the Legislature. These reports are an important instrument in the hands of the Comptroller and Auditor-General and it is in the consideration of these reports that the Comptroller and Auditor-General supplements the work of the Parliament; and together these two agencies make the actions of the Executive accountable to the public.

The functions thus devolving on the Comptroller and Auditor-General may be analysed under the following heads: (*i*) as Comptroller of Exchequer issues; (*ii*) as an Accountant of the accounts of the Central and Provincial Governments and (*iii*) as an Auditor-General entrusted with the task of auditing the transactions of the Executive. Out of these three, aspect (*i*) is considered separately in another chapter and therefore the following paragraphs are devoted to a consideration of the other two aspects only.

The Comptroller and Auditor-General and Accounts

In the Indian financial system the initial and the basic accounts of government transactions are prepared by the authorities through whom the transactions occur. The Agency specifically created for this purpose is the 'Treasury'—which was ushered into existence as part of the 1865 Reforms mentioned earlier. The 'Treasuries' which form part of the 'Revenue' administration of the States are under the administrative control of the States, unconnected with the Indian Audit and Accounts departments. These are the units at which the Public Accounts—payments and receipts—start; the accounts are then compiled at each Treasury in two separate monthly accounts, one for the transactions of the Union Government and the other covering the transactions of the State Government and are then sent to the Accountant-General of each State who compiles them into consolidated monthly statements of the States and Union Government.

The function of the Comptroller and Auditor-General or the

Indian Audit and Accounts Department, (the terms cover each other and are used throughout in that sense) is essentially one of compilation of accounts, while the accounts as such are built up from below where each of the many District and sub-Treasuries contributes its quota. The duty of the Accounts Department is to compile "under different heads prescribed for Government account, those initial accounts which under the rules are required to be rendered to it for compilation and to arrange the results of transactions under those heads in such a form as to bring out the combined results of all the transactions which occur during a given period".[17]

Though the initial accounts are not maintained by the Comptroller and Auditor-General, there are certain other functions which devolve on him under the Audit and Accounts order of 1936. These duties are: (*i*) he is responsible for keeping the accounts of the Federation (Union) and each Province (State) —i.e., accounts other than the accounts of the Federation relating to Defence or Railway and accounts relating to transactions in the UK and initial accounts maintained by the Treasuries and departmental offices including accounts of Stores, and trading and manufacturing accounts. (*ii*) It is the duty of the Comptroller and Auditor-General to prepare annually a summary of the accounts.[18] These statements known as the 'Finance Accounts' include comprehensive information relating to the Revenue Expenditure (capital outlay shown separately) and Public Debt. They also include detailed information regarding the results of the operations of the commercial departments like Railways, Posts and Telegraphs and Irrigation. Though the preparation of the 'Finance Accounts' is a time-consuming process and is therefore usually submitted[19] late, yet it reveals in a nutshell the magnitude, depth, dimension and extent of the financial operations of the Government in the field of revenue, expenditure and debt. (*iii*) He is also[20] to prepare a statement incorporating

[17] *Introduction to Indian Government Accounts and Audit* (1950 Edition), para 4.

[18] Para 11 of the order.

[19] The Finance Accounts of the Central Government relating to 1948-49 to 1954-55 were submitted only in 1960.

[20] Para 12, 1936 order. Pending Legislation by the Parliament specifying

a summary of the accounts of the Union and the State for the preceding financial year and particulars of their balances and outstanding liabilities and containing such other information as the President may direct to be included in the Statement. This statement, known as the combined Finance and Revenue Accounts of the Central and State Governments in India, is an extremely useful document for it contains a wealth of statistical information and also gives at one place the accounts of the States and the Centre. (*iv*) Besides these two types of accounts, he has to submit annually to the Central and State governments the Appropriation Accounts relating to expenditure brought into account in a financial year of all the items expended under each Demand for which amounts have been appropriated by the Parliament. This is the document which presents the details of the expenditure under the same heads, under which they were voted. The Appropriation Accounts, which merely presented the 'accounts' up to 1923-24, had undergone certain changes in that year. From this year onwards, financial[21] irregularities relating to embezzlements, frauds, etc. were also included in the form of 'Notes' under the respective grants. (*v*) The 1936[22] order also provides that the Comptroller and Auditor-General may inspect any office of accounts which is under the control of the union or the States, including treasuries and such other offices responsible for the maintenance of accounts, so as to ensure the accuracy and the correctness of the initial accounts maintained by these offices for the computation of which he is later responsible and (*vi*) one of the functions that devolved on him after the advent of the constitution is that he has been made responsible for prescribing the form of the accounts of the union and of the States. (The constitution specified that they "shall be kept in such form as the Comptroller and Auditor-General of India may, with the approval of the President, prescribe".) The object of this provision as stated earlier is to secure uniformity in the accounting procedures between the Centre and the States

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the duties of the C. & AG they continue to be governed by the 1936 order.

[21] PAC Reports, Vol. I, *Epitome*, p. 11.

[22] *Ibid.*, para 17.

and between the civil departments and other departments like Defence and Railways, which have their own accounting arrangements.

From the point of view of the control of public expenditure, the functions of the Comptroller and Auditor-General in so far as they relate to accounting are not very important, though it cannot be denied that the system of Accounts is extremely helpful in detecting frauds, embezzlements and other technical errors. But these come to light when the 'audit mind' is brought to be borne upon the accounts, not only in the final consolidation of accounts, but also in the day-to-day computation and compilation.

Comptroller and Auditor-General as an Auditor

The primary purpose of audit is to ensure that "the money has been applied to the purpose or purposes for which the grants made by Parliament were intended to provide and that the expenditure conforms to the authority which governs it". This principle, which was for the first time included in the Exchequer and Audit Act of the UK, has been amplified and adopted to govern the functions of the Indian Auditor-General. This amplification, which is contained in the 1936 Audit and Accounts order, to which a reference has been made earlier, states that "it shall be the duty of the Auditor-General (*i*) to audit all expenditure from revenues of the Federation (Union) and of the Provinces (States) and to ascertain whether the moneys shown in the accounts as having been disbursed were legally available and applicable to the Service or purposes to which they have been applied or charged and whether the expenditure conforms to the authority which governs it; (*ii*) to audit all transactions of the Federation (Union) and the Provinces (States) relating to debt, sinking funds, advances, suspense accounts and remittance business; (*iii*) to audit all trading, manufacturing and profit and loss accounts and balance sheets kept by order of the Governor-General (President) or of the Governor of a Province (State) in any department of the Federation (Union) or of the Province (State) and in each case to report on the expenditure transactions or accounts so audited by him." These functions continued to

be performed by the Auditor-General and today they form the main core of his audit functions.

The audit so performed is an important instrument in the control of public expenditure, for it is the instrument which makes the expenditure accountable. This audit of necessity functions in a dual capacity;[23] firstly, it checks the extent of applications of rules and regulations issued by the Administration, by the government servants subordinate to it. (This function is performed on behalf of the government) and secondly, it ensures on behalf of the Legislature that the actions of the government have been in accordance with views and requirements of the Legislature. It is in the process of this work that audit becomes an important instrument of financial control.

The audit, however, is not responsible for ensuring economy in the governmental expenditure for essentially it is a duty of the executive. But audit, through its working and through the submission of the annual audit reports, brings to bear a financial criticism based on the accounts and a subtle influence on the process of incurring expenditure and after the expenditure has been incurred, by bringing to notice the wastefulness and infructuousness in public expenditures. The audit of the Comptroller and Audit-General is continuous (concurrent in a section of the cases and post-audit in respect of most of the expenditures) and the staff of the department are always vigilant to find out the inaccuracies and other technical errors. The staff who are spread[24] throughout the length and breadth of the country scrutinise many of the transactions of the government and make queries to the administration inquiring about the various aspects of a transaction and depending on the nature of the reply received from the Government these objections are either withdrawn or if the objections are of a serious nature, they are submitted to the Accountant-General or the Comptroller and Auditor-General who decides whether it is worth including in the audit reports and thereby bring it to the notice of the Parliament and Public. The final discretion, however, whether

[23] Audit Code, Vol. I, para 23.

[24] Referring to the British experience, Sir Herbert Brittain states: The auditors are in fact as ubiquitous as the spenders and their work is thereby greatly facilitated." *The British Budgetary System*, p. 280.

an objection should be included or not, rests with the Auditor himself and not with the 'executive'. To enable audit to discharge these functions, it is allowed complete access to all the records of the transactions. His right to call for information and account is statutory. The 1936 order states that the "Auditor-General shall have authority to require that any books and other documents relating to transactions to which his duties in respect of audit extend" and where the documents in question are of a secret nature, then "the Auditor-General shall accept as a correct statement of the facts" if such statements are furnished by the Governor-General or the Governor as the case may be. This procedure which is still in vogue in the States, has been changed since 1954 at the Centre. Now, secret documents are sent to the Accountant-General concerned by name specifically and are returned by him after finishing his work.

The purpose of audit is to offer financial criticism and its value lies in the reports it submits pointing out the impropriety or irregularity of certain transactions so that appropriate action could be taken to rectify them. The audit reports have far-reaching effects on procedures and attitudes of financial control in particular. Its effect is mainly in the nature of a deterrent as it prevents the recurrence of the irregularities and paves the way for a prudent expenditure policy. It may, however, be argued that audit is essentially a post-mortem and that its reports are submitted after a good deal of lapse of time, usually after the transactions have taken place. While these handicaps persist and continue, it cannot be denied that audit has a wholesome influence in directing the expenditures and in creating a proper atmosphere which facilitates the avoidance of irregularities, etc. Audit, despite the handicap that it bolts the stable door after the horse has gone, yet, as Herbert Brittain observed, is probably the most potent force making for prudent financial administration. What one department is publicly pilloried for today, all other departments will try to avoid tomorrow."[25]

The Audit conducted by the Comptroller and Auditor-General can be studied under the heads of (*i*) Audit of Expenditure of the Government, (*ii*) Audit of Receipts and (*iii*) Miscellaneous Audit.

[25] *The British Budgetary System,* p. 261.

Audit of Expenditure

As has been stated earlier, the 1936 order makes it incumbent on the Comptroller and Auditor-General to audit all expenditures incurred from the revenue of the union and the States. This aspect may be called the 'statutory audit' by the Comptroller and Auditor-General. However, along with this statutory audit there has also grown during the last few decades, a certain amount of discretionary audit also. This 'discretionary audit', which has first grown in the UK as a result of the suggestions of the Comptroller and Auditor-General of the UK and the endorsement of the same by the PAC has in due course gained recognition in this country where it is now practised. Referring to the need for such a 'discretionary audit', the Comptroller and Auditor-General of the UK, D. C. Richmond, stated before the Committee of National Expenditure in 1903, "but I have also the duty to report on the accounts and availing myself of that opportunity, I think it my duty to report anything which in my judgment falling within my proper functions, it concerns the House of Commons to know, waste, extravagance and loss, etc." The Committee on the basis of this suggestion recommended that "the Public Accounts Committee should even more than in the past encourage the Comptroller and Auditor-General to scrutinise and criticise improper and wasteful expenditure and to indicate where censure is in his opinion required." The discretionary audit which has grown out of this recommendation has its own limitations but we shall be concerned with them at a later stage. It is enough to realise that audit of the Comptroller and Auditor-General is both statutory and discretionary, the former based on the functions laid down in the 1936 order and the latter based on a liberal interpretation of these functions and on the periodical suggestions made by the Public Accounts Committee in this regard.

The statutory audit is three-fold: (*i*) an accountancy audit, (*ii*) an appropriation audit and (*iii*) an administrative audit.[26]

The object of accountancy audit is again three-fold[27]: (*i*) detection of fraud, (*ii*) detection of technical errors and

[26] See A. J. V. Durell, *The Principles and Practice of the System of Control over Parliamentary Grants.*

[27] *Ibid.*

(iii) detection of errors of principle.[28] To detect these errors the audit is generally conducted continuously though it is not always exhaustive and complete. The audit in India is only a test audit but the intention of such a test audit is to ensure that the system has actually been working well. This test is occasionally supplemented by full checking at intervals or sample checking regularly. The procedure of sample checking, etc. is ensured through 'concurrent audit' which generally examines a good percentage of the expenditure sanctions issued from time to time. These concurrent audit parties are allotted either to a department or to a group of departments. These parties verify the sanctions emanating from that group only. However, as there are audit sections for each group, the range of activities of the government as a whole come within the active zone of the audit. It is the work of each audit unit, which, when consolidated, represents the total coverage of the fiscal activities of the government.

The appropriation audit consists in ensuring that the grants are spent on the purposes for which they are provided. In the process of ensuring the fulfilment of this objective, the audit is also concerned with the proper classification of expenditure between Revenue and Capital and against provision of Funds, etc. Every grant appropriated with the approval of the Legislature is for a specific purpose or a set of purposes and to that extent parliamentary grants are conditional. The appropriation audit enables the Auditor-General to satisfy himself that the expenditure which is being audited is within the ambit of the grant and that the expenditure incurred has been incurred for the specific purpose for which it was voted by the Legislature. In the process of this examination, audit is also concerned with a scrutiny of the causes that led to a discrepancy between the estimates and the final out-turn. It also verifies where there have been reappropriations from one Head to another, whether such reappropriations conform to the authority delegated to it.

[28] Frank Tribe calls this type of audit a 'straightforward accounts audit', the object of which, is to see that the accounts are correct from the ordinary accountant's point of view. No doubt in the process of verifying the correctness of accounts technical errors are also detected and included in the Audit Report. "Parliamentary Control of Public Expenditures", Winter 1954, *Public Administration.*

The appropriation audit, thus, is the document which reveals the various aspects of the transactions of government and, as Durell has observed, "the strictness with which appropriation is applied is the measure of Parliamentary Control". The appropriation audit is not done on a test basis as in the case of accountancy audit and to quote Durell once again: "The importance of the appropriation audit and the fact that it is the primary function of the Comptroller and Auditor-General preclude the possibility of being on a test basis as in the case of accountancy audit. It must be a detached and complete audit."

The object of administrative audit is to ensure that all the expenditure sanctions issued by various administrative authorities are supported by the requisite authority. The administrative authorities enjoy certain powers within the limits of which they can issue the expenditure sanctions themselves and these are acceptable to audit also. Where, however, it is a matter which exceeds the limits of powers enjoyed by the administrative authorities, such sanctions can be issued only in consultation with the Ministry of Finance and in these cases even the final sanctions are sent to the audit through the Ministry of Finance. The process of administrative audit consists in verifying whether a sanction has been issued supported by proper authority or not. This type of audit puts the administration on the defence and makes it adhere to the rules and regulations laid down for the purpose.

As has been noted earlier, along with the statutory audit the Comptroller and Auditor-General also carries a certain amount of discretionary audit. This has come to occupy an important place now and is given more importance than even the conventional and statutory audit. The discretionary audit lays emphasis on undertaking investigations and reporting on any wasteful and uneconomical expenditure regarding contracts and other major deals. These duties are not laid down in any statute nor have any[29] precise rules been laid down governing this audit. This discretionary audit does not, as a matter of fact, lend itself to precise definition for it depends on the magnitude of an issue and on the approach of the Comptroller and Auditor-General.

[29] See para 85 of the Audit Code.

The essential function of audit in making this discretionary audit is to call the attention of the House "not only to waste of public money but to every matter arising out of his examination of finance, to which he thinks the attention of Parliament should be directed."[30] Such audit[31] consists in the examination whether, in the process of incurring expenditure, any canons of financial propriety have been violated and in ascertaining whether any other deed which not only violates the canons of financial propriety but also transgresses a universally accepted standard of official conduct or financial administration has taken place.

An enquiry into the wastefulness of a deal is as good as an enquiry into the efficiency and the soundness of the economics of the transaction in question. But in the process of reporting the results of his investigation, he (C & AG) does not assume the role of a judge who sits on judgment, but merely points out the various aspects of the transaction. Pronouncement of a judgment is, more often than not, liable to cause friction with the administration and would also incidentally imply that the audit is trying to substitute for the administration. Essentially, the audit has to act as a prosecuting counsel and not as a judge, which function falls appropriately within the purview of the Public Accounts Committee. Therefore, in matters of this nature where friction is more likely, careful decisions are imperative and the success and consequently its beneficial results depend a good deal on the moderation and tact with which the discretion is applied.

It would be appropriate to consider, albeit briefly, at this stage, the aspects of efficiency audit about which much has been said in the recent past. We have seen earlier that audit is not concerned with 'policy' for it takes it as given and granted. It does not claim to be an efficiency audit for it does not pronounce a judgment on the efficiency of a transaction or a business activity but is more concerned with pointing out the technical flaws, wastage, etc. But these comments on wastage and inefficiency in administering a specific project reflect only an aspect of efficiency audit and cannot be treated as 'efficiency

[30] A. J. V. Durell.

[31] Sir Frank Tribe, called this 'Finance Audit'. The Audit Code calls this audit the "Audit against Propriety". See p. 27 of the 'Audit Code'.

audit' itself. The term efficiency audit implies something more by which the overall assessment of the performance of an organisation can be made and known.[32] This efficiency audit which was first practised in Sweden,[33] both at the administrative level and at the Parliamentary level, has found many supporters, including Indian Parliamentarians and it is generally argued that a similar efficiency audit must be introduced in India as well.

There are, however, certain limitations in the working of an 'efficiency audit'. Efficiency audit presupposes a set of principles or suitable criteria against which the efficiency of government transactions can be judged. What may apparently appear as an inefficient transaction may obviously be the result of a subjective approach. Besides, the form in which accounts are now prepared does not throw any important material to enable an assessment of the efficiency of a programme. It is also to be recognised that efficiency is a measurement of the relation between the input and the output and therefore adequate data has to be given even in the Appropriation Act, which in the long run, when compared with the expenditures incurred from a Demand, may give a picture of the efficiency. As for example, when presenting the demand to meet the expenditure of revenue administration adequate information may have to be given regarding the likely tax yield in respect of each expenditure. Such a supply of information may help throw some light on the efficiency of tax collection. But all said and done efficiency is a multifaced issue and requires the consideration of many other factors besides cost alone.[34] The efficacy of an efficiency audit depends more

[32] "As R. H. Wilson has pointed out 'efficiency audit is a convenient label to cover a whole range of separate processes of measurement to test the standards of performance of an organisation." Quoted from B. Chubb, *The Control of Public Expenditure.*

[33] In Sweden, "an independent auditing office (Statcus Sakrevision) outside the General Accounting Office conducts an examination of administrative procedures. This extends to considerations of efficiency and performance in Administration." The Parliamentary audit committee has also a small staff at its disposal with authority to examine all types of transactions as well as other questions affecting the efficiency of a budget execution. *Government Accounting and Budget Execution.*—UNO, 1952, p. 69.

[34] Sir Frank Tribe, observed in the course of a lecture: "I do not believe

on the building up of a set of yardsticks covering the whole field of government transactions against which the efficiency of a transaction or operation can be measured. Another limitation is that this efficiency audit cannot be made applicable in all fields, especially in the field of general administration where a major part of the expenditure is incurred on the administration of 'personnel'. It is indeed difficult to judge the efficiency of an office worker in terms of the expenditure incurred on him or even in quantitative terms of his work. In measuring the efficiency of an office worker, it is the human factor which is more important and any attempt at quantifying his work will only end up in revealing only a part of the picture. The efficiency audit as a process is more useful and is more appropriate in the case of manufacturing and commercial organisations. In these concerns, efficiency renders itself to better treatment and since it is an essential tool in the formation of their policy it would be particularly advantageous for them if such audit is internal as well.

Another significant aspect is that the Public Accounts Committee, in its examination, does not merely confine itself to the Appropriation Report. Though it is not concerned with the policy aspects the Committee looks into the economy and efficiency of each transaction of government. The audit as such is not concerned with policy but only with facts, and economy is not the concern of audit, as much as it is the concern of the administration. What is in fact the responsibility of the Public Accounts Committee which satisfies itself that the methods in which government operations have been carried out are economical, cannot be shifted or transferred to any other agency. Efficiency review can be achieved to an extent if the emphasis of the approach of the Public Accounts Committee is more on the 'management' aspects and this can be achieved, in a way, if the Committee chooses to examine the representatives of administra-

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that any examination based on figures alone and ignoring such matters as personnel management, installation of machinery and general office or factory organisation can lead to a proper judgement of the efficiency of a concern."

tion more on the 'management aspects' than on routine technical flaws.[35]

It would thus be observed that efficiency audit has two different phases: (*i*) at the Parliamentary level and (*ii*) at the audit level. In either case the need for formulation of objective standards as a prerequisite for efficiency audit hardly requires emphasis.

Audit of Receipts

Another important function carried out by the Comptroller and Auditor-General is the audit of receipts. The audit of receipts is not statutory for it was not included in the 1936 order. It is also significant to realise that the functions of the Indian Comptroller and Auditor-General which were based to a very generous extent on the 1921 Exchequer and Audit Act of the UK has not included any provision in this regard though the UK Act provided for it. The provision made in the 1921 Act of the UK in this regard is as follows: "(*i*) The accounts of the receipt of revenue by the Departments of Customs and Excise, Inland Revenue, and post office and the accounts of every receiver of money which is by law payable to the Exchequer shall be examined by the Comptroller and Auditor-General on behalf of the House of Commons in order to ascertain that adequate regulations and procedure have been framed to secure an effective check on the assessment, collection and proper allocation of revenue, and the Comptroller and Auditor-General shall satisfy himself that any such regulations and procedure are being duly carried out. (*ii*) The Comptroller and Auditor-General shall make such examination as he thinks fit in respect to the correctness of the sums brought to account in respect of such revenue as aforesaid, and shall, together with his report on the appropriation accounts of the departments concerned, present to the House of Commons a report of the results of any such examination."

However, no such provision was made in the 1936 Audit and Accounts order. All the same the Comptroller and Auditor-

[35] Sir Edward Bridges pointed out that, in fact, the examination of the British PAC is directed to questions of 'economy' in the widest sense. *Budgeting in Public Authorities*, 1960, p. 164.

General, "in virtue of his responsibility for the keeping of accounts of receipts"[36], deemed it fit to verify, from the accounts rendered to him, that sums are recovered regularly and that they have been duly brought to the credit of the accounts. Also in course of time, he had undertaken the audit of receipts at the request of the Government itself. The audit so undertaken, however, covers only a segment of the revenue receipts. Income Tax and Central Excise among the Central taxes and Land Revenue, are some of the receipts which have not yet been brought within the purview of the audit.

The audit of these receipts is important from the Legislature's point of view to render the Parliamentary control effective and complete. The Public Accounts Committee has time and again emphasised the need for such an audit. In one of its reports it observed: "That unless they examined the receipt side of the accounts of the Indian Union, their examinations of the accounts would not be complete. The committee considered that matters arising out of the ways and means policy of the Government also fell within its purview."[37] In pursuance of these recommendations and later discussions income tax receipts are being progressively brought under his purview.[38]

' The main purpose of audit in this respect is only to ensure that a proper system, with necessary rules and regulations, exists for the assessment and collection of Government revenues and that it is functioning smoothly and efficiently.[39] It is not concerned with the correctness of the assessment but with the system and proper accounting of the revenues collected.[40]

Miscellaneous Audit

The Auditor-General, apart from the aforementioned audits, is also concerned with the audit of the Stores and the Stock. This audit does not cover all the departments of the Government of India or of a State except in so far as audit forms part of the duties of the Audit Department in relation to the audit

[36] Audit Code, Article 139.
[37] PAC Reports, *Epitome*, Vol. II, p. 84.
[38] Government of India—Audit Report 1957, p. 64.
[39] A. K. Chanda, *Aspects of Audit Control*, p. 19.
[40] *Epitome*, Vol. I, p. 394.

of the subsidiary accounts of the commercial undertakings. Such audit is undertaken in accordance with Proviso 13(2) of the 1936 order which states that the Auditor-General may audit, with the approval of the President or the Governor, "the accounts of Stores and Stocks kept". The primary purpose of this audit is to ascertain that the departmental regulations governing purchase, sale, etc., are properly carried out, that there is no excessive stores over and above the requirements which is tantamount to locking up the capital and therefore uneconomical, and to verify that the articles of stores are counted periodically and checked against the quantity of balance in the books.

The Comptroller and Auditor-General also undertakes audit of the commercial undertakings of Governments. The power in this respect is derived from the 1936 order which states that it shall be the duty of the Auditor-General "to audit all trading, manufacturing, and profit and loss accounts and balance sheets kept by order." The main object of this audit is to ensure that the accounts presented by the concerns give a complete and true picture of the various financial aspects of the concerns. In the implementation of this type of audit it is the principles of commercial audit which are applied and not the routine type of Government audit.

Along with these functions, a new function has also come to be added during recent years. The increasing number of public enterprises set up in the form of 'corporations' and the need for making them accountable has made it necessary for the Auditor-General to undertake a test audit of the public enterprises also. Besides the audit, the Comptroller and Auditor-General is also responsible for prescribing the manner in which the accounts of the companies should be audited and to give any other instructions to the professional auditors appointed by the companies to audit their accounts. In addition to these, he is also empowered to "conduct a supplementary or test audit of the companies accounts by such person or persons, and in such form, as the Comptroller and Auditor-General may by general or special order direct."[41]

[41] Indian Companies Act 1956, Section 619(3)(b).

He also undertakes audit of corporations in whose statutes it is provided that the audit would be undertaken by the Auditor-General. The Damodar Valley Corporation Act 1948, the Employees' State Insurance Act 1948, the Industrial Finance Corporation Act 1948, Rehabilitation Finance Administration Act 1948 and Air Corporations Act 1953 are some of the examples of this nature. It is not, however, the intention to make a detailed study of these aspects at this stage as that would appropriately fall within a study of 'Public Enterprises'. As has been pointed out earlier the aspects of control on public enterprises does not form a part of this study. This aspect is only mentioned here as it forms a substantial addition to the duties of the Auditor-General.

Limitations

The preceding paragraphs give a broad picture of the general audit activities of the Comptroller and Auditor-General. There are, however, certain limitations to this audit. These limitations relate mainly to those fields where audit does not reach. These limitations are not in the nature of audit but in its jurisdiction. Important among such fields which are not within the purview of audit are (*i*) the Secret Service expenditure. The details of this expenditure are not audited by the Comptroller and Auditor-General. Instead, a certificate given by the Home Secretary to the effect that the amounts have been utilised is admitted in audit and is deemed adequate for audit purposes. (*ii*) Another area in which there is no audit is in regard to the contributions to the international organisations and also in the case of independent institutions receiving grants-in-aid of amounts less than Rs. 1 lakh per annum and Rs. 5 lakhs non-recurring. Similarly, the grants given to the local authorities are not subjected to audit by the Comptroller and Auditor-General, but are inspected by an Examiner of Local Fund Accounts who is a provincial government employee and is not a member of the Audit Department. Notwithstanding these jurisdictional limitations the audit of the Comptroller and Auditor-General is fairly exhaustive and adequate to meet the requirements in making the governmental expenditures accountable.

Audit Reports

The results of the audit carried on in the above process form the subject matter of the Audit Reports of the Auditor-General. Before the inclusion of these findings in its reports the facts are generally verified with the administrative ministry to save subsequent controversies. The Reports submitted by the Comptroller and Auditor-General are of two varieties: (*i*) Audit Report on the Appropriation Accounts and (*ii*) Audit Report on the Finance Accounts.

The Audit Reports which cover the whole range of financial transactions are important means in securing effective Parliamentary control. These Reports are presented separately for the Union and the States. In respect of the Union, the Appropriation Accounts are presented in four parts, viz., Civil, Defence, Railways, and Posts and Telegraphs. The Audit Reports contain (*a*) a narration of cases involving financial irregularities, losses of public money due to fraud or negligence, wasteful or nugatory expenditure and criticisms and comments thereon and (*b*) comments and criticisms arising out of the appropriation accounts on matters such as the accuracy of budgeting, control of expenditure, excesses and savings, etc. (Formerly, the cases which were still under consideration on the basis of audit query were not included in the Audit Reports.[42] But now these are included in the Audit Reports if the administrative decisions on these matters are not made available within a reasonable period.) The Audit Reports as presented now are divided into three parts—Part I relating to the activities of the Central Ministries, Part II to State Enterprises and Part III containing informative statements on various topics of interest. The Second Part, which had no place at all in the pre-independence reports, has come to occupy a significant place with the slow and steady growth of public enterprises.

[42] The Public Accounts Committee recommended in one of the earliest reports that the audit officer must be free to notice any matter that deserves consideration, even where matters have not yet been finalised by the Government. The Government, while agreeing to the recommendations in principle, considered that such procedure is open to objection as an interference by audit in the freedom of the action of the executive. See p. 52, Vol. I, *Epitome*.

The form of Audit Reports is constantly under review and has undergone and is undergoing periodical changes. The objective of all these changes, however, continues to be that of pointing out the waste, inefficiency and uneconomic expenditures involved in government operations. Also, as the purview of audit was extending the scope and importance of the audit reports as an instrument of Parliamentary Control of Finance has also been gaining in importance in the recent past and as Durell observed: "Everything that advances the work of the Comptroller and Audit-General tends to give parliament more ample and full control over expenditure."[43]

The Reports contain important material which is useful not only as the subject matter of discussion of the Public Accounts Committee, but also in highlighting some of the uneconomic transactions and thereby helping their avoidance in future. The items included in the Report indicate the record of every Ministry and it is not unoften that every Ministry tries to avoid being mentioned in the Audit Reports, since such mention is considered tantamount to a censure and therefore undesirable. Though the language of the report is one of understatement "the meiosis of a rhetorician—seemingly wild to the outsider"[44] yet it is one which can set many an administrative action in motion.

However, the utility of the Audit Report would be not only insignificant but would also be steadily losing ground if they are submitted late. In the UK there is a time limit by which the audit reports have to be submitted to the House. In India there is no such limit. Apart from the fact that there is no time limit, the audit reports are generally unduly delayed as the preparation of appropriation accounts generally takes a long time. The shortage of staff in the Department was one of the factors which contributed to this delay.

To avoid this delay, which otherwise would have been responsible for the diminution of its value, the Public Accounts Committee suggested that audit reports may be submitted in advance of the appropriation accounts.[45] Similarly, certain irre-

[43] A. J. V. Durell, *op. cit.*, p. 288.

[44] Basil Chubb, *op. cit.*, p. 180.

[45] The First Report to be submitted in such a manner was the 1952 Audit Report.

gularities which merit immediate consideration of the Public Accounts Committee may have to wait a long time if they are to be included in the report of the year in which they have taken place. Such procedural delays nullify the very impact of the examination by the audit and the Public Accounts Committee. As a way out, the Public Accounts Committee suggested that such irregularities may be included even in the preceding year's audit reports which might be under preparation at that state. Accordingly,[46] cases relating to years later than 1948-49 and 1949-50 were included in the audit reports of 1948-49 and 1949-50. This procedure helped in bringing out irregularities to the notice of the Committee at the earliest possible date and is certainly preferable to the other alternative of including them in the reports of the respective years.

C & AG and the PAC

The audit reports are considered by the Public Accounts Committee of the Legislature and the Committes at the Centre and in the States are respectively assisted by the Comptroller and Auditor-General and the Accountant-General of the State. The Comptroller and Auditor-General has an extremely important role to play at the stage of consideration of the reports of the Committee. His role has been variously described in glowing terms. Durell considered that "the Comptroller and Auditor-General is the agent of Parliament. He is Parliament. Parliament only works through him." This is certainly a flattering view. The more realistic views are those of T. G. Bowles who called him the 'acting hand of the Committee', and of Osbert Peake who described him as the 'guide, philosopher and friend'. (We will have occasion to study more of these aspects in Part III where a chapter is devoted to the study of the Public Accounts Committee).

The reports of the Comptroller and Auditor-General serve as the basis for the examination of the representatives of government and these reports—valuable as they are—provide a glimpse of the year's work of government. The work of the

[46] *Epitome*, Vol. I, p. 666.

Committee or of the Auditor-General is essentially one of annual stock taking.

The Comptroller[47] and Auditor-General, with a view to help the deliberations of the Committee, prepares a list of important points arising out of the accounts and his comments thereon, so that the examination of the Committee could as far as possible be guided and pegged to important topics. In the course of the deliberations the Comptroller and Auditor-General sits on the right of the Chairman and frequently puts questions himself to the witnesses. His position in the process of examination is a unique one for he helps in making the objectives of the Committee clear to the witnesses and in making the actions of the government clear to the Committee. Quite often it may be his responsibility to see that no quizzing of officials takes places,[48] and he may have to save some of the officials from the steady, though understandable, cross examination by the members of the Committee.[49] However, the roles of the Committee and the Auditor-General are complementary to each other, for the value of the examination of the Committee is dependent on the thoroughness of the audit examination; and for the utility of audit, on the support it receives from the Committee. It is an effective combination of this mutual interdependence that makes Parliamentary and audit control real and effective.

The responsibility of the audit officer does not come to an end with the mere submission of the audit report. It is also his responsibility to watch the action taken by the Executive on the errors pointed out by the audit. It has to ensure that remedial action is taken on the irregularities pointed out by it for the non-recurrence of such irregularities can be ensured only when remedial action is taken. Where the audit authorities feel that the remedial action taken is not adequate, the matter is taken up through the Public Accounts Committee.

[47] See S. L. Shakdher's article on the subject in the *Indian Journal of Public Administration*, "A Comparative Study of the C & AG in UK and in India", Vol. IV, pp. 393-410.

[48] See Prof. Morris-Jones's *Parliament in India*, where examples of this restraint are given from the Proceedings of the Committee.

[49] A former Comptroller and Auditor-General of India acclaimed himself as a 'Lord Protector of the Official Witnesses."

We have so far studied the audit undertaken by the Comptroller and Auditor-General on the actions of the Executive. A question arises as to who should audit the audit itself or who is to guard the guards themselves? (*Sed quis custodiet ipsos custodes?*) The sanctions issued by the Comptroller and the Auditor-General are audited by an Under-Secretary in the Department of Expenditure of the Ministry of Finance. In addition to this audit and supplemental to it, there is a system of internal audit within the Audit Department itself by which one Accountant-General acts as the Auditor of another Accountant-General. However, the audit of both is only an audit of sanctions and is confined to verifying whether a sanction is based on sufficient authority or not and whether it is in accordance with rules and regulations governing the subject. There is no system as in the UK, whereby the appropriation account of the Audit Department is certified by one of the permanent Joint Secretaries to the Treasury.[50] In India the appropriation account is not certified by any official other than the Comptroller and Auditor-General himself and this has occasionally given rise to an impassioned plea that the Audit Department should be subjected to a greater scrutiny. Dean Appleby has questioned whether it was not "more important who examines the Audit Department with a scrutiny more significant than mere auditing."[51]

It is of course true that the mere audit of sanctions issued by the Comptroller and Auditor-General as the administrative head of a department is not adequate and requires to be supplemented by other audits also.

II

Organisation of the Indian Audit and Accounts Department

The growth of this organisation was conditioned by the same factors which had conditioned and moulded the functions of the Comptroller and Auditor-General, already discussed at length in the preliminary sections of this chapter. The organisation that

[50] H. Brittain, *The British Budgetary System*, p. 262.

[51] Paul H. Appleby's Second Report, 1956.

This question was provoked by an embezzlement that took place in the Audit Department, which was just then reported, p. 27.

has so grown has at certain times witnessed contraction in its duties and at others, a quick and sudden expansion. The organisation can be studied by dividing it into two different groups: (*i*) Offices which combine both accounting and auditing and (*ii*) Offices exclusively meant for auditing.

The combined offices of Accounts and Audit may again be subdivided into two classes: (*i*) civil offices and (*ii*) Posts & Telegraphs accounts offices.

The civil audit offices are spread all over the country and each State has its own Accountant-General. In the case of certain smaller States, the status of the Head of these offices is slightly lesser than that of an Accountant-General and are headed by Comptrollers. Until the integration of the Princely States in 1950, the audit of the Auditor-General did not include them but after the Federal Financial integration the jurisdiction of the Comptroller and Auditor-General was extended to them also. The systems of these States prior to 1951 were different from the accounting systems of the Comptroller and Auditor-General. Therefore one of the problems that were faced by the C & AG immediately after the integration was to remodel the system of accounts and audit in these States and put them on the same traditional foundations as obtained in Part 'A' States.[52]

An interesting feature of the system is that expenditure for the management of the office of the Accountant-General is borne by the Central Government and not by the State Governments; and as a result the maintenance of the accounts and audit of the State Government becomes a liability of the Centre. This procedure involved excessive commitments on the part of the Centre and no reason can be convincing enough in support of its continued maintenance. (Significantly enough, the charges of Railway audit, which is an analogous case, are recovered from the Railway Board.[53] It can, however, be argued that Railway Board is a commercial organisation and therefore recoveries are merited). It would appear that similar recoveries can be affected from the State Governments also.

[52] Ministry of Finance, Annual Report for the year 1951-52.

[53] Though a provision is made in the budget of the IA & AD yet the entire expenditure on Railway audit is compensated by 'recoveries' to the same extent from the Railway Board.

Secondly, the Posts and Telegraphs offices which are under the supervision of the Accountant-General, combine the accounting and auditing functions. This wing has over eight branches spread all over the country and are in continuous contact with the Department of Posts and Telegraphs.

The Audit offices of the organisation are of three types: (*i*) Railway Audit Office, (*ii*) Defence Audit Office and (*iii*) other audit offices.

The Railway Audit Offices have come into existence only after 1929. The accounts of the Railways which were hitherto maintained by the Comptroller and Auditor-General were first separated from his control in 1925 and after a successful experimentation with that system for a period of five years the Railway accounts were finally transferred to the Railway Board. Its accounts, which are maintained zone-wise, are prepared for each zone by a Chief Accounts Officer and Financial Adviser. The duties of the Comptroller and Auditor-General are restricted to Railway Audit only. The office of Railway Audit is headed by a Director of Railway Audit who is assisted by a number of chief auditors attached generally to each zone of the Railways. The audit of the Director of Railway Audit is in the nature of a supervisory audit with the main object of ensuring that the system of accounts used by the accounting authorities of the Railways is correct and that the checks applied by them are sufficient. This object is secured by a percentage check applied to the vouchers and connected accounts and by local inspection.

The Defence Audit has a longer history. Since the creation of a separate Military Accounts Department in 1861, the accounts of the Defence Services were maintained by the Comptroller-General of Defence Accounts. The audit being a statutory responsibility of the Auditor-General was applied to the military expenditure also. This audit, as elsewhere, is a test audit system. The organisational wing of the Indian Audit and Accounts Department intended for the purpose is headed by the "Director of Audit, Defence Services" and is assisted by a number of Deputy and Assistant Directors of Audit stationed all over the country along with the offices of the Comptrollers of Defence Accounts.

In addition to these important organisational units, there are

other audit offices also. Important among these are the (*i*) Auditor of Indian Accounts, London (*ii*) Auditor of Indian Accounts, Washington and (*iii*) Director of Audit, Departments of Food, Rehabilitation, Supply & Steel, Delhi. In the embassies of London and Washington, there are Financial Advisers as well as Accounting Officers. For the other embassies, however, the auditing as well as accounting functions are discharged by the Accountant-General of Central Revenues. Similarly in respect of the Central Ministries where there has been a separation of accounts from audit a separate office with a Director of audit at its head is established to audit the accounts of the Departments whose accounts are separated. The Director of Audit Food, Rehabiliation, etc. is of this type.

An office, which is different from all the above, has come into being in the recent past. This is the office of the Director of Commercial Audit. With the steady growth of commercial and semi-commercial activities of the different departments it became necessary to strengthen the audit department for undertaking an effective audit of the various commercial organisations. With this end in view, a nucleus organisation with the Director as its head was set up in 1951[54] and has since continued gaining strength from year to year. The Director is assisted by Assistant and Deputy Directors stationed at Calcutta and Bangalore.

The overall direction on all these offices is vested with the Comptroller and Auditor-General himself and he is assisted by an office called 'Headquarters'—which consists of a Deputy Comptroller and Auditor-General and two Additional Deputy Comptrollers and Auditors-General of the rank of an Accountant-General, and a host of other officers and staff at the lower levels. The Deputy Comptroller and Auditor-General is generally incharge of the administration of the Department, and the two Additional Deputies incharge of the interpretation of codes, regulations, etc. and reports (audit) respectively. The Headquarters Office is responsible for the enunciation of policy and for watching that it is carried out by the numerous Accountants-General and Directors of Audit.

[54] Ministry of Finance, Annual Report, 1951-52.

III

Relations between Audit and Administration

The success of audit depends upon the responsiveness of the administration and the support it extends in the implementation of the audit suggestions. Audit would be ineffective in the absence of such a support. The process of support, however, is not a one-sided affair. It depends as much on the activities of the audit to merit and deserve support from the administration. Thus, the relations between the audit and the administration have an important and significant role to play. These relations may be studied from two angles: (*i*) Relations between the Ministry of Finance and the Audit and (*ii*) Relations between the Administration and the Audit.

We have seen in the earlier chapters that the Ministry of Finance is the rule-making authority. In the process of formulation of the rules and regulations, the Ministry of Finance often consults the Audit Department so that such regulations may represent the experience and views of the audit. The role of audit is not confined to the application of rules and regulations which already exist, but in the formulation of new rules intended for putting the administrative mechanism on a more efficient level. Besides this assistance, the audit also helps in the preparation of the budget estimates and in compiling the progress of expenditure and receipts. In fact, the six-monthly actuals, budget provision under the heads pensions, superannuation allowances in the budget and the verification and preparation of Part I estimates of the budget are done by the Audit Department. The Finance Department on its part assists the Audit in cases where a rule or order has been disregarded. The Ministry of Finance is also responsible for ensuring that remedial action is taken on the comments of the Public Accounts Committee arising out of the Audit Reports. Thus the Ministry of Finance, on its part will have to extend its unstinted support so as to make the audit an effective agency. An efficient financial administration presupposes the existence of cordial relations and mutual support of the Ministry of Finance and the Audit. Durell succinctly stated the position thus: "Parliament[55] presupposes

[55] *Ibid.*, p. 163.

unity of purpose and action between the Treasury and the Comptroller and Auditor-General and experience has proved its anticipations to be well founded. While the Comptroller and Auditor-General in the exercise of his primary function is independent of the Treasury, he is, so to speak, one of its most important instruments ensuring that Treasury directions, respecting expenditure, are duly obeyed. The harmonious action and mutual support of the two departments are absolutely essential to efficient administration."

The relations between the Audit and Administration are, however, not as simple or even straightforward as the relations between the Audit and the Ministry of Finance. Besides, in the relations between audit and administration there were (they ceased to exist now) certain statutory limitations in the exercise of the powers of the Audit. We had seen earlier that until 1919, the Auditor-General was virtually under the government even in respect of audit matters. The 1919 Act gave him a satutory footing and this was further raised and consolidated in the 1935 Act referred to earlier. The 1935 Act is also notable for placing certain limitations on the functioning of Audit and in its relations with the administration. The agreements that led to the specification of these relations are known as 'concordats'. The 'concordats' are statements of principle which both the Auditor-General and the various governments have agreed should govern the relations between Audit and the Central and other executive governments.[56] These documents were never published, but were accepted as the 'principles' that were to govern the relations. The 'concordats' proved particularly helpful in ensuring that the directions issued by the Secretary of State (under the Act, the Secretary of State was empowered to issue rules as also directions) when they are of a financial or quasi-financial character, are not infringed. The responsibility of ensuring positive adherence to the directions was on the Finance Department, but under the terms of concordats the Finance Department communicated the Directions to the Auditor-General informally so that any circumstances in which he considered that they have been in-

[56] *Introduction to Indian Government Accounts and Audit* (1940 Edition), para 370.

fringed could be brought to the notice of the Finance Department informally. It has, however, been claimed that the concordats did not surrender the independence of audit but merely governed the relations between the Executive and Audit. With the advent of independence these concordats were abolished and the Audit is now governed by its own codes.[57]

The relations between Audit and Administration have two aspects: (*i*) What can the Administration do to help the Audit? and (*ii*) What can the Audit do to help the Administration? The relations of these two depends on the help each one extends to the other. But if the relations were to be treated as not of mutual help but each one to stay in its own jurisdiction, proclaiming and ascertaining its own independence, it would tend to create an atmosphere of acrimony, distrust and thus antipathy. The development and growth of such feelings can be fatal to a democracy and therefore needs to be avoided at all costs.

Let us first examine what the administration can do to help the proper functioning of Audit. Audit depends for its successful functioning on the facts and the information supplied to Audit, yet in a good number of cases facts are not supplied to Audit in time. Consequently, the time schedule of the Audit Department is upset and the Audit Reports, whose efficacy lies in their timely presentation, are often delayed. The Public Accounts Committee has been very critical of these delays and have emphasised time and again the need for early submission of reports. They observed in one of their reports[58] "We regard it as essential in conditions recently obtaining when there has been so much scope for improper practices that replies to Audit enquiries should be furnished as early as possible"; and the Committee went on to add: "We have also observed that departments of Government sometimes delay greatly the return of draft audit paragraphs of Audit Reports sent to them for acceptance. Such delays are undesirable and there is no real reason why they should occur for the agreement sought is basically on questions of fact about which normally there cannot

[57] The Codes of the Audit Department published after independence omitted references to concordats. See the introduction by the C & AG to 'Audit Code', 1955.

[58] *Epitome*, Vol. I, p. 560.

be much dispute." These would imply that the audit queries and objections do not or have not received the attention they deserved from the Administration. The result of such inaction may well be the continuation of irregularities, for those which are already committed have not been pointed out to the public. It reduces the effectiveness of Audit. What is more, in certain cases, full facts are not supplied to Audit in the beginning, but later are given in defence of their case before the Public Accounts Committee. As a former Comptroller and Auditor-General pointed out, "Evidence is adduced before the Public Accounts Committee, which if it had been produced earlier to audit, would have led either to the deletion of an objection or to its different presentation".[59]

The Administration may have its own reasons for not supplying the information in time. If the reasons are purely in the nature of administrative delays, etc. then perhaps it is understandable, but the reasons appear to be more deep rooted. They might consider the objections to be too trivial or too irritating or may like them to lapse away in time. It is not unnatural that matters are allowed to lapse when there is no proper defence. In some cases the objections or the comments might be felt to be trenching on what appear to be the proper sphere of administration. These fears are likely to be perpetuated if they are allowed to run their own course in the usual correspondence which if any thing, may take one far from the solution than any way near it. To avoid these pitfalls a new system was introduced early in 1956 to provide personal contacts between the Audit and Administrative officials. Under this procedure, the Secretaries of Administrative Departments were asked to take up the objections which they considered unjustified from any point of view, direct with the Accountant-General; and failing a solution between the two the Secretary of the Department could even take up the matter direct with the Comptroller and Auditor-General himself. The system was intended to achieve an early settlement of objections through personal discussion. Though the system had in the initial stages received excellent

[59] A. K. Chanda, *Aspects of Audit Control*, p. 27.

support it is slowly falling into disuse[60] owing to the sheer unwillingness to avail it as a positive instrument of settlement of disputes.

Before we come to the constructive side of this picture, let us see how and to what extent Audit can help the administration and how far the Audit is responsible for creating such an atmosphere in the Administration.

It is often said that Audit concerns itself with trivial matters. The Auditor is no doubt concerned with the interpretation of rules and regulations and with the observance of the rules. In the process he comes across cases where rules are not adhered to. But in raising objections he must avoid the trivial and take up only the serious and important objections. "To steer clear between this scylla of ignoring tremendous trifles and that charybdis of unintelligent literal interpretation is the very difficult task of the auditor." A literal interpretation of the rules will make Audit uninteresting and drab. Further, the mission of Audit should not and is not a fault-finding one. Its role is one of assistance to the Government. The Auditor has got to be critical as well as constructive. He must not only investigate but also educate. Despite these canons and general propositions trivial objections, the administration feels, are often raised. It is also observed that many objections are raised purely for the purpose of raising objections and often they arise out of a lack of understanding on the part of the Audit of the administrative requirements. It is also often said that when the Audit parties of an Accountant-General's office leave their office on tour, they leave with the object of bringing back 'Audit Paras'. Just as a Finance Officer is unwilling to agree to a proposal without a cut, so also an Audit Officer is unwilling to admit a transaction without an objection. All these arise out of the wrong belief that audit is an end in itself rather a means to an end. The attitude of raising objections has its own impact on the approaches and the working of the administrative officials of the Government. It may discourage decision making at respective levels and may lead to a shifting of responsibility from the middle to the top. Such an impact is no doubt undesirable. But this impact

[60] *Ibid.*, p. 28.

has in certain cases been excessively exaggerated, as for example, Dean Appleby stated that "the Comptroller and Auditor-General is today a primary cause of a widespread and paralysing unwillingness to decide and to act."[61] The reasons for the unwillingness to act are to be found in other causes like[62] the administrative set-up, nature of the leadership offered at the various echelons of the hierarchy and, no less important, the relations between the political executive and the civil executive. In any case, Audit can only be one of the reasons, for its functions—negative as they are—are generally interpreted against it.

The above depicts not so much the assistance as much as the problems involved in the assistance. The one irresistible conclusion that flows from the above is that a certain amount of reorientation is necessary in the approaches of both the administration and the Audit. Their complementary roles are to be recognised and conceived as strengthening each other's actions. It is, however, not possible to inculcate such a mental attitude or infuse such an ideological approach; on the contrary, what is required is practice which depends a good deal on the leadership offered in each stage and in each sphere.

The preceding analysis proves conclusively that Audit is essential as an instrument of financial control. Its function may be negative. Its duty may be only to verify the observation of certain morbid and occasionally unrealistic rules and regulations. But the essential function of Audit remains in being so. It is only an authority which should point out the irregularities and is not to be entrusted with the job of judging the merits or even efficiency of transactions. The examination of expenditure from the 'merit' point of view as distinct from regularity, might, and would doubtless offer opportunities for valuable criticism but such a duty cannot probably be conferred on the C & AG. The present position does not require any extension of the functions of the Audit Department but only requires an efficient exercise of the functions and legislation to support the activities of the Department.

However, one additional point that has to be recognised is

[61] Second Report, 1956, p. 28.

[62] See A. D. Gorwala's report on "Public Administration" for what these other factors can be.

that the Audit Reports, notwithstanding a steady expansion in coverage, lack subtlety, are much too preoccupied with routine matters and indicate a deep concern for irregularities that took place many years ago. It makes one feel that the Audit-Report of today is very much the same as it was in the days of Sir Fredrick Gauntlett, the first Auditor-General after the 1919 Act. Audit Reports will have to shed their historical past and will have to put on new robes suited to an examination of the 'Developmental Expenditures', which form a substantial portion of the expenditures of the day. The developmental expenditures require different considerations and the applications of different canons, other than those which are applied to routine expenditures. It must also concern itself with an examination of the adequacy of different accounting systems, as is the case in USA (after the 1950 amendments to the Budget and Accounting Act), in the public enterprises and elsewhere, rather than with the propriety of actions.

All said and done, it should be recognised that the Comptroller and Auditor-General is an important agency responsible for an efficient financial administration and what Low in his book, *Government of England,* stated is equally true in the Indian context. He observed: "In the Department of the Comptroller and Auditor-General, if anywhere, the embodied spirit of the British Constitution abides; there are enshrined the results of the long struggle which placed the public funds beyond the reach of arbitrary power."

Chapter Ten

EXCHEQUER CONTROL

WE have seen in the preceding chapter that one of the functions that devolved on the Comptroller and Auditor-General of India as per the Constitution of India, is in regard to the control over the issues from the Exchequer. It was also observed that this function was included in the range of activities of the Comptroller and Auditor-General for the first time in the Constitution. The title of this officer which was hitherto designated merely as an Auditor-General was shown as the Comptroller and Auditor-General implying thereby that in his capacity as the Comptroller-General he would exercise powers in regard to the regulation of issues from the Exchequer or the Treasury of Government.

This function, which has its origin in the rivalry between the British king and the Parliament with the latter trying to establish its rights on the finances of the monarchy has been given considerable importance by the constitution makers of this country. In a parliamentary system of government, the Parliament is vested with the supreme power of voting the necessary amounts required for government expenditure and also approving of the tax or other measures of the government, designed to raise an equal amount of resources as to be adequate for defraying that expenditure. In such a system it is equally essential to ensure that the expenditures incurred by the Government do not exceed the amounts voted for the purposes by the Parliament. The administrative process evolved for this objective is what is known as the process and system of 'Exchequer Control'. Having this end in view, the constitution was so drafted that the executive would not take any liberty in these matters but would confine itself to the amounts appropriated for it by the Parliament. In cases where the original appropriations prove insufficient to meet the expenditure commitments, the executive are always

free to approach the Parliament for supplementary appropriations. The provisions in the Constitution of India in this regard specify:

"114(1) As soon as may be after the grants under article 113 have been made by the House of People, there shall be introduced a Bill to provide for the appropriation out of the consolidated Fund of India of all moneys required to meet. (*a*) The grants so made by the House of the People and (*b*) the expenditure charged on the consolidated Fund of India, but not exceeding in any case the amount shown in the statement previously laid before Parliament.

"(2) No amendment shall be proposed to any such Bill in either Houses of Parliament which will have the effect of varying the amount of any expenditure charged on the consolidated Fund of India and the decision of the person presiding as to whether an amendment is inadmissible under this clause shall be final.

"(3) Subject to the articles 115 and 116 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."

While sub-clauses (1) and (2) relate to the procedure of the Appropriation Bills, which we shall be studying in greater detail in the context of parliamentary control in Part III, sub-clause (3) specifically states that no money shall be withdrawn except in accordance with the wishes and approval of Parliament. This intention is further amplified in article 266(3) which states that "no moneys out of the consolidated Fund of India or the consolidated Fund of a State shall be appropriated except in accordance with law and for the purposes and in the manner provided in the Constitution."

However, mere mention alone is not adequate and the process of verifying whether the intentions have been carried out or not requires an administrative machinery. It is to supply this link that the Auditor-General was designated as the Comptroller and Auditor-General so that in his capacity as the Comptroller, he could exercise these functions on behalf of the Parliament. This intention which is implicit in the Constitution was expected to be explicit and legal when a Bill seeking to lay the functions of

the Comptroller and Auditor-General as desired in Article 149 of the Constitution, is enacted. But, as has been stated earlier, no such Bill has so far been enacted although it is likely to be enacted in the near future. To this extent, the discussion in the following paragraphs is concerned more with what is likely to be an issue in the near future than with one which has already taken place. But then as we will presently see the issues have a considerable, if slightly controversial, past also.

The provisions and the objectives of the Indian Constitution in this regard are largely based on the British experience. What was attempted when the Auditor-General was redesignated the Comptroller and Auditor was nothing more than to transplant another British institution on the Indian soil. It would, therefore, be appropriate first to describe briefly the system of Exchequer control in the UK. After such a description, the discussion will concern itself with a history of the attempts made at different stages to introduce Exchequer control in India and lastly with the problems involved in the introduction of such a system in India. The study thus is divided into three parts (*i*) experience of other countries—the UK. (*ii*) history of the attempts in India and (*iii*) the perspectives of the system.

Experience of the UK

The system of Exchequer control in the UK had a hoary past. The term 'Exchequer' properly so-called was brought from Normandy after the conquest and derived its name from the chequered cloth upon the table where the cash was kept.[1] As T. G. Bowles described the system, "The Exchequer then is the place where the king's revenue was received, where it was kept, supervised and controlled from whence it was kept, supervised and controlled and from whence it was issued.... There were three officers of Exchequer, each of whom had a control over the issue of the money.... One of these officers was called the Teller who was the cashier who received and issued the money, then there was the clerk of the pells, who recorded on a pell or a parchment all receipts and issues and then there was the

[1] Willoughby, Willoughby and Lindsay, *Financial Administration of Great Britain* (1929), p. 36.

auditor who examined the records and whose duty it was to see that no money issues except in accordance with law and with the sanction of the Parliament." This system which was in practice until well into the nineteenth century had almost undergone a metamorphosis with the establishment of the Bank of England and Ireland in 1834. As a part of the financial reform carried out in the year it was arranged that all funds payable to the Exchequer account or the consolidated fund would be paid to the Bank of England and Ireland. The control on the account, however, remained as earlier through two formal offices, viz. Comptroller of Her Majesty's Exchequer exclusively concerned with the issues from the Exchequer, and Commissioners for auditing the public accounts. These offices were merged into one with the enactment of the Exchequer and Audit Department Act, 1866. The full designation of the Comptroller and Auditor-General as indicated in the Act, was "Comptroller-General of the Receipt and Issue of Her Majesty's Exchequer and Auditor-General of Public Accounts." As per the same Act, the functions of the Comptroller and Auditor-General, in this respect, were laid as follows:

"The Comptroller and Auditor-General shall grant to the Treasury from time to time, on their requisition, authorising the same, if satisfied of the correctness thereof, credit on the Exchequer accounts at the Bank of England and Ireland or on the growing balances thereof, not exceeding the amount of the charge in the aforesaid quarterly account of the income and charge of the consolidated Fund remaining unpaid.

"The Comptroller and Auditor-General shall also grant from time to time, on similar requisitions, supplemental credits for services payable under any act of the growing produce of the consolidated Fund, and not included in the aforesaid quarterly account and the issues or transfers of moneys required from time to time by the principal accountants to enable them to make the payments entrusted to them, shall be made out of such credits on orders issued to the said banks 'signed by one of the officers etc'."

The capacity of the C & AG in this role is essentially a Ministerial one (as distinct from his quasi-judicial function as an Auditor-General) for he ministers to the needs of the Treasury.

However, the performance of these functions by the C & AG meant a combination of the functions of the Audit as also a check on issues and this was considered by some as being inconsistent with his independence as an Auditor in which capacity he is an agent of the House of Commons. For example, Durell stated[2]: "The apparent financial inconsistency of uniting in the same person the *dual* office . . . does not in fact possess any drawbacks or objectionable features, though somewhat illogical in that the officer controlling issues is in a sense, the auditor of his own acts". This inconsistency was more apparent than real and did not prove to be an obstacle to the performance of his other functions in respect of audit. In his capacity as an officer of the House of Commons, it is the responsibility of the Comptroller and Auditor-General to ensure that the total issues from the Exchequer do not exceed the amounts prescribed by the Parliament.

This system of Exchequer Control is in practice exercised in the following stages.[3] The State banks with the Bank of England who acts as the custodian of cash accredited to the State. The general control on cash is exercised by the Treasury and the Comptroller and Auditor-General. Control in detail is however a matter of the respective departments whose heads are designated as Accounting Officers. Matters such as 'regularity' and 'economy', and the duty of avoiding any excess on votes form part of the functions of the Accounting Officer of the Department. There is however no connection at all between the departments charged with the duty of spending the appropriations and the Bank of England which maintains the appropriated money. Between these two parties stands the Pay-Master General. The post of the Pay-Master General is a matter of political appointment and the holder is treated as a high officer of the State. But the real responsibility and actual performance of duties depends on the Assistant Pay-Master General to the Pay-Master General—a post held by a permanent Civil Servant. The management of the appropriated moneys and regulating the flows from it against

[2] *Ibid.*, p. 167.

[3] The following account is based on "Notes for the Use of Accounts Branches of Government Departments", 4th edition, HMSO—paras 60-4: Also see pp. 134-5—Vol. II, *Epitome*—Indian PAC Reports.

proper authority, are the duties of the Pay-Master General. He banks with the Bank of England but does not keep separate balances for each Vote: The total amounts are kept as a pool from which all 'demands' are paid. Similarly, all moneys received by any department are also paid over to this pool. Thus, in effect there is only one fund though it is variously treated as 'Exchequer account' and 'consolidated fund'—a distinction which is carried even in matters of appropriation where they are termed 'Supply Services' (voted) and 'Consolidated Fund Services' (charged).

As soon as the appropriation bill becomes an Act thereby starting the activities of the department, they issue orders 'payable' by the Pay-Master General in respect of the various services proposed by them. To meet these demands the Pay-Master General is supplied funds as in the following manner.

(1) A Royal Order under the sign manual authorises the Treasury with the concurrence of the Comptroller and Auditor-General to issue from the Exchequer the amount authorised by the Consolidated Fund Act.

(2) The Treasury from time to time requires the Comptroller and Auditor-General to grant 'credits on the account of His Majesty's Exchequer for amounts within these limits (the Services for which the amounts are required are not specified).

(3) The Comptroller and Auditor-General writes to the Bank of England or Ireland to grant credits to the Treasury, specifying the amount that should be given.

(4) These sums placed at the disposal of the Treasury are then transferred to the account of the Pay-Master General specifying the services and the amounts given to each. Generally the entire amount under the vote is given away to the Pay-Master General by the 31st of March. But where the departments are fairly certain that the entire amount may not be expended or where there has been an accumulation of the previous year's balances, issues from the Exchequer are restricted accordingly. The last stage of operations is the one in which the Bank executes the orders of the Treasury and transmits the same to the C & AG in support of the daily account of the Exchequer. The issue of money is fairly elaborate as a procedure and each issue from the

Exchequer requires[4] "the authority of a grant of Parliament, a Royal Order, a requisition of the Treasury, a grant of credit by the C & AG and a Treasury order to the Bank of England." This procedure as Hilton Young stated is a 'pompous' affair[5] no doubt, but is an extremely useful instrument in the hands of the Comptroller and Auditor-General in ensuring the fulfilment of the objectives of the Parliament. Under this procedure, no excess can take place except when there are accounting errors. However, there may be cases when the Exchequer issues might prove to be in excess of the requirements of the departments. For example, such excesses do occur in the cases of the nature specified below:[6]

Vote	500,000
Exchequer issues	475,000
Actual expenditure	450,000

A variation of this example can be where the entire amount of the vote has been issued and spent, in which case there is no problem; where the issues are lesser than the vote but more than the actual expenditure, as given in the above example, the issues in the following year will be regulated on the basis of the balances available; and where the Exchequer issues are lesser than the vote but where the total amounts spent are more than the issues, then they are made good in the following years.

These safeguards have proved invaluable in rendering the purpose for which they were intended. With this account in the background, we may now trace the attempts made at different stages to introduce Exchequer Control in India.

II

The history of the attempts made at different stages to introduce Exchequer Control reveals one significant attitude; that is a supreme confidence that the Auditors-General had regarding the infallibility, the inestimable utility of the existing rules,

[4] Hilton Young, *The System of National Finance,* (London, 1924) (2nd Edition).

[5] *Ibid.*

[6] H. Brittain, *The British Budgetary System,* p. 255.

regulations and institutions, and a sense of satisfaction in regard to their working. This tendency, however, had a reversal after the enactment of the constitution under which it became incumbent to introduce Exchequer Control. The attitudes that prevailed in the pre-independence days may have been justified then, but history inevitably drives us to the preceding conclusion.

When the problem was considered for the first time in 1919 in the context of the introduction of Montford Reforms, Sir Frederick Gauntlett, who was then the Auditor-General of India, felt that any system of control of issues based on the English pattern was unnecessary in India. In arriving at such a point of view he was influenced by two sets of factors, (*i*) relating to the changes necessary in the organisation of Treasuries and in the management of accounts etc. and (*ii*) the adequacy of the existing institutions to meet the contemporary requirements. Adverting to the organisational aspect Sir Frederick Gauntlett believed that the introduction of the system of letters of credit which become necessary if Exchequer Control was introduced, would be extraordinarily complex requiring the splitting up of the amounts under each demand among the 300 and odd Treasuries through which the amounts were disbursed. The management of such a complicated procedure required a highly trained body of personnel the availability of which then, as in the recent past, also was a problem. On the other hand, he felt that the existing system was adequate to prevent any overdrawals of amounts, as under the rules if a demand was presented at a Treasury, moneys not provided by rules were declined payment by the Treasury officer and no amounts were paid by him unless he has received an order from the competent authority who would issue such an order only after ascertaining the availability of funds. Sir Gauntlett, however, did not take into consideration the fact that many sanctions were issued by the administrative authorities under the belief that funds are still available—when actually there might not have been any funds left. The inevitable delay involved in the preparation of accounting data has always put the administration in darkness about the extent to which funds are still available—when actually there might not have been any funds left; sanctions are generally issued without the authorities being aware of the extent of the availability of funds

often resulting in the excess expenditures. These views of Sir Frederick received spontaneous support from Sir Malcolm Hailey, the Finance Member. Sir Malcolm accepted these views and thought that the activities of the Public Accounts Committee though they were in the nature of a 'post-mortem', and their criticisms would have an anticipatory effect on the actions of the spending authorities. He expected that this influence would work in preventing the administrative authorities from incurring 'excesses'. The matter was therefore dropped. The questions had a revival in less than one year when Commander E. Hilton Young in the course of a report submitted to the Government of India, gave vent to the feeling that "without some such provision (Exchequer Control) it certainly appears to be that there would be a bad hole in the Legislature's Control". He expressed a similar feeling in his book *System of National Finance* which was published two years earlier. In it he stated in his inimitable style, "In the account the money is under the control of the House of Commons. Once out of it the House has lost control; the money can be spent as the executive pleases and if it is wrongly spent, the House can take retributive action only. But now that the responsibility of the executive to Parliament is established beyond question, the importance of this particular form of control is far less than it was and our respect for an interesting relic of great historic controversies should not be allowed to mislead us into supposing that the system of checks issues is of the smallest value in enforcing economy and preventing waste. It prevents the spenders from getting possession of more money than Parliament has granted them or for purposes other than those for which it was granted. But, for preventing them from making wasteful use of money once they have got it, it neither pretends to be nor is of any use at all. It prevents money from being used outside the law in a way in which there is nowadays little temptation to use it. It does not prevent money from being wasted within the law, and with the enormous estimates and the ever growing financial activities of the modern state it is that sort of preventive that is the urgent need of the hour." The contemporary officials of the Finance Department had, however, different views on the matter. J. E. C. Jukes, then Financial Secretary, was of the opinion that "it is a very open

question whether the safeguarding of votes is anything more than an interesting relic of the past... they (Britain) could probably safely dispense tomorrow with the whole system of exchequer issues and rely on full security on the action of the (Public Accounts) Committee as aided by the Auditor-General." The matter was therefore once again dropped. It was revived for a second time in 1933, when the Legislation, which was later to become the 1935 Act, was under consideration. The India office in a note on the 'System of Issues' expressed the opinion, obviously after realising that the control over expenditure cannot be fully ensured by the belated post-mortem inquest held by the Public Accounts Committee and that therefore no excessive reliance can be placed on the PAC as an instrument of control in this respect, suggested that if it was found essential, a system of Exchequer Control may be introduced both at the centre and in the provinces, with variations on the British experience where considered necessary. The India Office also took particular care to emphasise the organisational difficulties inherent in introducing the British system in India. These views, however, did not receive any support in the Indian circles and were considered unnecessary by successive Auditors-General of these years. Sir Cameron Badenoch, the Auditor-General, in a despatch dated the 10th April 1934 attached no importance to this issue and considered that "control over exchequer issues is really a fossil buried there" (in Britain). More critical was the attitude of Sir Ernest Burdon, later Auditor-General of India, who stated: "If the present audit and accounts system is retained, the addition of English system of control over issues would be of negligible value, disproportionate to the cost and complication of the machinery involved, while the substitution of the English system for the present Indian arrangements would be a poor exchange." In making these recommendations he was influenced by his own conviction and satisfaction with the existing checks and balances in the payment system where most of the payments required a prior scrutiny or pre-audit by the Accountant-General. He also felt that even the separation of accounts in the case of Defence and Railways did not make any difference as essentially the accounting services in respect of both were controlled by the Department of Finance, and were

operated in very much the same manner and in the same spirit as obtaining in the civil offices. One more consideration that influenced him was the existence of a number of differences between the British system and the Indian system. The matter has, therefore, received a quietus again and found a temporary grave only to be revived again in the Constitution.

Constitution and Exchequer Control

As stated earlier in Chapter IX, Article 148 of the Constitution provided for a Comptroller and Auditor-General. In adopting this designation, the Constitution makers apparently visualised the Comptroller-General as being responsible for duties similar to the duties of his counterpart in the UK. But such a duty could be performed by him only when an enactment laying down his duties and functions, as anticipated in Article 149 of the Constitution is made.

The introduction of 'Exchequer Control' in accordance with the spirit of the Constitution has not so far been rendered possible for the organisational changes that are considered essential—which we shall be studying in the next chapter also—have not so far been introduced. But the need of introducing such a system has, however, always been emphasised by the Public Accounts Committee and the Comptroller and Auditor-General as well. The Public Accounts Committee of the Parliament is always zealous of its rights and the maintenance of these rights; the Committee[7] in one of its reports stated in this regard that they "are convinced that there are no insuperable obstacles in the way of introduction of a satisfactory system of Exchequer Control with a view to ensuring that the grants voted and the appropriations made by Parliament are not exceeded. The reform is urgently needed apart from the necessity of obedience to the Constitution, in view of the expansion of the activities of Government." However, the introduction of such a system is possible only when suitable changes have been made in the organisational machinery and the Government's reply to this suggestion of the Committee was typical. It stated: "The question of having a system of Exchequer issues and internal con-

[7] *Epitome*, Vol. II, p. 130.

trol over grants making it impossible to exceed the grant without proper authority of Parliament or a provisional allotment from the contingency would involve drastic changes in the present Treasury and accounting systems, which will take sometime to formulate and enforce in consultation with the Comptroller and Auditor-General of India."[8] It further reported that "a study of these issues in detail is being made in consultation with the representatives of the Comptroller and Auditor-General", and promised that a "scheme for the necessary changes" will be drawn up soon. Despite these statements the progress made in the field is not considerable and the introduction of control over Exchequer issues remains to date very much of an academic issue only. But what are the problems involved in the introduction of Exchequer control? And what are the existing procedures intended to ensure that the Parliament's wishes in this respect are honoured?

III

The Constitution provides that no moneys in excess of the amounts prescribed in the Appropriation Acts can be drawn from the Consolidated Fund. Despite the existence of this provision, excesses still occur for reasons which are threefold:[9] (*i*) The present accounting arrangements are spread over a good number of Treasuries where regular disbursements take place. The disbursements made in the sub-Treasuries are reported to the Treasuries daily which in their turn forward twice in a month statements of the accounts together with the supporting vouchers to the Accountant-General. These statements are then consolidated by the Accountant-General but this process of computation generally takes considerable time. The accounts of every month are therefore likely to be finalised approximately after a lapse of about two weeks after the month is over. These finalised figures are also not fairly accurate as they require reconciliation with the accounts maintained by the administrative authorities. It is only then that the final figures are ready. The cumulative

[8] Public Accounts Committee, 15th Report, Appendices, 1954-55, Vol. II.
[9] Audit Report for the year 1952, pp. 40-4.

effect of these processes is the absence of a fairly accurate data which can act as a guide. (*ii*) Inter-departmental transactions are made through book adjustments, the clearance of which also generally takes quite some time. (*iii*) Inter-governmental transactions (between the States and the Centre) are also settled likewise through the system of suspense accounts etc. These factors contribute in a good measure to the non-availability of accurate data in time, with the consequence that the spending authorities are more often than not unaware of the actual progress of expenditure on a particular date.

These factors, however, are not to be interpreted to mean that the spending authorities are oblivious of their responsibilities and forgetful of their own duties. In fact, the responsibility for enforcing control on expenditure with a view to ensure that there is no unauthorised excess of expenditure rests squarely on the administrative departments. The measures taken by them or required to be taken towards the fulfilment of this purpose are:[10] (*i*) Departments are required to formulate their original annual budget estimates in a manner which will make it unnecessary to go in for extra expenditure; (*ii*) Where extra expenditure becomes inevitable, the Departments are required, as far as possible, to see that the grant as a whole is not exceeded and that steps are taken to obtain a supplementary grant as early as possible. (*iii*) If the presentation of supplementary grants is not possible due to the limited duration of the Legislature sessions, the extra expenditures are to be financed from the advances taken from the contingency fund, subject to regularisation at a later stage by the Legislature and (*iv*) Departments are required to maintain a liability register[11] which would furnish information regarding the progressive liabilities and commitments in respect of which payments will have to be made during the current and the following financial years.

Notwithstanding these extensive safeguards excesses still occur either due to non-observance of the above procedures or because of the non-availability of a set of accounts which can guide the

[10] PAC, 15th Report, Appendices, 1955, pp. 8-9.
[11] PAC, 23rd Report 1960, p. 63.

actions of the Departments. The following table gives an indication of the excesses that occurred during the recent past.

TABLE I

Excess Over Voted Grants and Charged Appropriations[12]

	Number	*Amount* (Rs. '000)
Voted		
1952-54	10	20675
1954-55	8	28874
1955-56	8	9885
1956-57	11	81387
1957-58	11	28605
Charged		
1953-54	7	11151
1954-55	4	1608
1955-56	8	736
1956-57	4	1416
1957-58	4	12284

The above table does not indicate any definite trend of the excesses, for an increase in the number of excesses is not always followed by an increase in the amounts or vice versa. It is however clear that they form a substantial amount not to be treated as mere results of accidents or oversights. These excesses, which are realised only after their inclusion in the Appropriation Accounts, are submitted to the Public Accounts Committee for its scrutiny and examination. The Committee after such a scrutiny recommends regularisations by the House and these amounts are then brought to the House in the form of Demands in accordance with Article 115(1)(b) of the Constitution which states that "if any money has been spent on any service during a financial year in excess of the amount granted for that service

[12] Audit Report 1957, p. 10; Audit Report 1959, p. 12.

and for that year cause to be laid before both the Houses of Parliament another statement showing the estimated amount of expenditure or cause to be presented to the House of the People a demand for such excess as the case may be." These demands are then passed by the Parliament thus according an *ex post facto* sanction to the amounts spent. Article 115 affords some flexibility and scope for regularising expenditures incurred in contravention of Article 114. It would be, however, incorrect to say that the spirit of Article 115 is contradictory to the spirit of Article 114. It would appear on the contrary that the constitution makers were aware of the need for introducing a clause like the Article 115, pending further legislation under article 149 and the introduction of Exchequer Control. But for Article 115 the excess expenditures of the past would have been rendered illegal and therefore null and void.

Parliament and Exchequer Control

The attitude of the Parliament on these excesses almost borders on the frontiers of hostility. The attitude of the Public Accounts Committee has been no different. Both these institutions consider such excesses as wrong in principle and as trenching on the Parliamentary control of finances. Consider for example, the following extracts of speeches of the Members of the Lok Sabha. One Member, who later on was Chairman of the Public Accounts Committee, warned the government: "In future, at least some of us in the House are going to take very serious view where an appreciable excess of expenditure occurs, because that shows the fault in estimating or alternatively some extravagance at the expenditure end".[13] Another Member expressing his sense of dissatisfaction a few years later said: "This shows they (government) do not care for Parliamentary control and then go on talking something which does not carry conviction to anybody,"[14] while yet another Member suggested, "Government should examine as to why these demands for excess expenditure have been brought and people who are responsible for this should be certainly punished or brought to book".[15] The attitude of the Public

[13] T. N. Singh, Lok Sabha Debates, 15th April, 1954.
[14] Shri U. M. Trivedi, Lok Sabha Debates, 22nd August, 1956.
[15] Shri Velayudhan, 22nd August, 1956.

Accounts Committee has been no less vehement. It stated in one of its recent reports:[16] "The Committee would again point out that expenditure in excess of the grants and appropriations sanctioned by Parliament is wrong in principle. The Ministries Departments should, therefore, exercise the utmost caution in order to avoid coming before Parliament to seek *ex post facto* sanction." It is thus evident that Exchequer control is important not only as a constitutional necessity but also as an integral part of the system and process of Parliamentary control. The introduction of the same has, however, been held up due to various factors. One main reason is the numerous and significant differences between the system in the UK on whose experience the Indian proposals are based on India.

Differences Between UK and India

The payment system in UK is centralised in the Bank of England. Departmental officers, having their headquarters outside London, are given adequate imprests of funds which are recouped from time to time against the bills submitted by them to the Departments. In India the District Treasury is the basic fiscal unit. This basic unit has several other sub-treasuries under it spread over different areas. The payment by the Treasuries to the Department is a twofold process: (*i*) Government officers draw money from the Treasuries by the presentation of bills which give details of the charges arranged according to the Heads of accounts and (*ii*) the second procedure is where Departmental officers draw the money by issuing cheques or presenting simple receipts which are treated as "remittances relating to the Department concerned." Secondly, the existence of a number of States, each one having a separate consolidated fund and public accounts has made the fiscal arrangements complex. The transaction between the States and between the States and the Centre have given rise to the maintenance of exchange and settlement accounts—which, as they generally take a long time to be adjusted and settled, also act as hindrances to the introduction of Exchequer Control. Thirdly, in the UK the statutory office of the Pay-Master General enables a smooth functioning of the system

[16] 23rd Report of Public Accounts Committee, 1960, p. 5.

of Exchequer Control. The absence of a similar office in India can be a handicap. And fourthly, in the UK system every Ministry is responsible for the maintenance of its own accounts. The Accounting Officer who is the permanent head of a Department is responsible for the accounts and the efficient management of finances of the Department. In India excepting for the Ministries of Defence, Railway and a few departments like Supply, Food, and Steel, the accounts of the Government are kept and maintained by the Accountant-General. The Heads of the Departments are responsible for the progress and control of expenditure of the budget demands relating to his Ministry and not the Accountant-General. It is from this point of view that it has been argued that separation of Accounts from audit is essential and that accounts should be under the management of the administrative authorities.[17] In the UK there is only one fund known as the "Consolidated Fund or the Exchequer Account." The term consolidated fund as applied in UK is employed to denote "the general fund into which . . . all public revenues are paid and out of which all expenditures are met. This fund stands to the credit of the Exchequer, the latter being the term employed to designate the Public Treasury."[18] In India there are three different accounts: (*i*) Consolidated Fund—into which all revenues received by the Government of India, all loans raised by the issue of treasury bills, loans or ways and means advances are credited; (*ii*) Public account—into which all other public moneys other than those included in (*i*) are credited; and (*iii*) Contingency Fund of India—amounting to Rs. 15 crores, regulating the finances of the country. The introduction of Exchequer Control requires the physical separation of these balances. This comparison shows the complexity of the Indian fiscal organisation. Added to these are certain other factors which make the already complex system further complicated. These factors are characteristic of the Indian accounting procedure which according to one C & AG are "combersome, outmoded and specially since the new Constitution, inadequate. The system has its roots in the days of the East India Company

[17] *Epitome*, Vol. II, pp. 130-8. See the next chapter.
[18] Willoughby, Willoughby and Lindsay, p. 36.

and even the most important changes date back two decades. The result is a considerable complexity in the accounting procedure with loss of efficiency."[19]

These then point out the pre-requisites which are to be met before the introduction of a system of Exchequer Control.

Pre-requisites

(1) The introduction of an Exchequer Control pre-supposes the separation of balances of each fund as stated earlier. The separation of balances is in a way a necessary concomitant to the introduction of 'Exchequer Control'. Until the advent of the Constitution there was only one fund. The Devolution Rules prescribed under the authority of the 1919 Act provided for only a single account known as the 'public account'. Rule 16 of the Devolution Rules stated: "All moneys derived from sources of provincial revenue shall be paid into the public account of which the Governor-General in Council is the custodian and credited to the Government of the Province. The Governor-General in Council shall have power, with the permission of the Secretary of State in Council, to prescribe by general or special order the procedure to be followed in the payment of moneys into and in the withdrawal, transfer and disbursement of money from the Public Accounts and for the custody of money standing in the account." This expression was changed in the 1935 Act to "revenues of Federation." As per Section 136 of the Act this expression "includes all revenues and public moneys raised or received by the Federation and the expression 'revenues of the Province' includes all revenues and public moneys raised or received by a Province." The connotation of this term was extended under the subsidiary rules made in accordance with Section 151 of the Act to include the capital receipts and borrowing operations also.[20] Thus, under the 1935 act also there was only a single account. This system has undergone a change during the consideration of the draft constitution,[21] when the

[19] Ministry of Finance, Annual Report. Note appended to the report by the C & AG on the organisation of the Indian Audit and Accounts Department, 1953-54.

[20] Rule 2(1) of the Central Treasury Rules.

[21] Article 90.

concepts of Consolidated Fund and Contingency Fund[22] were introduced and later on the proviso which subsequently became Articles 266 of the Constitution was introduced. Commending them for approval Dr. B. R. Ambedkar said: "In drawing the definition (of the draft constitution) of the Consolidated Fund, we lumped along with it certain other moneys which were received by the State, but which were not the proceeds of taxes or loans, etc., with the result that public money received by the State otherwise than as part of the revenues or loans also became subject to an Appropriation Act." He concluded that "the Finance Ministry drew attention to the fact that our provision in regard to the Appropriation Act was also made applicable to other moneys, which generally went into the public account and that was likely to create trouble. It is in order to remove these difficulties that these provisions are now introduced." The provisions so introduced thus led to the establishment of three different funds. After the inauguration of the Constitution, the transactions of respective funds[23] have been separated with effect from the commencement of the Constitution. But in the absence of a physical separation of balances, Government have at times utilised[24] the public account for purposes for which Consolidated Fund alone is available. Such a practice may not be possible if there is a physical separation of balances also. But the physical separation of balances, apart from the fact that it will necessitate many accounting rearrangements, would also mean locking up of funds.[25] However, the non-separation of funds may defeat the purpose of Article 114(3). It is a moot point whether the spirit of the Constitution should be given priority over the administrative and organisational problems involved in the implementation thereof. The accounting changes that would be necessitated after the physical separation would be so great as to make one ask whether it would not be better to revert to the single purse system of the 1935 Act, which, apart from the fact that it would mean a continuity in the accounting arrangements,

[22] There was no provision for contingency fund in the 1935 Act.
[23] Audit Report 1952.
[24] *Ibid.*
[25] Contingency Fund alone accounts for Rs. 15 crores.

might also make it convenient to introduce Exchequer Control modelled on the UK. Secondly, the withdrawals from the Consolidated Fund covered by a single vote is required to be at one place, preferably with a bank. It will be recalled that the system of Treasury accounting was relied upon primarily for the reason that the banking system was not a well developed one at that time. Now that the banking system (though it has not reached the optimum stage) is comparatively better, more and greater reliance can be placed on the system of payment by cheques enabling a quicker clearance and settlement of accounts.

Thirdly, it is also necessary to ensure that different authorities are not authorised to draw against a single vote. Such a process would enable the maintenance of accounts data and would also enable stricter accountability.

Perspectives

This system as already stated is a constitutional necessity. All the same it remains unimplemented. The two reasons given at one stage for not introducing were (*i*) shortage of manpower[26] and (*ii*) that the Constitution of India which was brought into operation "before suitable preparatory arrangements could be made in order to comply with it", left no option but to continue the existing system.[27] Besides these two, the improvement of the organisational machinery and separation of audit from accounts which are also considered essential for an Exchequer Control system have not been taken on hand. Pending the introduction of such a system greater reliance continues to be placed on the 'administrative efficiency' of the departments.

A question which arises is whether it is necessary to have Exchequer Control at all? It is often argued that Exchequer Control has no utility except in ensuring that the demands are not exceeded and that it cannot ensure an economical spending of the demands voted. This is quite so. Management of finances and economical spending of the moneys appropriated for it by the Parliament is appropriately the function of the executive.

[26] Annual report of the Ministry of Finance. Note appended on the IA & AD by the C & AG 1952-53.

[27] Annual Report of the Finance Ministry for 1953-54.

The objective of Exchequer Control is nothing more than to carry out an ideal of the Parliament and it does not pretend to be anything more. Its utility lies in just being what it is and to this extent its place is assured in a parliamentary democracy.

Chapter Eleven

SEPARATION OF AUDIT FROM ACCOUNTS

Reason creates Science. Sentiment and creed shape history.—LE BORN

ONE of the conspicuous features of the organisation of the Indian Audit and Accounts Department is the combination of accounting and auditing duties in the same authority. The combination of these two duties and their inclusion in the range of the activities of the Comptroller and Auditor-General have been the subject of many a controversy. Time and again attempts were made to separate the Audit from Accounting; in certain cases, the attempts met with partial success. But, as it is, a large part of the organisation still involves a combination of duties. The separation of audit from accounts was argued on many counts. What is, however, surprising is that an equal number of arguments were given against the separation. This was the one subject which perhaps witnessed a long and historical controversy. Opinions of the Comptroller and Auditors-General after independence differed sharply from one another, while, during the period prior to independence, there was no unanimity of opinion between the Finance Department and the Audit Department.

The separation of audit from accounts is favoured on the grounds that audit should be an independent agency from the accounting agency as in commercial concerns, that accounting responsibilities should be transferred to the Administrative Departments as in the UK and merged with administrative authority and responsibility; that it is not desirable that audit and accounts should be combined together, as it would mean that the auditor is auditing his own accounts and that the introduction of exchequer control requires the separation of audit

from accounts. These arguments have their own validity and so, perhaps, the arguments against it.

Before attempting an analysis of the strength and weakness of these arguments and counter-arguments, we may, in the first instance, trace the attempts made at various stages to separate audit from accounts. It will then be followed by a study of the arguments for and against separation and an analysis of the techniques used in the separated offices. Thus, the study will be in three parts: (*i*) history of the attempts, (*ii*) accounting techniques in the separated offices, and (*iii*) arguments for and against separation.

The Past and the Present

Almost from the initiation of the work of the Auditor-General, there has been a feeling in support of the separation of audit from accounts. These proposals were either dropped or were forgotten in the flux of time, and when they were dropped there were two overwhelming reasons which were against separation—one was the extra cost involved in the maintenance of two sets of offices and another was the feeling that the existence of an independent Auditor-General would undermine the prestige of the then colonial government. The first proposal to separate audit from accounts was made in 1880 by the India Office Committee inquiring into the set-up of the Military Accounts Department. The second attempt was made by the Secretary of State himself in 1889 when the question of his powers of control on the Indian Government came up for discussion. Both these attempts, though opinions were expressed regarding the need for an independent audit and, therefore, for a separation of audit from accounts, were finally dropped as the authorities concerned did not consider it necessary to have an independent audit, and also for the reason that they were satisfied with the organisational set-up of the combined audit and accounts office machinery. Later, the question came up for an exhaustive review and survey by the Royal Commission on Expenditure in 1896. The Commission, as pointed out earlier, was working against a background and a situation where reduction in expenditure on the Government account was absolutely necessary. It was, therefore, natural that the Commission should have favoured the continuance of

the existing set-up. But before making such a recommendation, the Commission made a study of the dissimilarities that existed between the Comptroller and Auditor-General of the UK and the Auditor-General of India. Pointing out these differences, the Commission stated that "for many years the principle of an effective audit was carefully discussed at home (the UK) and the present system was introduced (1866 Act) step by step. The last step made the audit power independent of the executive power. This decision gave the force of law to the principle which Englishmen consider sound. A different principle has been adopted in India." The Commission considered that the need for a "different principle was embedded in the system itself." The Commission was also highly satisfied with the progress of audit as already obtaining, which it considered to be "well organised and effective" and to be more "immediate and direct" in its action in India than in England and therefore suggested the continuance of the system.

Sir Frederick Gauntlett's Views

The system continued, as it did earlier, but the question once again came up when the 1919 Montford Reforms were under consideration. A full and complete examination of this question was made by Sir Frederick Gauntlett. While conceding that there should be an independent audit as a part of the new reforms, he observed that the problem of the day was essentially a question of choice, either (*i*) "to retain one officer with dual functions and to hand over the complete control of the department—the Government and the Finance Department absolving themselves from all responsibility"—or (*ii*) "to separate the two functions and to have a Comptroller-General who will administer the Department and to have an Auditor-General incharge of Audit." Having regard to the different factors of the situation, Sir Frederick preferred the former course.

The history following this stage has run on the choice made by Sir Frederick in 1919, for the provision in the 1919 Act was generally based on his choice. Although the Act made provision, under Article 39, only for an Auditor-General, without specifying his duties, the Government of India later interpreted it to include the accounting functions also. The Government of India's dis-

patch, dated 19th August 1920, to the Secretary of State reac thus: "We consider it to be essential that there should be some officer in India who will be responsible to the Secretary of State in Council for the proper computation and due submission of these accounts, and we are advised that it is not inconsistent with the provisions of the Act to entrust this work to the Auditor-General in addition to his duties in connection with audit proper." Thus another opportunity for separation was allowed to go into oblivion.

The question, however, was reopened by the Inchcape Committee on retrenchment in 1923. An important factor to be remembered while considering the recommendation of the Inchcape Committee is the fact that the Provincial accounts and audit were (and they are still) being maintained and conducted by the Auditor-General of India through his Accountants-General offices and the extra expenditure incurred in respect of the States was also being borne by the Centre. (In fact, this factor was repeatedly brought to the forefront, as we shall see later). This presented an opportunity to the Inchcape Committee to suggest that the separation of audit and accounts and the separation of Provincial balances should be considered again. The Committee suggested that, "in view of the constitutional difficulties arising under the Reform Scheme, from the fact that a Provincial Government can require the Audit and Accounts Department to maintain an account for which the Central Government pay, it is desirable to reopen the question of separation of the audit from accounts." The objective behind this suggestion was no more than to relieve the Central Government of a part of the financial burden which it was then shouldering.

During the same period, there was a growing consciousness in the Government in favour of separating audit from accounts and bringing the accounts under the administrative responsibility of the departments. Such a course, it was considered, would be far more effective for the control of expenditure than the then existing system. The chief advocate of these reforms in 1923 was Mr. J.C.E. Jukes of the Finance Department of the Government of India. During this period, he initiated fairly extensive experiments in the separation of audit from accounts and the introduction of "Pay and Accounts Officers under each department or

for a group of departments." Simultaneously with these experiments, an impassioned plea for separation came from the Reforms Enquiry Committee, also known as the Muddiman Committee, which, on the basis of the evidence given before them by Mr. Jukes and Sir Frederick Gauntlett, stated, "we are desirous that such administrative steps as are necessary to pave the way for provincial autonomy should be taken and we are, therefore, much interested in the experiments which are now being undertaken to test the feasibility of the separation of accounts from audit and in the examination of the feasibility of separating provincial accounts from the accounts of the Central Government." The Committee also assumed that, "with the separation of audit from accounts, the later function would of course become a provincial subject under the control of the Finance Department."

The combined impact of all these forces working in different spheres was considerable. It led to certain significant developments in two fields: (*i*) At the Central Government level, it was decided[1] that the Railway Accounts should be separated from the Auditor-General's control and purview, though the audit would be continued by the Auditor-General and (*ii*) a scheme for separation of Audit from Accounts was introduced in U.P. The story of the separation of the Railway Finance is not, however, within the scope of this study.

U.P. Experiment

In U.P., the new scheme was first introduced in 1926 as an experimental measure in the Police and Educational Departments. In that year, a beginning was also made in the East India Railway, as a prelude to the general scheme of separation in Railways of audit from accounts which came into force fully in 1929. The purpose of this experiment in U.P. was to see how a separated accounts system would affect the control of expenditure. Explaining the objective of the scheme, Mr. Jukes, the man behind the scheme, wrote: "Under the ordinary accounting system of India, control of the desired kind is very difficult. In

[1] In arriving at this decision, the recommendations of the Acworth Committee were mainly responsible, the factors mentioned earlier having created the proper atmosphere.

order to exercise it, the controlling officer requires to be in close touch with the progress of his expenditure in the accounts. The accounts are, however, kept by a usually distant Accountant-General whose returns reach the controlling officer many weeks after the incurring of expenditures which they record. Another drawback of the ordinary system is that expert financial advice cannot as a rule be quickly obtained by the controlling officer. It is largely in order to remove these defects that the Pay and Accounts Officers have been instituted." The utility of this system, Mr. Jukes explained, contained in getting up-to-date accounting data. He added: "The Accounts (under the new system) are kept in many instances under the same roof which covers the office of the head of the department and in any case in close proximity to it. The controlling officer is thus in a position to know practically from day to day the progress of expenditure from his grant under the various minor and detailed heads and to secure at the shortest notice any information which is derivable from the accounts. Further, he has the help in the person of the Pay and Accounts Officer, of a Financial Adviser who is an expert in all rules and orders bearing upon expenditure and accounts and can be consulted before any financial commitment is incurred."

Features of the Scheme

The salient features of the scheme introduced in U.P. included the system of centralisation of payments with the various accounting officers and the issue of cheques payable all over India by the latter. This system reduced the importance of exchange accounts and made the watching of the progress of expenditure easier. Under this system, the heads of departments had to see that the amounts voted by the Legislature were not exceeded and that his accounts were compiled and maintained by the Pay and Accounts Officer—a new office created under the scheme. If at any time he had to incur any more expenditure, he had to ask for extra funds which were either allowed to be met by reappropriation or by a supplementary grant with the approval of the Legislature. The Pay and Accounts Officers were appointed by the Finance Department and were answerable to it. His duties included scrutiny of all claims to money, verifi-

cation of the rules and regulations before making a disbursement and compilation and consolidation of the accounts. He had also to watch the progress of expenditure, especially during the last four months of the financial year, so that the need for supplementary grants could be verified and where there was a need he was to bring it to the notice of the head of the department. However, the controlling officer alone was responsible for the expenditure and where certain expenditure was to be incurred, contrary to the opinion of the Pay and Accounts Officer, the controlling officer was to issue written orders which were to be shown by the Pay and Accounts Officer to the audit office attached to it. But the role of the Pay and Accounts Officer essentially was one of a helping agent and it was only with a view to preventing irregularities that the controlling officers were asked to consult the Pay and Accounts Officers in financial matters. The Pay and Accounts Officer, as envisaged in the scheme, was eventually expected to assume the role of a Financial Adviser.

This scheme proved, according to the Public Accounts Committee, a success in regard to control of expenditure. The Committee recorded its "very favourable impression" which the new system made on them. As a result of these impressions, the possibility of its extension to other Provinces was discussed in a meeting of the Financial Representatives in 1926. Though the consensus of the general opinion was in favour of the extension of the scheme they wanted to wait further and watch the continued working of the scheme. The Auditor-General also felt that "there has been considerable improvement in financial control" and he had "no doubt that, as new accounts offices gain more experience, the scheme of separation will produce even more valuable results in this direction." Sir Ernest Burdon then Auditor-General, however, did not share this opinion. On the basis of this general feeling the scheme was extended, albeit on an experimental basis to the North-West Frontier Province. Its extension to all the Provinces and all the central offices was, however, beyond question, for it involved large expenditure.

The Simon Commission commented wryly on the contemporary scene thus:

"A peculiar feature of the Indian Financial System imposes on him (Auditor-General) a third function—the computation of accounts and their audit are, except in Provinces in which the Secretary of State in Council has declared otherwise, entrusted to the same agency, the Indian Audit Department. The Auditor-General is, therefore, responsible not only for audit but also for the preparation of accounts he audits. The explanation of this anomalous combination of duties (a relic of the highly centralised system of administration, which obtained in India before 1920) lies in the transitional nature of India's constitutional and administrative arrangements. Audit and accounts have already been separated in several departments of the Government of India and in the United Provinces and the extension of this financial form to other Provinces, which was strongly recommended by the Muddiman Committee of 1924, has been hindered only by consideration of the cost involved."

Notwithstanding these good testimonials, the separation scheme was scheduled for an early demise. The growth of support for the separation scheme was unfortunately moving against a background of economic depression. The Government's considerations, naturally, were diverted more to the counter-action of the economic holocaust. The Secretary of State, therefore, decided that the separation scheme, the abandonment of which was to yield a saving of Rs. 3.50 lakhs, might be abolished. Accordingly, the abolition took place and this, once again, led to the establishment of combined audit and accounts offices. The separation of audit which had been introduced in the Railways and which was already functioning for well over four years by that time was, however, allowed to continue. But the Secretary of State made it plain that the abandonment of the scheme was influenced by considerations of 'economy' alone and that it did not indicate the Government's disapproval of the principle of separation.

The combined offices thus continued since that time until 1955, when a scheme of separation was introduced. Meanwhile, however, there was one development which, though not of great significance from the practical point of view, was important enough from the historical view. This was the development that took place at the time of the consideration of the 1935 Reform.

The objective of the Government and public alike during the period was to do all that was possible to make provincial autonomy a reality. This movement resulted in a provision included in the 1935 Act to the effect that Provinces would be free to appoint their own Audit or Accountants-General.

The factors leading to this provision have been discussed earlier in Chapter IX. The provision in the 1935 Act, as indicated earlier was not availed of by any Province and thus the accounting arrangements in the Provinces which, together with the centralised system, formed part of the duties of the Auditor-General continued as it were and remained unseparated.

Exchequer Control

The issue of separation received "no attention" from 1936 until the commencement of independent India's Constitution. However, with the implicit inclusion of the "exchequer control" in the duties of the Comptroller and Auditor-General, the question once again came up for consideration. The first Comptroller and Auditor-General of the Indian Republic, who was a strong protagonist of 'separation', lost no time for voicing his opinions through his Audit Reports, through the Annual Reports of the Ministry of Finance and through the Public Accounts Committee. He was firmly of the opinion that the existing arrangements of the sharing of responsibilities were highly defective. He added: "The separation of audit from accounts and the organisation of the necessary accounting machinery under the administrative departments with a view to removing these serious defects and the enforcement of effective exchequer control are essential and overdue, and I, as the Comptroller and Auditor-General attach the greatest importance to these reforms being carried out." These arguments received further support from the cases of embezzlements in the Audit Departments itself. The Comptroller and Auditor-General was quick to point out that these cases were "an illustration of the continuance of the ancient practice in this country of imposing upon combined accounts and audit offices the duties of pre-audit and payment at headquarters towns. This practice has been condemned as dangerous and improper times without number by the Auditor-General and Public Accounts Committee." Almost at the same time, a con-

ference of the Commonwealth Auditors-General came to the conclusion that the system of an Auditor-General making payments or keeping accounts was undesirable.

The combined impact of all these developments was considerable. It was particularly discernible on the Public Accounts Committee, which, on the basis of a forceful plea made by the Comptroller and Auditor-General, recommended that separate accounts offices for various Ministries should be set up. The Committee also stated that maintenance of accounts of the States is not a Union subject and that, therefore, "the acceptance of responsibilities for the maintenance of State Accounts by the States themselves is constitutionally right and proper." They recommended that early steps should be taken to separate the Provincial accounts also.

Programme of Separation

The programme of separation, as offered by the Comptroller and Auditor-General, consisted of three stages: (*i*) The immediate transfer of the work of disbursements of money by the Audit Department at certain capital towns to separate pay and accounts offices established for the purpose; (*ii*) The separation of accounting functions from audit and the entrustment of the former to the spending Departments; and (*iii*) following (*ii*), the introduction of the system of Exchequer issues and control as in the UK.

These recommendations of the Public Accounts Committee were accepted by the Government, in principle, but the implementation of it had necessarily to be in stages. As the then Finance Minister stated, in the course of a debate in the Lok Sabha, "the question of phasing the change in such a way that it does not dislocate the administration is really the practical issue for consideration, at least so far as the Central Government is concerned . . . the House will realise that such a fundamental change would have to be spread over a period of years and cannot be introduced at once." However, despite the acceptance of separation in principle, little or no progress was made. All that was done during the tenure of the first C & AG was the establishment of separate Payment Offices at State headquarters and before any further progress could be made

there was a change in the incumbancy of the post of the Comptroller and Auditor-General.

The second Auditor-General was also in favour of the separation of Audit and Accounts and he too considered it as essential. He stated: "the malaise of our administration has been this unnatural divorce of authority from responsibility. I feel that the transfer of accounting responsibilities to the Ministries should, therefore, be the first step towards the evolution of an acceptable and logical pattern of administration." With this as the objective he started consultations with the Government for the implementation of the separation programme. A result of these efforts was the introduction, on 1st April 1955, of the Separation Scheme in respect of three selected Ministries—Food, Rehabilitation and the Supply Department of the Ministry of Works, Housing and Supply. The introduction of this scheme in these Ministries was considered to be highly convenient because it had a minimum of dislocation in work, for the transactions of these three departments were conducted until then by a separate Accountant-General. The scheme was later on (1st October 1955) extended to the Lok Sabha and Rajya Sabha offices. In the same year, a limited scheme of separation covering two departments was introduced in West Bengal. A scheme covering only one department was introduced in Saurashtra also in the same year.

The main features of the separation scheme as introduced in the Central Departments, Lok Sabha and Rajya Sabha, and in the States of West Bengal and Saurashtra (the features were generally the same in respect of all these units) were: the secretary of each department, brought under the separation scheme was considered as the chief accounting officer and his responsibility was to be discharged through the assistance of the accounts officer who will work in direct relation with him without any interference from any other officer in the Ministries. The personnel who were appointed as the pay and accounts officers and the other subordinate ranks were all drawn from the Indian Audit and Accounts Department. The experiments in the States did not enjoy a long life. The Saurashtra scheme was abandoned when the State was integrated with Bombay. The West Bengal scheme was aban-

doned with effect from 1st November 1957, as it had proved "a failure". It was found that well understood financial principles had been disregarded under instructions of departmental officers and that, on the whole, it had not given any "beneficial results". The scheme could not be extended to other Ministries at the Central Government also, as the amounts of expenditure involved were fairly big. The problem before the Government was whether to go ahead with the separation scheme or to defer its further implementation to a future occasion. The Government chose the latter. A significant development took place meanwhile, namely, the implementation of the revised procedures for budgeting and financial control introduced in August 1958. The Government wanted to assess the utility of this system first with a view to considering the efficacy of the extension of the pay and accounts offices in the changed context of financial arrangements. While this has been the general approach of the Government, there has been a reversal of the policy so far as the Comptroller and Auditor-General was concerned. The second C & AG, Mr. A. K. Chanda, who had started off as a protagonist of separation, changed his opinion during the later part of his tenure. He thought that the departmentalisation of accounts had not by itself contributed towards an increase in efficiency but had only resulted in avoidable extra expenditure and dilution of competent manpower. He, therefore, urged a reappraisal of the scheme.

Why Reversal?

What are the reasons for this reversal of policy? This question brings us to a consideration of the arguments for and against 'separation". As has been pointed out earlier, a number of arguments are adduced from time to time in favour of and against separation; we may consider, first, the arguments in favour of separation. On a consideration of the question from the standpoint of the executive it may be said that separation of audit from accounts is essential in order to have an adequate machinery to watch the expenditure, to aid financial control, to help scrutinise and examine each proposal leading to a disbursement of money, to plan the budget estimates and, generally, to be in charge of all the financial matters of a Ministry. In the

thirties, when the scheme of separation was introduced, emphasis was laid on the preparation of two sets of accounts as being essential to a proper financial control. The two sets of accounts were: (*i*) on behalf of the Government for the purpose of financial control and (*ii*) on behalf of the Auditor-General for the supply of the material for the computation of the appropriation accounts and finance accounts. The need for such accounts continues even now; but, meanwhile, there has been another development which in a way changed the complexion of the problem. With the advent of the developmental expenditures on a large scale, the need for data which can help the formulation of projects and policies has become essential. Thus, accounting data have a twofold purpose, accountability and policy. Though this distinction was first recognised in the business world its applicability to public finance was not so readily conceded. The main purpose of accountability is to present a means of control over the actions of people who are entrusted with the handling and disposal of moneys not belonging to them. The policy aspect is served when the data given are useful in the formulation of a policy both for short run and long run alike. The data should be able to reveal to the administrative authorities the extent to which a plan has been carried out, so that it could serve as a preliminary to the formulation of a fresh plan. It would indicate the progress in terms of money spent as also in physical terms. The need for such data in the context of planned development can hardly be over-emphasised.

The data required can be conveniently supplied if the pay and accounts offices are separated and transferred to the charge of the administrative department. The present role of an Accountant-General, who is away from the administrative department and impersonal in his approach, can hardly be expected to fill this role and discharge the functions listed above. Besides, the existing procedures, outmoded as they are, add to the difficulties and no data are available at any time to help the formulation of new projects. Accounting data are the eyes and ears of a department in the context of fulfilment of the tasks and responsibilities entrusted to a modern department. Separation has also been favoured on the plea that audit should be independent from the accounting authorities. It is a generally recognised

principle in the commercial world "that business transactions should be subjected to the audit scrutiny of an agency independent to those charged with the duty of keeping the accounts of these transactions." The present position, however, is one where the same agency is responsible for the maintenance of accounts and also the audit of the accounts compiled by itself, and it is this position which is characterised as being anomalous and highly improper and defective. This point of view has two implications: (*i*) in the absence of a check by an outside and independent audit agency the accounts are not reliable and (*ii*) it presents a split personality involving preparation of accounts for the executive, on the one hand, and auditing the same by transforming itself into an agency of audit, on the other. The combination of such duties is illogical and therefore undesirable.

Separation would ensure a pre-check of all claims before payment. Such a scrutiny is an essential function of the pay and accounts officer. This pre-check system has certain advantages. It provides a check on the accuracy of each claim; and it enables prompt compilation of data as the figures of disbursements are entered in the accounts immediately after the disbursement on the basis of the cheques issued.

Another argument adduced in favour of separation is that when audit becomes an independent agency, devoid of the responsibility of the routine work and entrusted with the task of auditing the completed records compiled by others, it brings to bear a more detailed view and will have opportunities to concentrate on matters of greater importance, as, for instance, special investigation. These factors make audit not only a more independent but also a more efficient agency. There is, however, a drawback, for it would involve "double audit"—the pre-audit made by the pay and accounts officers before payment and the independent audit carried out at a later date by the Auditor-General. But it is argued that this process, far from being a handicap, would actually ensure a more efficient audit.

The pay and accounts officer can, in his person, act as a financial adviser to the controlling officer. He can be helpful in the preparation of the estimates, in considering economy and regularity of an expenditure proposal, in fortifying a financial

proposal which is to go to the Finance Department for its concurrence, in watching the progress of expenditure and in taking timely action for a supplementary grant if the situation warranted such a course. In addition, the pay and accounts officer will provide an important agency which acts as a concurrent and internal audit, a financial adviser and a compiler of up-to-date 'data' for policy-making. These functions, if carried on well, would go a long way towards establishing an effective control of expenditure.

The separation of audit from accounting will also enable the introduction of a system of exchequer control as the pay and accounts officer who compiles the accounts regularly will have an opportunity to judge whether there is any likelihood of the grant being exceeded. Besides, the pay and accounts officers are authorised to reject payment of claims which are not legal and which are not provided for in the appropriation act, especially if the payment of such a bill is likely to result in excess of the original grant. This check is particularly valuable, for, not unoften, the political executives in their anxiety to go ahead with certain schemes and not being aware of the accounts position launch on schemes which may eventually result in excess expenditure.

Arguments Against Separation

While the aforesaid arguments are in favour of separation, there are other arguments which blow up the entire thesis itself.

The anti-separationists argue that the mere keeping of total expenditure within the grant as is done by the pay and accounts officer does not mean anything significant. What is more important is a continuous watch on the progress of expenditure as also an awareness of the duty to ensure that the expenditure incurred is justified and economical and therefore proper. These functions, they argue, are of the controlling officer himself and not of the pay and accounts officer. It is also pointed out that the accounts officer may know only the expenditure incurred and booked while the controlling officer knows not only these two, but also the commitments as well. If the competence of controlling officers has gone down, the solution does not lie in creating a new cadre, namely, pay and accounts officers to

supplement the functions of controlling officers. What is required is the granting of more financial and administrative powers to the heads of departments so that the departments could be made fully responsible for their functional charge. It is further argued that without financial authority being trasnsferred to the administrative authorities, there could be little or no meaning in transferring accounting responsibility. However, as indicated earlier such an opportunity of combining the accounting functions with financial responsibilities arose when the revised arrangements for budgeting and financial control were introduced in the Central Government during August 1958. These arrangements which were discussed earlier were not followed by a transfer of the accounting responsibilities for the following reasons: (*a*) the separation scheme, which involves more expenditure may prove to be a further drain on the Exchequer at a time when expenditure on civil administration was to be at the minimum; and (*b*) the experiment of the revised arrangements and its progress should be watched and carefully assessed before any further changes could be effected. Added to these was the reluctance of the Comptroller and Auditor-General himself to extend the scheme to other Ministries.

) The main question is whether the institution of pay and accounts officers will not help a better expenditure control. The answer appears to be in the affirmative, for the role of the pay and accounts officer should not be visualised merely as that of an accounting officer adding and subtracting figures but that of a financial adviser and the principal assistant. That is how the controlling officer in the UK is regarded. In India, the separation system has never been tried in full and in strict adherence to the blueprint first prepared by J.C.E. Jukes. What has been done is only a piecemeal application of the scheme. The pay and accounts officer should not be judged by what he is but from what he would have been, for in the present position he is only a part of what he was to have been.

) As for the charge that audit is now done by the same agency which compiles accounts, it is argued by the anti-separationists that it does not audit its own accounts but audits the vouchers and accounts sent by the various departmental officers through the Treasuries. The audit, as it functions now in its combined

role, only consolidates the statements sent to it and in this process of compilation there is neither scope nor any motive for manipulation. It is also argued that the present system offers many checks and balances at various points, equivalent to the pre-check that would be done in the separated offices. The checks are comprehensive enough to offer almost a perfect safeguard. Moreover, it is doubtful whether an independent audit agency, which may not have ready and free access to documents, will prove as good as the present system.

As regards exchequer control, the anti-separationists argue that centralised payment system, which is an essential part of the separation scheme, would be difficult in a country like India. It is also suggested that the exchequer control does not ensure 'economy' but is only negative in its approach and therefore not very desirable.

Other Arguments

The other arguments against separation may now be summed up. (*i*) Under separation, the appropriation accounts may not be as reliable as they are in a combined system, as the accounts are prepared by an interested party. (*ii*) Even under separation, the system of making allotments to the various controlling officers in the department will have to continue. This will necessitate the maintenance of administrative accounts, as these will not be maintained by the pay and accounts officers. (*iii*) Even now, the Accountant-General is of considerable help and assistance to the administrative department and the Finance Ministry in the preparation of budget estimates, etc., and, in a way, he functions as a financial adviser also. (*iv*) The separation involves twofold audit (*a*) by the pay and accounts officer, and (*b*) by the statutory audit and it is not desirable to multiply agencies. (*v*) The test audit staff, being in less touch with the executive as compared with the present system, will be less advantageously placed than at present for the conduct of higher audit investigations. (*vi*) Accounting and audit functions being interrelated, there is nothing wrong in the combination of two functions. (*vii*) Audit is necessary to ensure that departmental accounting is correct. But, where the audit itself is a different and independent orga-

nisation, it is questionable whether there ought to be another independent audit agency. (*viii*) It is a part of the functions of the Comptroller and Auditor-General to prescribe the forms of accounting. In the context of the formation of linguistic provinces transacting their business in the regional languages, separation of accounts is likely to present a fresh problem; it may, therefore, be desirable to maintain the *status quo*. And (*ix*) Is it necessary to break up a century-old organisation which has withstood the test of time?

Added to all these is the powerful argument that separation would mean an extra recurring expenditure of Rs. 12 crores a year and would involve an additional employment of 45,000 men. In the context of the need for conserving all available resources for financing economic development and of a shortage of trained manpower, it is undesirable, so it is contended, to enter into commitments which may lead to more unproductive expenditure. The expenditure factor may be a powerful one, but the fact remains that if the accounts operations are mechanised, there would not only be a remarkable fall in the manpower requirements, but also an appreciable reduction in the total expenditure calculations. Mechanisation should not be a problem in the computer age.

The question that now arises from the analysis of the problem so far is whether separation of audit from accounts is desirable or not. The exercise of the option among the choices offered involves the exercise of a value judgment and, to an extent, the adoption of a partisan attitude also. The answer obviously depends on the purposes which separation is expected to serve. It has been stated earlier that separation, which alone can throw up the accounts data required for the successful implementation of a development plan, is an absolute imperative of the day. A scheme of separation should not be rejected on the consideration of cost alone, for what is invested today will repay itself in the form of a sound administrative set-up in future. Further, the need for such separation is inherent in the present situation and the importance of such a scheme should not be allowed to be nullified or hindered on the basis of objections which might have had some relevance in the twenties but have

no relevance in the present-day context. Another aspect which requires consideration is that the successful implementation of an exchequer control also requires separation of audit from accounts not only at the centre but also in the States. What is required is faith in the scheme and a zeal for experimentation.

PART III
PARLIAMENTARY CONTROL

Chapter Twelve

PARLIAMENTARY CONTROL

In the previous two sections we were mainly concerned with the control exercised by the Ministry of Finance and the Audit. In this part we will be making a study of the process and problems of Parliamentary control. The methods adopted by the Parliament for controlling expenditures may be broadly divided into two categories: (*i*) control before the moneys are actually appropriated and (*ii*) measures adopted to exercise control after the moneys are appropriated. The first one takes us into the realm of Parliamentary discussion on Budget appropriations and other allied matters and the study of the latter into the field of financial committees of the Parliament. The latter aspect is dealt with in the following two chapters. This chapter is devoted to a study of the methods of control exercised by the Parliament before the moneys are voted.

Parliamentary control over finances in general and expenditures in particular, consists in considering and debating the expenditure programmes presented to it in the form of Budget estimates by the government and in approving them. Its real control is thus in the field of examination of Budget estimates. The control exercised by the Parliament is a subject which reaches not only the realms where law, Parliamentary privilege, and Parliamentary custom are inextricably intertwined but is also one which is very much dependent for its effectiveness, on the approaches and attitudes of the Parliament itself. Thus it is not only the techniques and the procedures adopted by the legislature that are important, but also the willingness to use them and the effectiveness with which they are used. The study in the following pages is therefore divided into three sections: (*i*) History of Parliamentary control in India; (*ii*) Techniques of

control and the financial procedure adopted by the House and (*iii*) Problems of control. The study, as in the preceding chapters, is mainly concerned with the central system and no attempt is made to include the systems existing in the States. There is, however, a remarkable uniformity of procedures adopted in the States, and to that extent, generalisations and observations included in the chapter are applicable to the States also.

History of Parliamentary Control

A glance through the Parliamentary history of the UK would indicate that the "Power of the Purse" is central to the very existence of the House of Commons. The relations between the Parliament and the Monarch at various stages reveal the attempts made by the Parliament to have a firm hand on the actions of the king and at a later date, on the proposals for raising revenues and expending them. The history of the Indian Parliament is no different from that of its counterpart in the UK. The stresses and strains undergone during the past are by and large the same. If in England it was a fight between the Parliament (people) and the king, in India, it was a fight between the rising nationalism and a colonial power. The objective of the national movement was to gain control over the administration and thereafter to divert it towards establishing a system which could render service to the nation and not allow it to serve the needs of a foreign power. Their attempts to gain this control on administration and the reluctance of the government to yield to these attempts, or where they have yielded, to retain still as much of power as they could, characterise the history of Indian Parliamentary control to a large extent. It is through these attempts that Parliament gained different controls at different stages; and all these stages may be treated as the ascending steps in the evolution of Parliamentary control in India. The history of control may be divided, for the sake of convenience, into three periods: (*i*) up to 1919; (*ii*) after 1919 and up to the enforcement of the Constitution and (*iii*) under the Constitution.

Up to 1919. The first budget ever to be presented in India was the one by James Wilson on 13th February 1860, when

he was the Financial Member of the Council. The councils which were then in existence were formed under the Renewal of the Charter Act in 1853. They were not empowered to give expression to their opinions in matters of revenue and expenditure. Thus the control exercised by the Council was almost insignificant. However, the presentation of the budget by James Wilson to the Council should itself be considered as a landmark in the history of Parliamentary control, for it was he who first conceded the responsibility of the Council and presented a budget to it. The councils had no representative character and they consisted merely of officials and nominees who were positively 'harmless'. All the same, with the presentation of the budget by Wilson, "a new chapter began. Interest in financial questions was roused. Financial control was perceived to be the indispensable condition of the democratic State and the absence of that control the hallmark of absolutism."[1] The Councils Act of 1853 had later given way to the Indian Councils Act of 1861. Under this Act the representativeness of the Council was slightly enlarged to include twelve additional members, all of whom were nominated by the Governor-General at his discretion. In addition, the Council consisted of five ordinary members, with provision for the appointment of another member for Public Works.[2] The budget, as earlier, was presented to this small group. The discussion on the budget was pedestrian and more often than not contained hearty endorsements of the policies of the Finance Member and was of no utility, for no attempt was made to analyse the revenues and expenditures included in the financial statement. In certain years there was no discussion, for the extent and content of discussion depended more on the receptiveness of the Finance Member. As for example, there was no discussion on any of the budgets presented by Sir William Muir while in the case of Sir J. Strachey there were only two discussions of a total of five budgets.[3] The discussions, when there were any, were reported in the form of "Abstract of the proceedings of the Council of the Governor-General of India",

[1] K. T. Shah, *Indian Finance* (2nd Edition), p. 33.
[2] 1874 Act.
[3] K. T. Shah, *ibid.*, p. 33.

assembled for the purpose of making rules and regulations. The councils thus had no power to discuss the budget except in relation to those matters which were directly connected with the Legislative business before it. "It had", Sir John Strachey observed at a later date, "no concern whatever with any of the functions of the executive government."[5] The utility of the councils constituted under the 1861 Act, may be insignificant from the point of view of Parliamentary control. But in retrospect one has to concede that it was responsible for igniting a spark—a spark that led to an agitation—and an agitation that led in a way to the establishment of Parliamenary conrol. The Councils Act of 1892[4] brought an important change in the procedure followed hitherto. Under this act, the financial statement of year was to be submitted to the council and every member was given liberty to make any observations that he considered necessary and deemed fit. The Financial Member was given the right to reply to the charges and criticisms made during the course of the debate. There were, however, certain subjects which were not allowed to be discussed. Such subjects included the measures affecting the public debt or revenues of India. This Act conceded the right of discussion and recognised it as legal. The objective behind this Act itself was laudable for it recognised that the administration might gain much advantage if public opinion could be brought to be borne upon it. But this measure was not found adequate by the Indian leaders for they considered that discussion by itself was of no importance so long as they had no power to move a resolution either amending or modifying any proposal made by the Government.

The dissatisfaction of the leaders led very soon to a popular agitation which had its impact on the Government, and when the 1909 Act was passed a proviso was incorporated in the Regulations of the Council that the Members of the Council be given not only the right to discuss, but also to move any resolution seeking modifications to the proposals of the budget. The resolutions, however, were not to be voted upon but were merely to be discussed. In other words, an opportunity was given to ven-

[4] See Morris-Jones's book, appendices, for extracts of debates of these years.

[5] John Strachey, *India—Its Administration and Progress.*

tilate grievances or even criticism. This was the second stage in the process of gaining Parliamentary control. But at this stage the control itself was not there, as the right to discuss and move resolutions was not followed by a right to vote either for or against supplies, although it was this function which formed the core of Parliamentary control. As Prof. Shah wrote fifteen years after the 1919 Legislation: "The Government were not bound to accept the recommendations made by their councils. The entire power of the purse, from the preparation of the budget to its final carrying out, rested with the executive. And, consequently, the control on the departments of Executive Government was imaginary."[6]

After 1919 and up to the Constitution. This procedure underwent considerable change with the enactment of the 1919 reforms. The reforms which were introduced with the purpose of initiating the Indian people to a responsible government included an extension of the powers and privileges of the Legislature in financial matters. The Act of 1919 provided that a statement of the estimates, annual expenditure and revenue should be presented to the Legislature every year. The Statement (budget) was not followed by any discussion on the same day but was taken up later. The consideration of the budget was dealt with in two stages: (*i*) A general discussion on the various aspects of the budget and (*ii*) The voting of demands for grants. To enable a general discussion on the budget, a date, usually a week after the presentation of the budget, was fixed by the Governor-General and a period, normally of two days was allotted for general discussion. After the general discussions were over, the second stage, relating to the detailed consideration of the demands for grants was taken up. The initiative for asking money rested with the Executive as "no proposal for the appropriation of any revenue or moneys for any proposal shall be made except on the recommendation of the Governor-General." However, not every item of expenditure was subjected to a vote of the House. The Act provided[7] that the moneys required for the purpose of

[6] *Governance of India*, p. 230.
[7] Article 67 A(3).

(*i*) interest and sinking fund charges on loans, (*ii*) expenditure on which the amount is prescribed by or under any law, (*iii*) salaries and pensions of persons appointed by or with the approval of His Majesty or by the Secretary of State in council, (*iv*) salaries of Chief Commissioners and Judicial Commisioners, and (*v*) expenditure classified by the order of the Governor-General in Council as (*a*) ecclesiastical, (*b*) political, (*c*) defence, need not be subjected to the vote of the House. The demands so presented were liable either to be refused, reduced or assented to by the Legislature but it was not authorised to change the destination of the grant. When it was sought to reduce specific amounts in the demands recommendatory resolutions to that effect were moved by the Legislature. Even in such cases where reductions were voted by the Legislature the Governor-General was empowered under the Act to restore the cut made by the Legislature. The Act provided that "The demands as voted by the Legislative Assembly shall be submitted to the Governor-General in Council, who shall, if he declares that he is satisfied that any demand which has been refused by the Legislative Assembly, as essential to the discharge of his responsibilities, act as if it had been assented to by the Legislative Assembly." However, there were a number of occasions where cuts were made by the Legislature and were accepted by the Governor-General. There were of course equal or more occasions when the reductions were restored by the Governor-General. The Simon Commission reported at a later date: "The cuts made in the first two budgets of Rs. 129 and 95¾ lakhs respectively, were accepted by Government. In 1923, however, the Governor-General in Council restored the provision of Rs. 114 lakhs for railway annuities, which the assembly had cut in the budget in pursuance of its wish to see the sum transferred from Revenue to Capital Account and also the sum of Rs. 3 lakhs for the Public Services Commission eliminated by the Assembly because of its disapproval of its appointment. The attitude of the subsequent Assemblies differed greatly from that of the first. In 1924, the Swarajists, pledged to wreck the government, succeeded in rejecting demands amounting to Rs. 4¾ lakhs. All these were restored by the Governor-General in Council."

The 1919 Act, thus, proved both an advancement and a denial

of the rights of the Legislature. It was an advancement, for it gave the right to vote; it was a denial, for the Governor-General was given the powers to restore the cuts. In addition to the power of restoring the reductions made by the Legislature, the Governor-General was equipped with another power viz., that in extraordinary emergencies expenditure could be authorised by him, if in his opinion such expenditures were necessary for the safety and tranquillity of British India. (The Act of 1919 was also criticised from another point of view.' The provision of votable and non-votable expenditure and the practice of including large amounts under the non-votable heads aroused suspicion and distrust. Also, not all the non-votable items were allowed to be discussed. The Governor-General, at his discretion allowed only certain non-votable items to be discussed. These provisions naturally limited the scope of discussion. Not content with the provision of limited discussion, the Legislature tried time and again to get rid of this distinction between the votable and non-votable items, but the attempts[8] were in vain. However, the increasing number of reduction motions in respect of votable items put the Executive on defence and consequently the expenditures on non-voted items were reduced. The Simon Commission in its report on this aspect observed thus: "The natural disinclination of the Executive to use extensively the power of restoration, has on occasions, and to a limited extent, enabled the Legislature in effect to reduce non-voted expenditure. That is to say, the Government has avoided being forced to extreme measures on the voted item by agreeing to cut down its non-votable estimates."(The 1919 Act was an advancement over the previous Legislation in one respect, viz. in granting the right to vote and veto supplies.) In the same respect it has also proved to be unsatisfactory for these provisions had to work against the much larger powers of the Governor-General, given under the same Act.

'The next landmark in the development of Parliamentary control is the 1935 Act. Under this Act also, an annual statement of the receipts and expenditure was presented to the House and was

[8] Memorandum of the Government of India to the Simon Commission, *Speeches and Documents on the Indian Constitution*, pp. 46-7.

subjected to a general discussion on the budget. This discussion was followed by a detailed discussion on the demands for grants. One peculiar provision of this Act had been that both the Houses—the Assembly and the Council—were given the same powers [Section 35(2) of the Act] in this respect to consider, reduce, and modify the demands presented by the House. The Assembly could reject or reduce a demand but was not empowered to increase it. The reduction in the demands proposed by the Members was in three forms: (*i*) a demand was reduced by a token cut of a rupee if the object was to censure the government, (*ii*) a demand was reduced by a hundred rupees if it was only to discuss the demand and (*iii*) a demand was reduced by a specific amount or rejected altogether. The Act had not provided for any appropriation as was done at a later date in the Constitution. The demands as voted by the Houses (which included the cuts made by them) were then submitted to the Governor-General who incorporated them into what was called an "authenticated statement". This "authenticated statement" of the Governor-General constituted the sole legal authority for any expenditure from the revenues of India. But in authenticating these statements, the Governor-General was empowered to restore demands to their original figures if in his opinion such restoration was necessary to the discharge of his special responsibilities. The authenticated schedule was then laid before the Chambers, but no discussion on them was permitted in either House. The 1935 Act also continued the distinction between the voted and non-voted (charged) items. The 1935 Act, thus, gave the power to reject the supplies or reduce them by following the three methods listed earlier. But in empowering the Governor-General to restore the demands, it made the final appropriation of moneys not an act of the Legislature but of the Executive. Thus, once again the control of Parliament remained incomplete and maimed. These defects were removed with the advent of the independence, and with that, the control of Parliament became complete and exhaustive. The study of the provisions of the Constitution in this respect, incidentally, leads us into the study of the techniques adopted for Parliamentary control and are therefore dealt with in the following Section.

[1]The history of control thus reveals the following stages:

(*i*) recognition of the necessity of the presentation of the budget, (*ii*) recognition of the need for discussion, (*iii*) discussion followed by power to legislate, but subjected to the overall approval of the Governor-General and (*iv*) discussion with complete power to legislate (under the Constitution).[1] The growth from one stage to another reflects, incidentally, the growth of the national movement in the country.

II

Parliamentary control in India, as in the UK, is based on the famous principle: "The Crown demands money, the Commons grant it, and the Lords assent to it." The only variation is that the principle as summed up by Erskine May was applicable to the monarchical system of the UK while in India, the content remaining the same, the difference is only in the terminology. This is, however, not to imply that the Indian system is for all intents and purposes a replica of the British practice and procedure. There are differences, but these differences arise only in the minor aspects of procedure. The framework of control, both in the UK and in India is almost the same.

Budget Presentation and Discussion

The first stage of control—it may be appropriate to call this a 'review'—is the presentation of the budget and the discussion following thereon. The budget which is 'figures set to music' and which embodies the results of the endeavours of government in the current year and includes its proposals for the next year is presented to the House on the last day of the month of February after all transactions in all the stock exchanges have ceased for the day.* The budget contains a review of the current year's economic trends and the next year's proposals. The proposals include the new measures of taxation, if any, proposed by the Finance Minister. On the expenditure side, the budget contains the actual amounts spent during the preceding year,

* The Budget is presented almost simultaneously to both the Houses. However, the power of the Upper House in financial matters is almost nil. The Rajya Sabha is only to discuss while all legislation in this regard rests with the Lok Sabha.

estimates for the next year and the revised estimates of the current year. The amounts are classified into those which fall under 'Revenue' account and those which are included in the 'Capital' account. They are also further sub-divided into those amounts which are 'charged' on the Consolidated Fund of India and those which are voted by the Parliament for appropriation from it. The Budget thus presented, evokes considerable interest as it contains the economic policy of the government to be followed during the succeeding year. The presentation of the budget is followed by a detailed[9] discussion on various aspects of the budget. The general trend of the discussions in the past, however, reveals that greater concern is expressed at the new taxes levied or on some of the controversial developments that have taken place in the economy and it is seldom that one finds the general debate utilised for the purpose of commenting on the aspects of expenditure.

After the conclusion of the 'general debate' on the budget, the demands for grants of various Ministries are presented to the Lok Sabha. Until 1947 all the demands were formally moved by the Finance Minister. But now this procedure has been changed. Following a recommendation made by the Estimates Committee, which stated: 'One method by which the budget discussion could be made more well-informed would be for the Minister concerned to initiate discussion on demands concerning his Ministry and explain all relevant facts which are likely to be raised in discussion and again to reply to the discussion before the demands are voted.[10] The demands are now introduced formally by the Minister concerned. The pattern of discussion on the demands changes from time to time depending upon the agreements arrived at by the chief whip of the parties. The total period generally allocated for the discussion of demands is fifteen days. As this period is usually not adequate for an exhaustive debate, important Ministries are generally taken up earlier and it is quite likely that the demands of certain Ministries may be

[9] Prof. Morris-Jones calls this discussion, rather uncharitably, as "a relic from times when the central assembly could do little more to the budget than discuss it generally", *Parliament in India*, p. 238.

[10] "Budgetary Reform", 20th Report, 1958, p. 25.

voted without any discussion at all.[11] These demands are however not presented to the Rajya Sabha. The Rajya Sabha has no further business with the budget except at the initial stage when the budget is presented to that House also. A general debate also takes place in the Rajya Sabha on the budget. No demands are presented to the Rajya Sabha, for the approval and voting of the supplies is the exclusive right of the Lok Sabha.

The demands presented to the House (Lok Sabha) are governed by certain broad principles. They are: (*i*) the initiative in financial matters is vested only with the executive. Article 117(3) of the Constitution states specifically: "A Bill which if enacted and brought into operation, would involve expenditure from the Consolidated Fund of India shall not be passed by either House of Parliament unless the President has recommended to the House the consideration of the Bill." The objective is clear and as Hilton Young observed: "Limitation of financial initiative to the executive in one of the sheet-anchors of good government. The balancing of revenue and expenditure is a nice and delicate operation; only the executive can have the double knowledge needed for it, of what is needed on one hand and how much it will cost and on the other hand how much the taxes are likely to yield. Its plans once made must be rigidly adhered to: were the balance of revenue and expenditure liable to be upset by an ill-informed, sudden and comparatively irresponsible action on the part of a Member, the nation's finances

[11] A Member (H. V. Kamath) objected to this procedure. He said: "I invited your attention to the fact that it was unfortunate and even detrimental to the growth of a sound and efficient Parliamentary system that some Ministries' demands should be put to the vote of the House without any discussion."—Debates of Lok Sabha, 6th April 1956.

The Speaker, commenting on this aspect observed earlier: "Leaders of various groups in the House had consultation with the Chief Whip and Minister of Parliamentary Affairs and I believe it was agreed there that only certain Ministries should be taken up." It has thus been taken for granted that only those Ministries which are agreed upon between the Whips, are discussed within the limited period of time. In the UK the subjects for discussion are chosen by the opposition. This has come into sharp criticism recently (see the Debate of the House of Commons. 16th March 1960) with the consequence that there has been a change in the procedure (see the announcement made by Hon. R. A. Butler on 26 July 1960, in the House of Commons on the subject).

must soon fall into wild disorder."[12] (*ii*) Following from the premise laid down in (*i*) the House can only assent to the demand or (*a*) refuse it or (*b*) reduce it. But it does not have the power to increase a demand or put any condition as to the appropriation of it. The demands presented to the House contain: (*i*) a statement of the grant proposed (Part I), (*ii*) a statement of the detailed estimates of the same (Part II) under different sub-heads and (*iii*) the details (Part III) under the sub-heads.[13] The demand is a motion to the effect "that a sum not exceeding Rs..... lakhs be granted to the President to defray the charges which will come in course of payment during the year ending the 31st day of March ... in respect of Ministry of ...." To this motion, which is moved by the Minister of Finance, cut motions can be moved by the Members who are interested in the content of the Demand. The objects of cut motions may be either to discuss the policy pursued in regard to a specific matter by the Minister concerned or to ventilate grievances or to suggest retrenchment or even some economies. The cut motions are of three types.

Cut Motions

(*i*) *Refusal of supplies* implies cut motion to the effect that the amount of the demand be reduced to Re. 1. The objective in moving this motion, which is in the form of an amendment to the original motion seeking supplies, is not intended to convey a local grievance, but the disapproval of the policy pursued by the Ministry. The discussion is concerned not so much with the expenditure in question as it is concerned with the policy behind the expenditures. A Member giving notice to this motion must indicate the aspects mentioned in the motion, as otherwise there is a risk of his being stopped by the Chair. (*ii*) *Token cuts.* This motion takes the form that the "amount of the Demand be reduced to Rs. 100". The object behind this is to ventilate a grievance relating to the demand. The discussion on these motions is confined to the scope of the grievance only and is not expected to go beyond the scope of the motion, and (*iii*) *Economy*

[12] *National System of Finance*, p. 41.
[13] Rule 225 of the *Rules of Procedure of Lok Sabha.*

cuts are moved to the effect that the amount of the demand be reduced by a specific amount. The reductions suggested may be a lumpsum reduction from the demand or may be a deletion of some item of expenditure, which in the opinion of the Members is unnecessary, extravagant or wasteful. During discussion, no grievances are expected to be ventilated and, as in respect of the other motions, discussion should be confined only to the point at issue. Out of these three cut motions, the first one which is tantamount to a disapproval of the policy is treated as a censure, while the other two motions are treated *as they are* without any ulterior import. The cut motions so proposed, it has been prescribed, (*i*) shall relate to one Demand only, (*ii*) shall be confined to one specific matter which shall be stated in precise terms, (*iii*) shall not make suggestions for the amendment or repeal of existing laws, (*iv*) shall not relate to expenditure charged on the Consolidated Fund of India and (*v*) shall not relate to a trifling matter. Though the cut motions require specification of purpose and the objective of discussion, yet it is an attempt to discuss the proposed expenditure of each Ministry. It presents an opportunity for annual stock-taking of the performance of each Department; and in each aspect of the work of the Ministry regarding which the Member is not satisfied, he can move cut motions with a view to focus the government's attention to it. No doubt, in cases where the suggestions of the Members cut across party affiliations and go to the roots of the problem, they may be not only welcomed by the government but may even receive immediate implementation. But, even in other cases, the cut motions put the government on the defensive as it has to answer the criticisms made by the Members. If the reply is not convincing enough and if party discipline is not brought into the picture (which is unlikely), it is probable that the cut motions are accepted and the Demands reduced accordingly.

The cut motions, after discussions, are put to vote and depending on the results of the motions, the demands are also accordingly reduced or passed as they are. But this procedure may not always be possible in the case of all the Ministries, since the time allotted for discussion for all the Ministries is generally a period of 15 days. Where the time left is too short and the business to be transacted is considerable, a familiar and a conven-

tional Parliamentary procedure known as "guillotine" is applied. "Guillotine", as was once explained by the Chair, "is intended for the purpose of disposing of matters which are outstanding at the end of the day up to a particular time that is prescribed."[14] This guillotine can be applied at the end of the period allotted for a demand or can be applied at the end of the total period allotted for the discussion in the grants. However, a frequent application of 'guillotine' is likely to thwart the very purpose of Parliamentary control and, as Hilton Young stated, it may reduce "the whole laborious process of the control of expenditure by the House to something of a farce."[15] But occasionally, considering the heavy schedule of legislative work the application of this principle is often necessitated.

Appropriation Bill

There is, however, a second opportunity presented to the House for the consideration of these matters. This opportunity arises when an Appropriation Bill is submitted to the House for its consideration and acceptance. Article 266 of the Constitution lays down that no moneys shall be appropriated out of the Consolidated Fund except in accordance with law—and this law is provided in the form of the Appropriation Bill.[16] This Bill includes not only the votable items but also those items which are treated as 'charged' for they also involve withdrawals from the Consolidated Fund. The Bill includes all those items which were already included in the Demands for grants of individual Ministries and approved by the House. Thus, in effect, this Bill is nothing more than a statement of those amounts which were already approved by the Parliament, but once again brought to the House in the garb of a formal Legislative Act, thus affording an opportunity to the House to discuss questions of policy and other matters related to expenditures. Though the Bill did not in the beginning afford any opportunity for wider discussion, since the debate was of necessity to be restricted to those matters

[14] L.S. Debates, Vol. VI, Col. 2206, 1952.

[15] *Ibid.*, p. 53.

[16] There is a technical distinction between the bill involving appropriation—which represents a withdrawal from the Consolidated Fund, and bill involving expenditure—indicating a liability on the Government.

of public importance or administrative policy implied in the grants covered by the Bill which have not been raised when the relevant demands for grants were under consideration, these Bills have later grown in stature thereby providing an occasion for a full-fledged discussion on topics chosen by the various Parties in the House.[17] This change, it has been said, is a "good Parliamentary practice."[18] The Appropriation Bill itself, as a procedure, has been a marked improvement over the authenticated statements of expenditure signed and presented to the House by the Governor-General in the past. The former is a Legislative Act, while the latter was an Executive Act and to that extent, these differences reveal the supremacy of the Executive over the Parliament. If the history of the hitherto existing Parliaments in India has been a history of the supremacy of the Executive, the history after the constitution is a history of the supremacy of the Legislature and perhaps herein lies the essential difference between a colonial rule and an independent sovereign democracy.

To the Appropriation Bill, no amendments which will have the effect of changing the amount or altering the destination of any grant so made or of varying the amount of any expenditure charged on the Consolidated Fund of India, can be moved. The Appropriation Bill is not expected to throw up an opportunity which can disturb the amounts already approved by the Parliament. With the enactment of the Appropriation Act, the Legislative cycle, in so far as financial matters are concerned, comes to a stop. There are, however, certain other measures designed to ensure Parliamentary control in respect of some other financial items not included in the budget account. These controls are in respect of vote of excess grants, votes of credit and exceptional grants, etc.

Vote on Account

The Vote on Account is a grant approved by the Legislature in advance of the detailed examination of the various Demands presented to it. Since Legislative programme cannot be hurried merely to enable the Executive to get its grants exactly at the

[17] Lok Sabha Debates, 8 April 1953.
[18] Morris-Jones, *Parliament in India*, p. 242.

beginning of the new financial year, the Executive is given an advance grant to meet its temporary and other running expenditure until the demands are voted by the Legislature. The Vote on Account is a new provision in the Constitution. Under the 1935 Act, which did not have such a provision, debates had to be hurried through and concluded before the end of March. Thus, a budget which was presented to the House at the end of February had to be accepted by it by the end of March. A period of one month is generally considered inadequate for the consideration of the budget but at the same time the non-approval of budget estimates was likely to result in holding up all the activities of the Government. It is to avoid this and to enable a detailed deliberation by the Legislature that the Vote on Account was introduced. This procedure ensures at the same time that no moneys are spent without the sanction of the Legislature. The consideration of the Vote on Account presents another opportunity, though it is not generally availed of, to discuss matters of policy, ventilate grievances and propose cut motions.

Excess Grants

Excess grants are those which are introduced in the House to regularise the excess amounts spent over and above the original grants approved by the Parliament. This, essentially, is a regularisation process of what has already been spent, but it presents another opportunity for discussion on the particular transaction which led to the excesses or on the administrative lapses that led to the excesses. No general discussion is, however, permitted. But excess grants are treated by the House with utmost caution, at times even with contempt and resentment, for every excess represents a relaxation of Parliamentary control. Such excesses may not, however, arise when there is a system of Exchequer control. The provision relating to regularisation of excess grants is again like the Vote on Account—a new provision. Under the 1919 and 1935 Acts the excesses were treated as if they were a 'demand for grant'.

Vote of Credit

The vote of credit is a grant for meeting an unexpected demand upon the resources of India when on account of the mag-

nitude or the indefinite character of the Service, the demand cannot be stated with the details ordinarily given. It is to be passed by the House in the same way in which it passes the Demands for grants. The vote of credit which is intended to provide amounts to the Government in times of emergency has not been utilised so far. The 'exceptional grants' are analogous to the votes of credit in that neither of them forms part of the current ordinary expenditure. It is intended to meet specific purposes—the nature of which is not recurring—and a motion for grant of money is moved very much in the same manner in which a normal demand is moved in the House. These grants, however, are exceptionally rare in occurrence and have not been resorted to so far.

If the preceding are the types of grants which are to be approved by the Legislature before and after the commencement and completion of activities during a financial year, there are certain other techniques through which the Parliament ensures that the moneys granted by it have not been spent for a different purpose or have not been spent on a purpose not approved by it. The techniques of control that can be included in this category are three: (*i*) control over supplementary grants, (*ii*) control over reappropriation or virement and (*iii*) control over token grants. Supplementary grants are those grants which are granted by the Legislature during the course of the financial year in addition to the funds that have already been appropriated. The need for these grants arises mainly when the amount included under a head has proved to be inadequate and the fulfilment of which requires additional funds or when funds are required to meet the expenditure of a new service which has not been included in the original estimates. It is one of the axioms of Parliamentary control that the amounts granted by it should be spent only for the purpose for which they were sanctioned. This process requires that the executive should present every item of expenditure and the object of the same. But in the course of the year new needs crop up and expenditure can be incurred on those purposes only after they are approved by the Legislature. However, the Legislature may not always be in session to consider the supplementary Demands and the activities of a department may be held up on this account. To prevent this the

departments take advances from the contingency fund and later submit them to the Parliament for approval. But as a practice, the Departments are required to calculate their requirements well in advance so that a supplementary demand could be taken in time.

The approach of the Parliament to supplementary grants has always been a hostile one. The grants are treated as a relaxation of the Parliamentary control and "as a breach of contract between the government and Parliament".[19] Hilton Young observed years ago, in a highly critical tone, "that they are always a necessary evil, and a diseased excrescence[20] on the year's finance and the success in finance of the Ministry may be measured by its ability to do without them." He added: "Public control of public expenditures depends for its efficiency in a large measure on the financial scheme for the year being presented to the House and considered and approved once for all, as a whole. To allow the scheme, once approved, to be as something still fluid and liable to extensive modifications infinitely weakens effective control and supplementary estimates is the most harmful way of doing so. To make anything but the most restricted use of them must deprive the whole system of supply of its meaning and utility." In the Indian Legislature also, the reception to supplementary grants is no different from what it is in the UK and quite often demands are made in the House that supplementary grants should be subjected to scrutiny by one of the Financial Committees of the House before presentation, but these demands are always met with a firm resistance by the Finance Minister. Referring to such a demand of the House, the Finance Minister observed in 1956: "I doubt whether it is a correct suggestion, because under the Constitution, supplementary grants are required to be treated in the same way as the budget estimates which are not subject to prior scrutiny.... I doubt myself whether any examination thereof will yield very useful results."[21] The supplementary grants have now become almost routine for reasons which are two-fold: (*i*) the revised financial and budgeting arrangements introduced

[19] A. J. V. Durell, *op. cit.*, p. 148.
[20] *The System of National Finance*, 1924, p. 65.
[21] Debates of Lok Sabha, 16 March 1956.

from August 1958 are based on the principle that in respect of schemes—where the details are not complete—initial budget provision would be restricted to the minimum requirements, while a supplementary grant would be submitted to the House at a later date for the remaining expenditure; and (*ii*) the implementation of a plan throws up many problems which may not have been foreseen earlier and, if foreseen, the magnitude of which was not fully realised thus necessitating frequent budget revisions. To that extent, supplementary grants inevitably become integral parts of the situation. Budgetary process in such a context has to be a continuous one endowed with flexibility; this fundamental change in the situation makes one feel that Hilton Young's comments have no relevance in the present day context.

The supplementary Demands, when presented to the House, are treated in the same way in which the Demands for grants are treated, and the discussion has to be confined to the scope of the demand only and generally the policy behind them is not allowed in the discussion, though in respect of a demand concerned with a 'New Service' the policy aspect of it can also be discussed. After discussion it is voted by the House.

Reappropriation

' Another way in which Parliament exercises control is through the restricted powers given for reappropriation. This process which is also known as 'virement' consists in appropriating from one Head where there is a saving to another where there may be need for more expenditure. It, essentially, is a process where the total amount of the grant remains the same but where there are internal transfers and shifts which change the composition of the demand. Parliament would always like that the amounts appropriated by it are spent for the purpose for which they were given\and with this end in view, the powers of reappropriation of authorities, some of which are exercisable only in consultation with the Ministry of Finance, have been restricted so that the grants may not be applied to objectives and purposes other than those for which they were granted. The restrictions are that no reappropriation may be made from one grant to another, from charged to voted and for a purpose which would attract the New Service rules. The imposition of these restrictions

ensures the non-violation of its objectives and where there are violations, the violations are reported by audit to PAC which considers them and offers its comments. In regular day-to-day administration, the task of verification as to whether a reappropriation was made contrary to this spirit is entrusted to the Ministry of Finance.[22] Another technique of control adopted by the Parliament in respect of certain matters of budget execution is its acceptance of the token grants. Token grants are a variation of supplementary grants and are submitted when the proposed expenditure is not within the ambit of the Demand already approved, but can be met from savings within that demand. The token demand does not involve any additional expenditure. These demands are also treated in the same way as the other demands and discussion is confined to the objective of the demand. Through this procedure the Parliament restricts the application of funds to other purposes even when funds are available within a grant. These then are the procedures adopted by the Legislature to acquaint itself with the financial activities of the Government. As Durell stated, "all the rules as to financial procedures are measures intended to protect the House against itself, to prevent hasty grants and ill-considered increases in the responsibilities of the people."

A question now arises as to how real and effective is this control exercised through the above procedures? This would take us to the problems of control.

III

Problems of Control

We have seen in the preceding section the techniques adopted by the Legislature to ensure adequate control on the Executive, as also to see that not a 'pie is spent out' of the 'Consolidated Fund' without the permission of the House. But mere provision of rules or the existence of extensive regulations is not adequate. For an effective control these procedures have to be exercised in the manner and in the context for which they have been prescribed. But in the implementation or exercise of these pro-

[22] See Chap. IV.

cedures and powers there are many a problem which arise, mainly out of the attitudes of the Members of the Legislature. In the following paragraphs an attempt is made to analyse some of these attitudes and problems revealed in the system.

The impact of the control of the House depends (*i*) on the receptiveness of the Cabinet and its relations with the House, and (*ii*) on the scope and nature of the debates in the House itself. The relations between the Cabinet and the House are to some extent dependent on the party ties. The existence of a good Parliamentary party organisation endowed with a capacity for systematically channelising its opinions, feelings and expressions, may make all the difference, for the impact of such a body on the Cabinet will be considerable and such good relations may well pave the way for an early implementation of the desires and wishes of the House. The absence of such a system will, to that extent, reduce the effectiveness of the Parliament. The House is only a legislative body and not an executive body. If the House opposes a legislative measure, it can only overthrow the government. But if it can systematically voice its feelings, the legislation itself may be so drafted as to make it acceptable to the House. Thus the relation between the House and the Cabinet is an essential element in Parliamentary control. It is important to realise that it is upon the approach of the Parliament that the responsiveness of the Cabinet and the extent of its own control depend. It has been occasionally suggested that the control of Parliament is almost insignificant inasmuch as its impact on the Cabinet is negligible. This is in a way a handicap which is inherent in the system itself. The influence of the Parliament works in the same way in which the influence of the shareholders works on the Directors of a Company. As Durell stated, "the control of Parliament might more appropriately be compared to that of the shareholders of a company as exercised upon the Directors, and it is perhaps usually exercised to the same extent."

The effectiveness of Parliament's control depends in addition to other factors, upon the scope and nature of the debates of the Houses. Debate is the Parliament's main weapon. Many factors limit the effectiveness of this weapon. For example, it is a general complaint that the time allotted for discussion is not

always adequate. To some extent, the inadequacy of time allotted for debates is inherent in the Parliamentary system. As Durell says: "Of all the restrictions on effective Parliamentary control which are imposed by Parliamentary practice and procedure, perhaps the greatest is the lack of time for due deliberation."[23]

Other factors also limit the effectiveness of debates. There is, first, the party system. It is the general practice that any measure introduced by the Government receives support from its members of the ruling party in the House. This partisan attitude on general issues and in general debates can be justified, but it is questionable whether these attitudes should be extended to cut motions, etc. which are intended not so much to criticise a policy as to comment on the wastefulness of a particular expenditure. In India, party affiliations are stretched even to cut motions. As Professor Morris-Jones says, "The cut motions are almost invariably moved only by opposition members, the Congress Party having effectively discouraged cut motions from its own supporters." Instead, a procedure has been devised by which Congress Members submit to the Ministers ten-line memoranda containing local and specific pleas. More reliance is thus placed on the Party approaches than on debate in the House.

Secondly, the technical jargon in which the demands for grants are couched dissuades a majority of Members, despite their interests in financial matters, from participating in the debates. As Earl Atlee said, "It was an unsatisfactory system that they should have to discuss pages and pages in figures in a debate on the floor of the House."[24] This difficulty is not peculiar to the Indian system.[25] This difficulty with the terminology often results in financial matters becoming the forte of a few specialist Members. To that extent, the discussion tends to become a talk

[23] Durell, *The Principles and Practice of the System of Control over Parliamentary Grants.*

[24] "Parliamentary Reform," Hansard Society.

[25] Professor Arthur Smithies observes thus on the American experience: "Public comprehension of the Budget is greatly hampered by its bewildering terminology. On the expenditure side, the terms of appropriation, obligation and expenditure cannot be avoided and are confusing enough." Further, "This incredible complexity results largely from attempts at concealment". *The Budgetary Process in the United States,* 1955, p. 197.

between specialists while the other Members confine themselves to the ventilation of local grievances with little or no realisation of the impact of their acceptance on the overall finances of the Government. Thus innumerable cut motions are moved, generally to demand a railway line here or a fertiliser plant there. In the process national interests yield place to parochial and local interests.

Further, the debate in Parliament is often devoted to a discussion of the trivial and the sensational. A good many hours are spent on discussion of details of a particular expenditure where the amount involved is small, while relatively much less time is devoted to bigger items of expenditure. Needless to say, this does anything but strengthen Parliamentary control over expenditure. As the speaker of Lok Sabha said once, "in the field of Finance, the House should discuss questions of principles rather than details".

Again, the discussion on the budget and the demands for grants are more devoted to political aspects and to taxation measures proposed than to assessment of governmental efficiency. A substantial portion of the debate generally revolves round the 'policy' of Government and its administration and little or no time is devoted to consideration of different aspects of the Government's expenditure. In this respect, we are no worse off than, say, the House of Commons. Thus the third report on 'Parliamentary Procedure in UK' (1946) said that "the passing of estimates in the Committee of Supply is the formal procedure by which the expenditure of Departments is authorised, but as is well known, this procedure has almost ceased to serve the purpose of financial scrutiny and is used almost exclusively for the criticism of policy and administration."

The debates also reveal the keen interest of the members in "economy" and "retrenchment". Debates in the Indian Parliament have been generously interspersed with motions aiming to bring about retrenchment and economy. An examination of the suggestions made, however, will give the impression that their implementation will cost more to the Exchequer than the resultant economy. Professor Galbraith says about the US Congress, that "nothing is ever accomplished of sufficient magnitude to affect appreciably the total spending of the economy and

indeed the expectations of non-accomplishment are such that the Congressional discussion of budget-cutting each winter has now assumed the innocent aspect of a folk rite. It begins as the budget time approaches. It reaches full pitch a few days after the budget is submitted. The gods are appeased by stern denunciations of public profligacy and inspired promises of vast economies. The ceremony is solemnly described to the people by press and radio. Thereafter the seemingly indispensable outlays are voted, and the result is more often to increase the budget than to reduce it."[26] This is true of the Indian Parliament also.

Further, the debates also indicate that the Houses are not satisfied with the control that they exercise and clamour for more controls. Not infrequently, statements are made that "Today I must say, having the experience I have, that the control of public expenditure by this Parliament is nil", or that "It is the inherent right, it is the fundamental responsibility, of this House to be the watch-dog of the finances of the State. We cannot abdicate this power to government". To remedy this apparent inadequacy of control, various measures like setting up committees on investments, on contracts and on expenditure, etc., are suggested. Quite often the 'demonstration effect' of other systems proves too attractive and members do not hesitate to suggest the implementation of every new device that is adopted by other countries in their legislative business.

Again, experience of the last ten years shows that the opinion expressed by the House is not always shared by its committees.[27] The reports of the committees of the House are based on detailed study, while the opinion expressed by a member is usually his own personal estimation of a scheme. But where the view represents a general consensus of opinion in the House, the committees may have to take cognizance of it; otherwise, the debates lose their importance. Finally, a basic weakness of par-

[26] *The Affluent Society*, 1953; p. 188. Lloyd George said in a similar vein a long time ago: "It generally ends in a demand that you should spend more money for something or other."

[27] For example, at a time when a number of suggestions were made in course of the debates to increase the control exercised by the Ministry of Finance, the Estimates Committee (see the second report, 1957) recommended a diminution of the control of the Finance Ministry..

liamentary debates is that the demands of some Ministries are voted without any discussion. This naturally weakens the control of Parliament over the Government's expenditures.

To overcome these shortcomings and to strengthen Parliamentary control, two suggestions have been made by the Estimates Committee. The Committee's suggestions aim to: (*i*) make parliamentary discussion more effective; and (*ii*) introduce performance budgeting.

From its own experience, the Estimates Committee felt that it "was not in a position to examine all the Ministries even over a fairly long period."[28] It, therefore, suggested that this could be made up by providing additional opportunity for debates in the House. It also suggested that various financial aspects of the budget could be studied by a number of committees set up for the purpose by the House. These committees would submit their findings to the House to enable systematic discussion. This was done in the case of the Second Five Year Plan. This procedure could perhaps be adopted with advantage for discussion of the budget also since it would enable Members of Parliament to concentrate on certain Ministries. They can then maintain close contact with the Ministers and the officials and get all their doubts cleared. This would make for enlightened criticism of the budget.

The Estimates Committee's recommendation has not so far been implemented.[29] Its implementation would have certain implications. First, it will change the present procedure of discussion and convert the sub-committees of the House almost into the equivalents of the Appropriation Committees of the US Senate. It is a moot point whether such a committee system would fit into the Indian Parliamentary system which is based on the practice in the UK. Second, it may eventually lead to a situation where discreet officials may begin to consult the sub-committees in respect of proposals even before they have formulated the budget with a view to ensuring their acceptance easily. This may well lead to stretching of the invisible hand of Parliament into the sphere of formulation of the budget pro-

[28] 20th Report on "Budgetary Reform", p. 26.

[29] The 60th Report of the Estimates Committee which is a follow-up of the 20th Report, avoids mention of this proposal.

posal. The acceptance of these suggestions is likely to make the Indian system more akin to the committee system of US, the efficacy of which has often been questioned in that country.

The other suggestion made by the Estimates Committee to strengthen Parliamentary control is the introduction of performance budgeting. The Committee recommended that performance budgeting should be introduced gradually. The Speaker of the Lok Sabha has also expressed the opinion that budgetary reform to facilitate better presentation and to show expenditures connected with the Five Year Plans and developmental activities, should be introduced. He also suggested the adoption of the programme and performance system of budgeting. This suggestion may be considered in greater detail here.

Performance budgeting, which was recommended by the Hoover Commission in 1949, essentially consists in the presentation of a budget based upon functions, activities and projects. The aim was to focus attention on the progress made during the past year so that the Congressional committees could know the progress made as a result of the amounts already spent and, on that basis, allocate the funds for the next year. This technique was intended to provide the answer to the two basic questions posed for the Hoover Commission: (*i*) What is the desirable magnitude of expenditure on any major government programme and the desirable proportion of total government expenditures to the gross national product? (*ii*) How efficiently and economically can an approved government programme be executed or can the same amount of work be performed satisfactorily through other arrangements or through improved procedures at less cost? The implementation of this technique, however, ran into difficulties, e.g. (*i*) it necessitated the treatment of separate programmes even when there was no clear-cut responsibility; and (*ii*) it proved difficult to provide adequate information about the cost, etc., of many of the programmes shown in the budget. These difficulties led to the abandonment of performance budgeting and the introduction of programme budgeting which is more concerned with the future, unlike performance budgeting which is concerned with a review of the past.[30]

[30] It is doubtful whether performance budgeting can really be effective.

The introduction of these techniques in the US has led to the suggestion that similar techniques be adopted in India. But there were also objections based on (*i*) a strict and, in a way, narrower interpretation of the functions of Indian Parliament; and (*ii*) the practical difficulties inherent in the introduction of programme budgeting. It is argued that the background against which these techniques have come to be used in the USA is different from the Indian context. The two questions posed for the Hoover Commission, referred to above, are essentially concerned with economy and the allocation of resources among alternative heads. This work, in the USA, is one which is within the scope of the activities of the Congressional Committees. In the Indian and British systems the fulfilment of these objectives is ensured by the Ministry of Finance or the Treasury. It is a function of the Executive. In the USA, there is no counterpart to the Ministry of Finance charged with reviewing every item of work from the financial angle.

The practical difficulties in introducing programme budgeting are also numerous. First, the States which receive substantial assistance from the Centre and which are responsible for the execution of many Plan schemes have their own budgets. Inclusion of these schemes in the Central Programme Budget would be a very difficult and time-consuming job. It would be equally difficult to quantify the different aspects of the schemes. Besides, the introduction of the system assumes the existence of certain pre-requisites: (*i*) it is necessary to have a system of advance programming of Government operations on a long-term basis; (*ii*) the end-results of the programmes must be measurable; (*iii*) the outlay shown in the budget should represent the entire costs; (*iv*) the programme should be administered by the budgeting authority; and (*v*) the total outlay should be capable of allocation between fixed and variable costs. These pre-requisites cannot be taken for granted in India and, therefore, performance budgeting does not appear to be immediately possible. However, if the intention of the Estimates Committee was that Members

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While it may indicate efficiency as expressed by input-output relations, it may not be able to justify the desirability or otherwise of a particular project.

should be supplied with all the details of a financial proposal, the proper thing to do would be for the Government to supply the maximum information. It may be stated here that with this end in view, the information supplied to the Members has been steadily enlarged in the recent past, and the Members are given the "economic classification of the budget" and the "explanatory memorandum" which gives elaborate details including a list of all new items of expenditure which involve an expenditure of more than Rs. 5 lakhs.

Aspects of Performance Budgeting

It should, however, be recognised that mere supply of information in various forms cannot substitute for performance budgeting.* The process of performance budgeting is not merely a technique of presenting the budget. It constitutes a new approach to budget formulation and execution. Since the costs and benefits that accrue from each project are indicated side by side, it facilitates the process of decision making and goes a long way in helping the allocational decisions. In the context of increased delegation of powers to the administrative ministries and to the project authorities and the minimisation of the interference and control by the Union Finance Ministry, the technique of performance budgeting proves particularly helpful both at the initial stages of budget formulation, and at the later stage of budget execution. Another factor which underlines the need for the introduction of such a technique may be said to be in the broader need of having a comprehensive budgetary planning with particular emphasis on 'forward looks'. The expenditures undertaken each year have a continuing charge in the future years and the scheme of 'forward looks' consists in assessing such a continuing charge as also the impact of such a charge on the expenditure policy. But in the Indian context, this sort of 'forward looks' has not been undertaken so far. Essentially, this forms an integral part of economic forecasting which as yet remains to be developed and practiced in India. As already indicated the annual phasing, including the continuing charge,

* See the author's article, "Problems of Government Budgetary Reform" *Economic Times,* 18th & 21st Feb. 1965.

is decided in the rough-and-tumble of budgetary process. Such a system is hardly compatible with the system of planned economic development. It is necessary that a system of 'Quantitative methods' is introduced with a view to ensure a comprehensive survey of all the aspects of a scheme before its inclusion in the budget. These purposes would be served automatically with the introduction of performance budgeting. It is of interest to note that a similar plea was made in UK also by the Plowden Committee.

In view of the frequent demands for the introduction of performance budgeting, the feasibility of introducing it, particularly in the context of the difficulties mentioned earlier, may be considered in a little detail here. It would appear that the prerequisites are not really that difficult to achieve once it is realised that advance programming of operations on a long-term basis forms an integral part of the Five Year Plans. Each plan in itself represents an advance programme of expenditure. If, however, it is to subserve the purposes of performance budgeting it would be essential to work out the details of phasing of expenditures in respect of the schemes included in the plans in a more comprehensive way. In so far as the measurements of end-results are concerned, it may be pointed out that performance budgeting envisages three types of measurements, e.g. (*a*) measurement of workloads, (*b*) measurement of end-products which represent the results of work, and (*c*) measurement of accomplishment which shows the effect of work. The technique also recognises that not all types of work lend themselves to easy and quick measurement and in fact, there may be areas such as research etc. where the normal measurements do not apply at all. The technique, however, permits that even in respect of these non-measurable operations, the staff time applied to such work and the costs involved should be identified. In other words, where accurate measurements are not available they can be compensated by presenting such material as may be the best available in the circumstances. Similarly, to entrust the administration both of budget and other aspects of a project to a single authority should not prove to be insuperable. In fact, the trend now is to delegate more and more financial and other executive powers to the administrative agencies. Likewise, the allocation between fixed

costs and variable costs would not be difficult in the case of projects. Here again the technique of performance budgeting makes a distinction between projects (capital investment outlays) and activities (financed on the revenue account of the budget). The distinction between variable and fixed costs applies only to the projects which are any way being undertaken.

Another aspect of performance budgeting is its capacity to delineate the relationship between the costs and benefits of a scheme. The technique presupposes an explicit determination of the objectives of the proposed outlay and thus, inevitably involves some cost-benefit calculations, based either on past performance or some other relevant information. A modest beginning—as promised by the Finance Minister in the 1964-65 budget speech—in regard to the introduction of cost-benefit analysis and studies has already been made. In the evolutionary process of planning, performance budgeting follows as a logical sequence of the cost-benefit analysis. Although performance budgeting is not to be viewed as a panacea for all ills that are associated with the conventional budgeting, but inasmuch as it enables an identification of the purposes of programmes and the costs of carrying out the work, it facilitates the Parliamentary review and authorisation. The objective of Parliamentary control is to ensure the achievement of the planned work for which it has approved the outlay. Performance budgeting facilitates this task as it displays the work or service together with the proposed outlays and at the end of the year the Legislature is in a position to review for itself whether the said purposes have been achieved or not.

Notwithstanding the numerous ways through which the prerequisites could be fulfilled it should be realised that the introduction of this technique requires a few accounting changes and may even necessitate a total realignment of the budget. It would be necessary to reorganise the budget so as to achieve a rapport between the planning, performance and functional heads of classification. This, necessarily, is a long-term process and will have to be undertaken through a staggered programme. It is, however, important that a decision should be taken first to introduce it. Pending a reorganisation, some of the details as are required under the performance budgeting may, in fact, be given as supplementary information to the budget.

No Longer Keen to Cut Expenditure

The preceding analysis shows that the Parliament's control over expenditure is not as effective or adequate as it ought to be. How can it be revitalised without changing the institutional framework? It is generally suggested that Parliamentary control in a democracy is dilatory in nature and that the influence of Parliament is so general and broad that it produces little impact on administration. It is also suggested that Parliamentary control over expenditure is virtually ineffective. As Paul Einzig says, in the context of the UK, "The improvement of the means for controlling expenditure was followed during the last decades of the century by a decline in the determination to keep down expenditure. Parliament having achieved the means to control expenditure appears gradually to have lost interest in the objective of that control." This statement is in a way correct in the Indian context also.

But unwillingness to reduce expenditures cannot be treated as a sign of weakening of Parliament's will to use its powers to prevent an increase of expenditure. The level of expenditure has to be judged with reference to the needs. With the changed political conditions, the attitude of the Legislatures to Governmental expenditure has changed. As the former Finance Minister, C. D. Deshmukh, observed, "Now the Legislatures themselves want the Executive to spend more." The emphasis, in future, should be not on seeking petty cuts here and there but on evaluation and consideration of the broader economic aspects of expenditure.

How to Make Control Effective

All said and done it is the constitutional right of the Legislature to exercise control on expenditure. Two suggestions are offered here to enable the legislature to exercise this right more effectively. To enable participation of every Member in a more informal manner in the discussions, it may be expedient to adopt the House Committee system of the UK. As the Speaker of the Lok Sabha himself observed once, "the budget for each year may be referred to a Committee of the whole House." He, however, added that opinion on this matter had not crystallised so far. Meanwhile the system has made rapid advances in the UK.

According to an announcement made by Mr. R. A. Butler in the House of Commons on July 26, 1960, the strength of the Committee on Estimates has been augmented so that it can examine the principal variations between the estimates for the current year and those for the preceding year. This Committee's report would provide the House with a starting-point for the debate on the Government's expenditure in the autumn session. This procedure is intended to make the debates expenditure-oriented instead of being tax-oriented as in the past. The need for such a system in India requires no special emphasis. It would greatly enhance Parliamentary control on budget estimates.

Second, in the context of planned development, the core of the expenditure debate should be directed to reviewing the performance of the Government not in terms of its legality or propriety or even the political pros and cons of certain categories of expenditure, but in terms of efficient administration. As Robert Heller says, "Real expenditure control consists not of looking into minor items of executive expense, but of evaluating the administrators' accomplishments." The effectiveness of this change from the 'micro' to the 'macro' approach will, no doubt, depend on the attitude of the Members. But by creating an opportunity, such a change in attitude may be facilitated.

Chapter Thirteen

PUBLIC ACCOUNTS COMMITTEE

In the preceding chapter we had seen how the Parliament exercises control before moneys are appropriated for being placed at the disposal of the government. This control is followed by another method of control—control through committee —which ensures through an elaborte process of examination that the funds voted by the Parliament have been utilised for the purpose and in the manner in which the Parliament wanted them to be utilised. This type of control is exercised through its financial committees—the Public Accounts Committee and the Estimates Committee. These committees supplement the control exercised at the initial stage where funds are voted by the Parliament, and each committee in its own way ensures that the objectives of Parliamentary Control are fulfilled. The 'Financial Committees occupy an important place in the system of Parliamentary control. The Committees, it has been stated, are the 'two eyes'[1] of the Legislature to exercise control over taxation, to vote supplies for expenditure and to ensure that the Executive applied the funds voted for the purposes for which they were granted. It has also been said that these Standing Committees constitute the real power of the Legislature, because the Legislature as a general body is too big and too general to exercise any specific control. An added significance is given to these committees on the plea that the future of the representative government depends on the success of the Standing Committees.[2] In this chapter, the scope of discussion is confined to the Public Accounts Committee. The following chapter, as

[1] *Journal of Parliamentary Information.* Speaker's address to the Second Conference of the Chairmen of PAC, March 1959.

[2] Dean Acheson, *A Citizen Looks at Congress* (Hamish-Hamilton, 1957).

already indicated, is devoted to a study of the Estimates Committee. The important function of the Public Accounts Committee is to satisfy itself that the money voted by the Assembly has been spent within the scope of the Demand granted by the Assembly. In the process of performing this function during the last three decades, some enlargements and extensions have been brought about which have greatly enriched the value and utility of the work of the Committee. The following study is broadly divided into three sections: (*i*) the evolution of the Committee, (*ii*) the technique and process of control of the Committee, and (*iii*) the assessment of the Committee's work.

I

Evolution

The Public Accounts Committee, as an institution, owes its origin to the UK Parliament where for the first time a committee was set up in 1861 by Gladstone to scrutinise Public Accounts. The history of British experience is much too familiar to bear repetition here.[3] The first time that the need for a Public Accounts Committee was felt in India may be said to be in 1896 when the Royal Commission was engaged in making a study of the Indian expenditures. It was only a few years before that the Councils Act of 1892 was enacted under which budget discussion was allowed and recognised as a legitimate right of the members of the Council. The other aspects of the Parliamentary control on the pattern of the UK were not yet introduced in the Indian context and the rights of control of the Council started and ended with budget discussion only. It is also significant to note that the functions of the Auditor-General in this respect were not recognised fully. It was at this stage that the Royal (Welby) Commission appeared on the scene. The Commission, in the process of making a brief comparison of the Indian system with the UK system, pointed out that one of the

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What Acheson stated is applicable to the Standing Committees of the USA. Much the same can be said about any system.

[3] See Basil Chubb, *The Control of Public Expenditure* and Paul Einzig, *The Control of the Purse* for a detailed discussion on these aspects.

differences between the two systems was that "The audit of the Auditor-General in India in its general features resembles the audit of Navy in the UK, but it differs in this important respect that the appropriation account and his report thereon, undergo no examination or review by an independent body like the Public Accounts Committee." The example of the British PAC was much too clear to the Commission, and it could not but make a recommendation for the formation of such a Committee. The Commission stated, "there can be no doubt that the knowledge that the irregularities will be brought to notice and will form the subject of a comment by a committee of the House of Commons, has a good effect throughout the Public Service. *These final safeguards are wanting in the Indian system and we think that they should now be constituted.*" But these remarks of the Commission, like many others, did not receive any serious consideration and very soon the Commission's work was pronounced a failure by the Indians, as the recommendations did not mean any change in their fiscal burdens. The question was revived when the Montford Reforms of 1919 were under consideration. These reforms brought about a change in the Legislative assemblies in their composition and work and introduced an element of self-government. It was therefore envisaged as a part of the reform that such a Legislative assembly should also have a Public Accounts Committee. Referring to the need for constituting such a committee and giving it a certain amount of work, the Government of India's despatch to the Secretary of State stated[4]: "The power of this body in matters financial will grow with time and experience (a remark that is indeed prophetic) ... its work should be scrutiny and recommendations rather than a definite authority to disallow expenditure."[5] As for the functions of the Committee it said: "Before this Committee we propose that all reports from the Finance Department on the excesses or reappropriations exceeding a limit which will be prescribed by rule shall be laid, as well as all audit reports, with the orders of the Executive authority thereon.... It will be for the Committee to advise upon all surcharges and disallowances of the

[4] Despatch of 5 March 1919.
[5] *Ibid.*

Auditor and upon the action which the Executive authority has taken on them. It wil also advise regarding serious departures from the budget provision. It will be assisted by the Audit department and that department shall have the right of being represented." On the basis of these recommendations, a Public Accounts Committee was constituted in 1921 and the first appropriation and Audit Report to be considered by the Committee was for the year 1921-22. The Committee as constituted, consisted of twelve members, including the chairman, of whom two-thirds were elected by the non-official Members of the Legislature. The remaining members were nominated by the Governor-General and the Finance Member of the Council was the ex-officio Chairman of the Committee. The association of the Finance Member as the Chairman of the Committee appears to have been intended for controlling the excessive enthusiasm of the Members in criticising the actions of the Government. The Finance Member, in his capacity as the Chairman of the Committee, was expected to guide and control the proceedings of the Committee as also to justify the actions of the government where such justification was considered necessary. Another aspect was the embarrassing position of the Finance Member, which ascribed to him the roles both of an executive councillor, which he already was, and that of a critic in his capacity as the Chairman of the Committee. As Sir Basil Blackett had observed: "The position of the Finance Member as ex-officio Chairman of the Public Accounts Committee is not going to be a very easy one. He will be passing, in his capacity as a Member of the Council of the Governor-General, criticisms on the Governor-General in Council, which will be rather difficult, and I am not sure that as a permanent arrangement it will really work."[6]

The Committee was constituted for the duration of a period of one year to consider the "Audit and appropriation accounts of the Governor-General in Council and such other matters as the Finance Department may refer to the Committee."[7] Its detailed functions were laid down as that (*i*) it should satisfy

[6] Proceedings of the Legislative Assembly, 23 July 1923. Notwithstanding this defect, the Finance Member continued to be the Chairman of the Committee until 1950.

[7] Indian Legislative Assembly Rules—Rule 51(1).

itself that the money spent was within the scope of the demand granted by the Assembly and (*ii*) the Committee shall bring to the notice of the Assembly (*a*) every reappropriation within a grant which is not made in accordance with such rules as may be prescribed by the Finance Department, (*b*) all expenditure which the Finance Department has requested should be brought to the notice of the assembly.[8] The rules as formulated restricted the scope of the work of the Committee to the process of verification with a view to ascertain whether the transactions were regular or not. The emphasis was more on regularity and accuracy rather than on the aspects of authority and responsibility involved in a transaction. But what was not included in the rules was more than made good by the Finance Member in the course of an assurance to the Assembly. Sir W. M. Hailey, who introduced the motion leading to the appointment of the Committee, said: "The Committee will call the attention of the Assembly to any case in which there is proved to be either an offence against financial rules or a waste of public money... Let me add that there is still wider field for the Committee when it gets, if I may so express myself, thoroughly into its stride, it may be able to reveal cases where expenditure has been incurred on hasty or unbusinesslike lines." This lead given by the Finance Member was abundantly justified, as the Committee grew from strength to strength and moved from one rung to another in the ladder of effective Committee Control.

The Committee in its very first report stated,[9] "The Departments of the Government of India will realise that they are now for the first time being brought face to face with the necessity of justifying their expenditure in detail to a responsible body of representatives of the Indian Tax Payer." With this as one of its advantages, the Committee set itself to work. In the transaction of its work it was assisted by the Finance Department which provided the necessary secretarial assistance to the Committee. The Committee's functions, though they were initially limited to the examination of expenditures with a view to ascertain whether they were within the demand or not—which meant

[8] Legislative Assembly Rules—Rule 52(2).
[9] PAC reports on Accounts of 1921-22, para 1.

that the Committee had to examine only voted supplies, were interpreted to be something much wider, so as to include the consideration of any matter brought to its notice in the audit and appropriation reports even if they were in respect of a non-voted expenditure. The effect of this interpretation was that the range of whole audited civil expenditure whether voted or non-voted, came into its purview, and enabled it to conduct an administrative as well as an appropriation audit.[10] In short, its review was co-extensive with the review of the Auditor-General. This extension of the range of activities was the first landmark in the expansion of the work of the Committee. This was very soon followed by other landmarks of similar expansion, important among which are (*a*) audit of receipts, (*b*) examination of the military expenditures and (*c*) discussion of the reports of the Committee in the Assembly.

Audit of Receipts

In its report for the year 1923-24 the Committee raised the question of its purview: whether review of receipts was included in its jurisdiction or not. The Committee, expressing its own support for such a review, suggested that the Finance Department should consider the question.[11] The suggestion of the Committee was accepted. However, the claim of the Committee was conceded, not by the establishment of a convention but by a liberal interpretation of the rules as permitting the Committee to offer in its report criticisms and recommendations made on every and any matter included in the Audit Report. While the government conceded the claim of the Committee, yet it was a fact known both to the government and the Committee that the audit of receipts done by the Auditor-General was too little to allow any scope to the Committee. However, the fact that such a point was conceded by the Government itself was an additional feather in the Committee's cap.

Military Expenditures

The Committee then turned its attention to the Military expen-

[10] Maurice Gwyer and A. Appadorai, *Documents, Memorandum of the Government of India to the Indian Statutory Commission*, pp. 48-9.

[11] *Epitome*, Vol. I, p. 52.

ditures which were of a non-voted variety and were therefore not included in the scope of the Committee, for they were not within the control of the Assembly either. This lacuna was soon removed with a view to facilitate matters and to enable the Committee to have opportunities and facilities for instructing itself by placing[12] the accounts relating to military expenditure before the Committee and having them considered by it. But, technically, the military expenditures were beyond the pale of the Committee for they were non-voted and as such were excluded from its purview by the very terms of its reference. In the process of such consideration when the accounts of the military expenditure of the 1921-22 were taken up for the first time, the Committee was assisted by the Financial Adviser of Military Finance and the Military Accountant-General. At a later stage when the relations between the Auditor-General and the Military Accounts Deppartment, with particular reference to the preparation of the annual appropriation and audit report on military expenditure were discussed departmentally, it was felt that the Auditor-General's report on military expenditure should be subjected to some definite and responsible examination. The growth of this feeling and the generous assistance and moral support received from the Finance Member (Sir Basil Blackett)[13] resulted in the establishment of an *ad hoc* departmental Military Accounts Committee consisting of the Finance Member, Financial Secretary and the Army Secretary. This Committee which was charged with the task of a scrutiny of the military accounts had its own process of examination and submitted its own reports. The reports of this *ad hoc* Committee were then placed before the Public Accounts Committee.[14] In 1926, the constitutional position of the Public Accounts Committee was again examined by the Finance Department and it was concluded again that the Committee was entitled to make any recommendations on any matter included in the Audit and Appropriation Reports. But the practice of the *ad hoc* Committee's examination of the military accounts was allowed to continue for some time more. The reports submitted by this

[12] *Epitome*, Vol. I, p. 261.
[13] *Ibid.*, p. 263.
[14] *Ibid.*, p. 263.

Committee were scrutinised by the Public Accounts Committee but the latter was not empowered to examine any witnesses afresh.[15] This procedure of constituting a separate *ad hoc* Committee was very soon revised at the suggestion of the Public Accounts Committee and a new Committee had come to be appointed in its place. The feature of the new Committee was that it included[16] three unofficial members in addition to the Finance Secretary (a member) and the Finance Member who was the Chairman. The Committee was known as the 'Military Accounts Committee' and was concerned exclusively with the military expenditure. This procedure continued up to 1947 when the Committee decided that the appropriation accounts of the Defence Services and the Audit Report thereon should in future be considered and dealt with by the Committee as a whole instead of a sub-committee as hitherto.[17] The Military Accounts Committee was, therefore, abolished. The history of the Committee during this phase reveals that an important chunk of the total expenditures was brought within the purview of the Committee albeit, through the examination of a sub-committee. It was recognised that military expenditures should also be rendered fully accountable to the Committee.

Discussion of the Reports

The third important development that took place during this period related to the discussion of the reports in the Assembly. Considering the fact that the Committee was a committee of the House, it expressed its desire that its report should be discussed by the House. But the formulation of an answer to such a question was not easy as it meant choosing a specific technique from among the different alternatives. The Committee considered three possible ways by which a discussion could be made possible in the House:[18] (*a*) whether there should be a general discussion on the report as a whole analogous to that which takes place at the general discussion stage of the budget, (*b*) whether it should be open to the Assembly to discuss on

[15] Maurice Gwyer and A. Appadorai, *op. cit.*, p. 49.
[16] *Epitome*, Vol. I, p. 261.
[17] *Ibid.*, p. 637.
[18] Vol. I, p. 183

definite resolutions moved for the purpose and (*c*) whether it should be open to the Assembly to discuss and vote upon amendments proposed, if any, to the original resolutions moved for the consideration or adoption of the report. The Committee's own preference was for (*a*) and (*b*). The existence of the alternatives among different procedures and the need for a choice between them was however, avoided when the Government indicated itself in favour of a flexible system rather than any rigid formula or procedure. The Government stated that it was its intention that a discussion of the report should take place in the Assembly from year to year, "although the exact procedure adopted by the Assembly may vary from time to time."[19] The reports[20] have thus come to be discussed in the Assembly. The Committee, while reviewing the accounts of 1928-29, expressed its satisfaction[21] at the discussions that took place in the Assembly.

During this period the existence and experience of the Committee also led to the blazing of a new trail in the budgetary system and other financial matters. The deep interest shown by the Committee in matters relating to the (*i*) regularisation of excess grants, (*ii*) classification of expenditures and (*iii*) definition of 'New Service' resulted in the suggestion of new procedures which were accepted by the Government. These recommendations of the Committee revealed that the Committee was not solely concerned with accuracy and regularity but also with the administrative organisation of the Government and its adequacy. This procedure meant a significant departure from the terms of its reference, but the liberal interpretation of the terms enabled it to open up new horizons not only for itself but also for the future successor Committees. The work of the Committee during these years had a considerable impact on the Government. The Simon Commission, referring to the work of the Committee seven years after the inception of the Committee observed: "Its scrutiny of expenditures is jealous and detailed and it has notably enlarged the authority of the Assembly."[22] The recommendations

[19] Vol. I, p. 183.

[20] See discussion in Section II of the chapter. The reports are not discussed now.

[21] *Epitome,* Vol. I, p. 207.

[22] Gwyer and Appadorai, *Documents,* Vol. I, p. 45.

made by the Committee received the regular attention of the Government. The Finance Department, which was responsible for sending the replies to the Committee on behalf of the Government furnished the Committee with a Quarterly Statement of the outstanding recommendations, on which action was still pending, so that the Members of the Committee could know from time to time the action taken on the Committee's recommendations. These foundations laid down by the Committee in the initial years proved to be invaluable and the latter committees set for themselves the task of emulating their predecessors. The constitution of the Committee and its functions in their initial form were allowed to continue even after the 1935 Act. The 1935 Act did not make any change in the institutional framework excepting in one aspect. The audit reports and the appropriations accounts prepared by the Auditor-General which hitherto were submitted to the Secretary of State, were now legally and statutorily laid before the Legislature. The recommendation of the Joint Committee on Indian Constitution Reform (1933-34), viz., that the future Constitution should clearly provide for the Auditor-General to report to the Government and to the Legislature in India instead of to the Secretary of State was accepted and was given a legal recognition. Simultaneously, the Committee was making rapid progress in financial issues in a manner agreeable and helpful to all. Referring to the work of the Committee, the then Auditor-General, Sir Ernest Burdon remarked:[23] "The manner in which the business of the several Committees has been transacted has been exceedingly satisfactory and of great practical value to my department and I wish to repeat the opinion I expressed last year that in general the Public Accounts Committee exercises an increasingly effectual and salutary influence on the Administration of Public Finance." A significant feature of the Committee's work during the years that followed the 1935 Act was that there was no laxity in the control exercised by the Committee even during the war years. In fact, one finds that more attention was paid to the defence expenditure during the inter-war period and more space was given to the comments in its reports on the inadequacy of

[23] Quoted from P. K. Wattal, *ABC of Indian Government Finance*, p. 48.

the procurement system adopted by the Army, surplus in works expenditures, and many other allied issues.[24] This attitude had a certain effect on putting the extravagance, which was generally the order of the day, under check and officials had to exercise caution and restraint before embarking on any programme.

In 1947, i.e., after the attainment of independence the Committee underwent a change both in the scope of its work and in its constitution. The military expenditure was changed from a non-voted to a voted item and only a very small portion of expenditure was made "charged." This naturally brought the military expenditures within the complete scope of the Committee. As for the constitution of the Committee, a new procedure was laid down under which all the Members of the Committee were to be elected. The Committee, however, continued to be presided over by the Finance Minister and the secretarial assistance to the Committee continued to be rendered by the Finance Department; and to this extent the Committee carried its earlier odium of functioning in a restricted atmosphere. This lacuna was rectified with the passing of the Constitution Act. Under the new procedure ushered in, in accordance with the Constitution, the Chairman of the Committee was not the Finance Minister any more but a Member of the House appointed for the purpose by the Speaker. The Finance Ministry was also relieved of providing secretarial assistance and its duties were taken over by the Parliament Secretariat. These measures brought about a change in the atmosphere and as the First Chairman of the Committee stated, "This change has enabled the Committee to function in a freer atmosphere and to offer its criticism in an unrestricted manner."[25] The Committee, as constituted at this stage, consisted of fifteen members elected from the House of People by proportional representation with single transferable vote. The scope of this was later widened to include the Members of the Rajya Sabha also and with effect from 1954-55 seven more members of the Upper House were also associated with the Committee. Though the Chairman of the Committee is appointed by the Speaker, the

[24] For a detailed study of these aspects see Vol. I of the *Epitome*, p. 459 *et seq.*

[25] Debates of the House of People, 29 March, 1951.

rules provided that where the Deputy Speaker himself is a member of the Committee, he will be the Chairman[26] of the Committee. The Members are elected annually, but to ensure continuity, a convention has been set up to allow them a two years' tenure. However, in certain quarters, even this period is treated as inadequate for purpose of ensuring continuity. The Speaker of the House himself suggested at one time: "The present practice of allowing only two years' tenure to the Members elected to the Committee may act as a handicap as they (Members) will take about one year to get the feel of the work."[27] He therefore suggested that the tenure may be made to cover a period of 3 years with one-third of the total members retiring each year. This suggestion has not been implemented but the objective of this statement is fulfilled in a different way, as most of the Members are re-elected to the Committees.

The Members so elected represent a cross-section of the House and to that extent all shades of opinion are brought to be borne on the procedures of the Committee. However, no party affiliations are ever brought into the discussions and the transactions of government are considered in the cold light of reason. The objectives of the Committee cut across all the Party affiliations, for the objective of the Committee is the examination of the past expenditure of the Government. Besides, there is no difference of opinion between the Parties about the need for maintaining full control of Parliament over the expenditures of Government and in making them accountable.

Along with the change in the constitution of the Committee, a change has also taken place in the nature and scope of the functions of the Committee. According to the Rules of Procedure of the Lok Sabha, the functions of the Committee are: "(*a*) that the moneys shown in the accounts as having been

[26] A question is raised from time to time, whether the UK practice of electing a spokesman of the Opposition Party or a former Financial Secretary, as the Chairman of the Committee, cannot be adopted in India also. (See the Budget session Debates of 1961). One reason as to why this has not been done so far is that the opposition in India does not as yet constitute a Party. It is only a group. It is, however, significant, that States like Madras and Andhra Pradesh have had and are having opposition leaders as PAC Chairmen.

[27] Address to the Second Conference of Chairmen on 4 March 1959.

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 reappropriation has been made in accordance with the provisions made in this behalf under rules framed by competent authority."

It shall also be the duty of the Committee (*a*) to examine the statement of accounts showing the income and expenditure of State corporations, trading and manufacturing schemes and projects together with the balance-sheets and statements of profit and loss accounts which the President may have required to be prepared or are prepared under the provisions of the statutory rules regulating the financing of a particular corporation, trading concern or project, and the report of the Comptroller and Auditor-General thereon; (*b*) to examine the statement of accounts showing the income and expenditure of autonomous and semi-autonomous bodies, the audit of which may be conducted by the Comptroller and Auditor-General of India either under the direction of the President or by a Statute of the Parliament and (*c*) to consider the report of the Comptroller and Auditor-General in cases where the President may have required him to conduct an audit of any receipts or to examine the amounts of stores and stock. Along with these functions the Committee was also empowered to examine the Finance Accounts submitted by the Comptroller and Auditor-General.[28] The functions of the Committee, in other words, are coextensive with the functions of the Comptroller and Auditor-General. It has been stated earlier in Chapter I that for various reasons there has been an expansion in the scope of the activities of the Audit Department. For the same reasons there has been an expansion in the scope of the work of the Public Accounts Committee also. It now extends to all the public[29] enterprises to which the Comptroller

[28] Speaker of Lok Sabha, "Address to the Second Conference of PAC Chairmen." "The PAC at the centre had decided to examine the Finance Accounts also as soon as they are placed before Parliament." 14th March, 1959.

[29] PAC, 18th Report, 1959, Vol. I. In the recent past, on-the-spot studies of Public Enterprises have been made by the PAC.

and Auditor-General is either the principal or supplementary auditor.

The approach of the Committee has also received a new twist and assumed a different garb. The first Speaker of the House of People, addressing the First Public Accounts Committee formed after the Constitution, enunciated certain general principles[30] which were to guide the work of the Public Accounts Committee. These principles, which are as important as the functions laid down for the Committee in the Rules, stipulated: (*a*) That the Committee in addition to satisfying itself that moneys were legally available and spent for the purpose for which they were intended, must also take up the question whether the money spent for a particular policy has been fruitfully spent or not as the audit is concerned only with the regulation aspect of it and cannot go beyond it. Also, Members of the Committee can better understand the intention and mind of the Parliament than the Comptroller and Auditor-General and they can better express their judgement and discretion. (*b*) The Committee has to ensure due economies. (*c*) It must maintain a high standard of public morality in all financial matters. "If a matter is wrong we must raise our voice and create a public opinion even though it may involve the displeasure of some". (*d*) "You are sitting there to go by what the Parliament has thought over the matter. That is the principle of a democratic Government on Parliamentary basis. We are divided, opposed, as long as we discuss a matter and so long as finality is not reached. The moment finality is reached it should be the duty of every one to support it." (*e*) That the "usefulness of the Parliamentary Committee is to bring under examination, in the light of experience gained after having worked the schemes, to be able to advise and report to Parliament, whether the moneys that they have voted have really been spent for services which in the opinion of this committee are useful and serviceable to the nation."[31]

[30] *Epitome*, Vol. II, see pp. 107-11.

[31] These principles are based on those that were enunciated by Sir Osbert Peake, a former chairman of PAC, UK. See *Public Administration* (1948), p. 90.

II

Operation PAC

The Committee, as we have seen earlier is essentially concerned with the technical aspect of appropriation—whether the scope of the appropriation was exceeded and whether it was spent for the purpose for which it was intended by the Legislature. These functions have greater implications, and in effect, they take the working of the Committee far beyond the terms of reference, and take it deeper and closer into the various aspects of the financial working of Government. The implication of the phrase "within the scope of the demand" included in the terms of reference has not been precisely described anywhere. It works as interpreted by the Public Accounts Committee and it may in certain cases take the Committee into the realms of other matters too. A few technical[32] and narrower implications of this phrase may be said to consist in (*a*) that the money spent is not larger than the amount granted and (*b*) that the amount against a particular grant was spent only for these specified purposes for which it was given and was not incurred on any new service (incurring expenditure on a new service requires prior parliamentary approval). However, the scope of the actual work goes beyond these technical factors and extends, as T. G. Bowles said, "beyond the formality of expenditure, to its wisdom, faithfulness and economy." In this process, the Committee ensures that economy has been observed by the government, that financial principles have been adhered to and that the accounting systems have been working adequately. These duties are by no means of a routine or formal nature for there is many a case where even the general and elementary rules are not observed. (It is not unoften that one finds the PAC commenting that basic rules have been disregarded). In performing this function the Committee may go into matters which verge on questions of policy. Though the Committee is not concerned with matters of policy, it may, and quite often does, express its considered views whether there has been extravagance or waste in carrying out a policy. In such cases, the line of demarcation between policy and

[32] Basil Chubb, *The Control of Public Expenditure*, p. 169

other matters, which is already thin, may almost become invisible and may give an impression that the Committee has taken up policy matters. In examining the wisdom of the expenditure, the Committee starts from a stage of the consideration of the technical irregularities and moves on to the spheres of waste extravagance, adequacy of an administrative set up, etc.[33] The Committee is also concerned with the method of the presentation of estimates and also with the method of classification of expenditures. The interest of the Committee in these matters stems out of two reasons: (*i*) to retain its own control and (*ii*) to make suggestions which would simplify matters and thereby add to the convenience of all. It is from these points of view that the Committee in one of its reports for the year 1934-35 suggested that whenever changes in the classification of expenditure are introduced during the course of an year, the full explanation of the changes should be included in the Appropriation Account so that the extent of reappropriation or virement[34] done between two Heads could be known easily. Similarly, when changes in the classification of the headings of defence budget were made during the war years, the Committee desired that these changes should be placed before them so that they can fully appreciate the proposals. This process not only keeps the Members fully informed but incidentally help them in making suggestion for better control and better classification.

Another important function of the Committee, which it performs in its regular day-to-day life though it is not rigidly laid down in its terms, is its concern with the financial order and principle. Cases involving nugatory expenditure and financial irregularities come in for severe criticism by the Committee. The Committee's concern with these matters is such that it is not merely content with the investigation of points[35] raised by the Appropriation Accounts as reported by the Comptroller and

[33] Morris-Jones, *op. cit.*, p. 284.

[34] *Epitome*, Vol. I for the year 1934-45, p. 29.

[35] The Audit Reports do not always include the cases where adequate remedial measures have already been taken by government. The Speaker, referring to this approach of audit commented thus: "Neither the PAC nor the Legislature will come to know of them. I feel that it is not right to exclude such cases from the Audit Report merely because the govern-

Auditor-General. On the other hand, it has the power to scrutinise and report upon almost any matter that is connected with the management of public finance. This aspect of its work has been receiving increasing attention and emphasis in the recent years. Two other functions of the Committee relate to the consideration of the accounts of State corporations like the Damodar Valley Corporation, etc., trading and manufacturing schemes and the accounts of the autonomous and semi-autonomous bodies, etc., and secondly to the examination by the Committee of all cases of excesses over voted appropriations. As stated earlier the excess grants are first considered by the Committee and on its recommendations, regularised by the Parliament. These functions are comparatively of recent origin but are as important as the functions earlier performed by it. To ensure the fulfilment of these functions as well as those which are laid down in the rules of procedure, the Committee is endowed with certain powers. The Committee can send for persons and papers and records. It insists on the Secretaries of the respective departments coming before them and answering the various questions that might be put by the Chairman and Members of the Committee. It has, however, no power to disallow any item of expenditure. It can only call attention to an item. This particular aspect has been subjected to some criticism (the merits of these criticisms are dealt with in Section III). The Committee is also empowered to intervene in matters of administration and to examine the system of its working. This arises from the fact, that it is one of the functions of the Committee to act as a check on unwise expenditure and, therefore, on the methods that lead to an unwise expenditure. However, the occasions on which this is resorted to by the Committee are rare. All the same, in the recent past, certain specific inquiries such as inquiries into the "working of the Iron & Steel Controller's Organisation" (26th Report, 1959-60) and into the "Working of the Coal Mines Safety and Conservation Fund" (19th Report, 1958-59) have been carried out. In respect of cases mentioned in the Audit Report but which require a

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ment and the Comptroller and Auditor-General have agreed on a certain course of remedial action". Address to the Second Conference of the Chairmen of PAC.

detailed enquiry, special sub-committees are set up to go into these questions. The sub-committees usually consist of six members (or less) each, including the chairman. It receives, like the main committee, assistance from the Comptroller and Auditor-General. The reports of the sub-committees are considered by the whole committee and after approval, presented on behalf of the Committee. These enquiries include a study of the administrative organisation and an assessment of the adequacy of that machinery to meet the purpose for which they were set up. Normally however, the Committee concentrates more on the general control and leaves matters of internal administration to the concerned Ministers. It concerns itself essentially with the satisfactoriness of the system, though the determination of the system is solely a matter for administration. There is, however, an exception to this general rule of non-interference in administrative matters. These exceptions arise in respect of those cases which are brought to the notice of the Committee, where the Department concerned has to show that it has taken necessary disciplinary action in those cases where a course of action was suggested by the Committee, to satisfy itself that necessary action has been taken to prevent a re-occurrence. The Committee is, however, not a punitive authority but it works in semi-judicial atmosphere. As Durell observed:[36] "The Committee is in no sense the punitive authority. It is solely concerned with the question of seeing that the public will be safeguarded in the future." For this reason, the Committee never desires to know the name of the delinquent and in the proceedings of the committees no names are allowed to be mentioned. The Committee is interested only in knowing that adequate action has been taken and on that basis pronounces its own judgement regarding the adequacy of such an action.

It would be in order now to study the techniques adopted by the Committee to know the facts, to verify them, to formulate their judgements and to ensure that action is taken on their recommendations by the Government.

Techniques

Immediately after submission of the Appropriation Accounts

[36] *Ibid.*, p. 132.

by the audit the Ministries are required to furnish notes explaining the various excesses or savings mentioned under each head to the Committee within a period of two months after the submission of the Appropriation Accounts.[37] These statements are to be seen and vetted by the Ministry of Finance and the Accountant-General before submission to the Committee. These 'notes' as they are called give a preliminary idea to the Committee of the reasons for the various financial irregularities that have been committed; and while this activity is going on on one hand, on the other hand, a new Committee would have been elected for that year. Soon after its election the Committee meets and decides its programme for the year. As the Appropriation Accounts and audit reports cover too wide a sphere ranging from the trivial to the serious, the Committee chooses only selected items which are important and significant. To help the Members of the Committee to choose important items, a 'key' of the audit report[38] and the connected accounts is prepared by the Lok Sabha Secretariat and circulated to the Members. (Formerly this work was done by the Comptroller and Auditor-General's office but is now taken over by the Lok Sabha Secretariat.) The programme thus settled is circulated to all the Ministries and to the Members of the Committee. As indicated earlier, the secretaries of each Department or a Joint Secretary of that Department (in the inevitable absence of the Secretary) attends the meeting of the Committee. Before the meeting actually takes place, the Members of the Committee are given a list of important points arising out of the accounts and the comments of the C & AG thereon.[39] In addition to that they are also given a further list of comments and important points prepared (by the Parliament Secretariat) under the guidance of the Chairman of the Committee.

The meeting of the Committee then takes place around a horse-shoe shaped table where on one end sit the representatives of the Ministries who have come to give evidence and on the

[37] 16th Report of the PAC 1958-59.

[38] S. L. Shakdher, "Comptroller & Auditor-General of India and the UK—A comparison", *Indian Journal of Public Administration*, Vol. IV, pp. 393-410.

[39] *Ibid.*

other end sits the Chairman. To his right sits the Comptroller and Auditor-General and to his left the Secretary of the Committee. The representatives of the Ministries include the Financial Adviser of that Ministry, who, when necessary, explains the role of the Ministry of Finance in a particular transaction on which the questions arise. In addition, there is also a representative of the Budget Division of the Ministry of Finance, representing the Finance Minister. The representative of the Budget Division may intervene in the proceedings of the Committee either at the instance of or with the permission of the Chairman when he feels that an important point of financial procedure is involved. The Committee might also seek the advice of this representative when they are not satisfied with the explanation of the administrative Ministry and think that the question involved some financial principle or propriety. This representative submits a daily report to the Finance Minister appraising him of the progress of the deliberations and the views of the Committee.

The Committee at the Centre is assisted by the Comptroller and Auditor-General, an Additional Deputy Comptroller and Auditor-General and the Accountant-General, Central Revenues. In the States, the Committees are assisted by the Accountants-General. The Central Committee in most respects is guided by the Comptroller and Auditor-General. The relations between the C & AG and the Committee have already been mentioned in Chapter IX. The Committee conducts its examination by putting questions to the witnesses. Though the Members of the Committee are by no means either financial or accounting experts, yet their intimate knowledge of the administrative process, aided by the material supplied by the Parliament Secretariat helps them to attack the subject with zeal and they often succeed in eliciting all the information that they require. The experience of the first few years after independence revealed that Members were more interested in obtaining information on the organisation of departments and that more often than not the questions were posed in such a manner that they cornered the official witnesses. But the position has of late improved. The years of acrimony and unsympathetic attitudes have given place to an unbiased and unprejudiced examination. As Morris-Jones

observed: "Members are generally uninhibited and prepared to make comments on quite major questions of organisation. The proceedings in these first years of independence have at times been quite acrimonious, but already there is an improvement as each side becomes accustomed to the other, less distrustful and more cooperative."[40] The approach is to obtain clear facts and not to irritate anybody. As Speaker Aiyyangar observed,[41] "The official witnesses would not sometimes allow you to proceed further. In your enthusiasm to get information you may sometimes find a witness in a tight corner. In that situation he is likely to provoke you by apparent indifference." He therefore suggested that a reasonable approach, in lieu of the practice of quizzing them, should be developed. The meetings of the Committee are private. Though a verbatim record is maintained, yet it is not published.[42] Also where the information submitted by a department is of a secret nature and therefore handed over to the Chairman (rather than being circulated to all the Committee Members), care is taken to preserve the secrecy. When the examination is completed the Committee sits down to discuss the basis and the framework of its report. The report contains the recommendations and findings of the Committee based on the evidence tendered before them and facts supplied to them. The report is generally prepared by the Parliament Secretariat under the guidance of the Chairman and is then sent to the Comptroller and Auditor-General for factual verification.[43] After such verification the report is considered by the Committee and is presented to the Houses after acceptance. The reports are not discussed in the House and action is sought to be ensured through the regular departmental process. With the submission of its report, the epitaph for the annual financial activity is written. The reports that are presented to the House are published and reported very widely in the newspapers. It is rarely

[40] *Parliament in India*, p. 286.

[41] *Journal of Parliamentary Information*—Address to the Public Accounts Committee, 1959-60. October 1959.

[42] Before World War II, the evidence was printed and also presented to the House but was later stopped on economy considerations. However, the reports now include a summary of the discussions.

[43] S. L. Shakdher—*I.J.P.A.*, Vol. IV.

that the scandals and irregularities reported by the Committee miss a leading article in the daily press. But mere publicity is not the aim of the Committee. On the contrary, its purpose and utility lies in ensuring that action is taken on its recommendations. To ensure this objective, the Committee keeps an almost incessant and ceaseless vigil.

Action on the Reports

It is necessary that adequate action is taken on the recommendations of the Committee. During the early years and up to 1950 when the Committee was reconstituted, the responsibility for ensuring that action was taken was on the Finance Department. This department used to consider the recommendations of the Committee on behalf of the government and issue a reply in the form of a resolution covering all the recommendations of the Committee. Where it disagreed with the findings of the Committee, it gave cogent and sufficient reasons for not accepting a recommendation. With the reconstitution of the Committee in 1950, there was a slight change in this procedure. Recommendations of the Committee which were specifically addressed to a Ministry were marked[44] to that Ministry for action by the Committee. In respect of matters which have a general applicability the recommendations are marked to "All Ministries" for action. Each Ministry to whom such recommendations are addressed is to send a reply to the Committee after having it vetted and scrutinised by the Audit. To enable and ensure that necessary and prompt action is taken by every Ministry, a senior officer is appointed for this purpose in each Ministry.[45] Recently a further change was made in this procedure under which the recommendations of a general nature and of common interest are now processed by the Department of Expenditure and a reply is sent to the Committee on behalf of "All Ministries". In this manner, particular care is taken to fulfil and implement the objectives and recommendations of the Committee. The additional factor in the Central System is that the process of imple-

[44] The reports contained a table indicating the recommendation and the name of the Ministry which has got to act on it.

[45] One of the first things done by Shri Tyagi, as Minister of State for Finance, was to appoint a Joint Secretary for this purpose.

mentation is also watched by the Department of Parliamentary Affairs. While on one hand, enough care is taken in the administrative ministries to implement the recommendations, on the other hand, the Committee also takes equal care to watch the progress of implementation. The replies of the Government are carefully studied by the Committee. Though generally most of the recommendations are accepted by the Government, yet in cases where it does not agree and where adequate reasons are given, the Committee reconsiders its opinion in the light of the reasons given by the Government. Normally, the differences are ironed out by fresh mutual consultation and agreements reached. But where the differences still persist the committee calls attention to these matters in its report submitted to the Parliament. No discussion is, however, allowed in the House on these subjects. The emphasis is rather on having informal relations with Government, and in obtaining action on the recommendations of the Committee through persuasive reasoning rather than through discussion in the House. As Speaker Aiyyangar pointed out:[46] "These recommendations of the Committee are by convention as good as resolutions of Parliament which are binding upon government", and "although[47] it is open to the Legislature to discuss the reports of the Committee, rambling discussions of the whole report leads us nowhere and tends to destroy the effectiveness of the recommendations of the Committee."

One important factor that helps the implementation of the recommendations is the support that the committee gets from the Ministry of Finance. In the UK it is said that "an opinion expressed with judicial mildness by the Committee" is enforced with the stronger language by the Treasury in communicating it to the department, and it is said that where the Committee has roared as mildly as a suckling dove, the Treasury roars like a Libyan lion. In India also the recommendations of the Committee receive the swift attention of the Finance Ministry and even if it does not roar like the rare lions of Gir, yet it makes its opinion felt on the transaction of business by the government through the issue of circulars and other necessary orders. What

[46] Address to the Estimates Committee, 17th July 1957.

[47] Address to the Second Conference of the PAC Chairman, 14th March 1959.

is more, the Finance Minister has often looked forward to an active support from the financial committees of the House. One Finance Minister observed at one stage, indicating his dependence on the Committees,[48] thus: "While the departmental search for economy continues, I also look forward to continuing assistance from the labours of Public Accounts and the Estimates Committee in seeing that within the four corners of policy laid down by the Parliament the moneys authorised to be spent by it are utilised to the best possible advantage and without avoidable waste." At a later date he added, "I regard these two committees as my most valuable allies."[49] A cordial atmosphere of this type adds to the strength of the Committee.

The findings of the Committee and its periodical reports are compiled by the Comptroller and Auditor-General into 'Epitomes'.[50] These epitomes, which contain the case law in respect of all financial matters is indeed a veritable guide to the departments.

III

Retrospect and Prospect

The preceding study reveals that the control exercised by the Public Accounts Committee is considerable. But what is the nature of control? What is its impact? Some of these questions are answered in this section. The nature of the control exercised reveals a certain amount of expertise[51] also. The Committee makes full use of the permanent professional experts, i.e., the auditors and tries to identify itself with them. The evidence it hears from the experts enables it to lend authority to its findings. The Members of the Committee who are usually elected over and over again, aided by their growing experience lend a new colour and strength to the Committee and enable it to maintain a high technical level. (*ii*) The control is also, primarily, financial in its nature. Its work which is mainly connected with the realms of accounts and accounting makes its enquiry a

[48] Debates of House of People, 23rd May 1952.
[49] Debates of House of People, 17th April, 1954.
[50] There are so far three volumes.
[51] Basil Chubb, *The Control of Public Expenditure*, p. 193.

financial one. The Committee is also no doubt interested in economy and efficiency but such importance is only next to the importance which it attaches to regularity and accuracy in accounting matters. (*iii*) The control for all purposes is exercised in a semi-judicial atmosphere and its recommendations have almost the force of law to its departments and to that extent the control is judicial too. (*iv*) It is also a non-Party control. As Speaker Mavlankar observed: "Similarly, as soon as the expenditure is sanctioned by the House, whether you like it or not, at the time the expenditure comes for discussion party politics should never enter into the consideration, you are not sitting in judgement on the expenditure incurred keeping in mind your likes and dislikes. Moreover the association of members of opposition assures all that the government spending is going to be scrutinised with no special tenderness."[52] Therefore, this incidentally sets up a further safeguard in a democracy and (*v*) the control in its effect is mainly a deterrent. Its examination of the past accounts paves the way for a better future where fewer irregularities may take place. While these aspects represent and indicate certain features of its control, the utility of the control exercised by the Committee is no less and is perhaps equally important. The utility of the committee may be considered from three angles: (*i*) effect on governmental procedures and systems; (*ii*) on the process of control of expenditure; and (*iii*) as a window on the government activities.

The contribution made by the Committee in the reorganisation of procedures either of its own accord, or on the basis of the recommendations made by the Comptroller and Auditor-General is of considerable value. In the years of working since 1923, the Committee had made significant contributions towards a better budgetary system and a better financial procedure. Among the contributions made by the Committee over these years, are those relating to the (*i*) introduction of Exchequer control and the separation of audit from accounts;[53] (*ii*) introduction of a proper system of accounting and financial control[54]

[52] *Epitome,* Vol. II, p. 110.
[53] III Report for the year 1952-53.
[54] 8th Report 57-58.

in Government, and *(iii)* contracts[55] and procedures, etc. These recommendations have led to numerous changes. Apart from this aspect the Public Accounts Committee's main utility in these matters consisted in spot-lighting the major issues of the day, by indicating the weaknesses in the system and thereby emphasising the need for reform. The Committee over these years was the only consistent agitator for reforms in these matters.

The suggestions made by the Committee in matters of control of expenditure are no less impressive. Its periodic comments on the wastefulness of certain expenditures and on the need for watching the process of expenditure emphasised the need for careful planning and prudent spending. Its consistent warnings "that there was definitely much scope for improvement in the control of expenditure" and, the objective the Committee laid down for the control of expenditure as consisting in "as close an approximation as possible between the actual expenditure and the final grant or appropriation under each unit of appropriation" have always set new pinnacles of responsibilities for the civil servants to be reached and fulfilled. A perusal of most of the reports would, however, indicate that almost the same type of irregularities are committed over and over again. While this persistence in committing errors may almost make one conclude that the civil servants pay only a lip service to the Committee, yet in fact it is not so. The repetition of errors is more the result of human failures rather than a lack of sympathy and understanding of the recommendations of the Committee.

The Committee is also useful as a window on the government's activities, so far as financial aspects are concerned, in a year. The reports of the Committee provide a mine of information for the Members of Parliament and the average citizen who wishes to delve deeply into the mysteries of that "bourne from which the tax payers' money never returns." It may be that the reports do not figure extensively in the parliamentary debates, or it may be that few members made it a point of quoting it in the course of a debate,[56] still the reports are useful.

[55] *Epitome,* Vol. I, pp. 139.

[56] This practice is not widespread in UK—K. C. Wheare, *Government by Committee,* p. 19.

(The usefulness of the report cannot be measured from this angle only and the fact remains that it is a useful document to those who would like to use it.) The Committee is also useful in two other ways:[57] (*i*) the very existence of the Committee acts as a moral check on the administration. As the chairman of the UK Committee said: "There is a great deal of human nature in the world and fear is one of the greatest factors in keeping men straight. Indeed, what the PAC does is to create an awe in the civil servant and nothing has a greater deterrent effect on an executive than the fear of having to go to the Committee, and (*ii*) the Committee is useful in bringing together the official and politician and train both, the former in responsiveness to public opinion, the latter in the task of constructive criticism."[58] An exercise of this nature is an absolute and an essential ingredient of a parliamentary democracy. Thus, "with so wide a horizon, so considerable a freedom in action, and such great opportunities in its methods of inquiry as the Committee possesses, its capacities for public uses are great, many and varied."[59]

Notwithstanding the above merits, there are certain factors which are more in the nature of limitations. Among these are: (*a*) the scope of the review of the Committee is generally co-extensive with the audit reports. Even where special *ad hoc* enquiries are carried out, they are only at the instance, or on the basis of the provocation made by the Audit in its reports. To that extent the power and even the utility of the Committee is dependent on the scope and degree of audit carried on by the Comptroller and Auditor-General. The Comptroller and Auditor-General, so far as the Committee is concerned, is at once a source of strength and weakness. He is a source of strength for he is the 'acting hand' of the Committee, helping it in its deliberation. He is a source of weakness, for the weakness of his audit, if there is any, limits the scope of the work of the Committee also. (*b*) Another factor is that generally the efficacy and value of the suggestions is lost and reduced when the audit reports are presented a long time after the transaction is over.

[57] Morris-Jones, *Parliament in India*, p. 295.

[58] *Ibid.*

[59] Thomas Gibson Bowles—Quoted in Willoughby, Willoughby and Lindsay, p. 230.

As the Speaker of the House said, "There is one major complaint against the PAC and it is that the Committee looks into matters after the lapse of quite a good deal of time and hence the topical interest is lost."[60] To avoid these, it was suggested that "where some important cases of misuse of public money or misappropriation or irregularity have come to the notice of the audit authorities, special reports on such cases should be made concurrently during the year so that the Legislature and the Public Accounts Committee are seized of the matter while the expenditure is being incurred and not after the event." What, however, had been happening was that the irregularities of this nature of the current year were included in the audit reports of the preceding year.[61] But the fact that increasing stress is being laid on the *ad hoc* enquiries itself is significant. A greater usage of the *ad hoc* enquiries as suggested by the Speaker of the House,[62] may greatly enhance the value of the Committee. (*c*) Yet another factor is that the examination of the Committee is essentially a post-mortem. However, this has a defence also, just as a post-mortem opens up new researches in medical science, the examination of the Committee also opens up new vistas and initiates a process of action which would soon rectify the existing system with a view to avoid the recurrence thereof. But as stated in (*b*) above, it is imperative that post-mortem should be conducted early; and (*d*) another limitation, which is not in fact a serious limitation—but a limitation only from certain point of view—is the absence of discussion on the reports in the House. Almost six decades ago, Thomas Gibson Bowles, in his evidence before the Select Committee on National Expenditure of the UK, argued, "The Public Accounts Committee, however, is under some serious disadvantage.... Matters of very high financial importance or irregularities and abuse of a most mischievous character escape all public attention or Parliamentary discussion as there is no provision for detailed consideration of the reports." He suggested, "In order that the work of the Committee may have its due effect, some certain occasion should be provided for the consideration by the House of Commons of its reports when

[60] *Journal of Parliamentary Information*—April 1959.
[61] *Ibid.*, 73. See p. 667, Vol. I, *Epitome.*
[62] *Journal of Parliamentary Information*, October 1959.

presented and for taking a decision of the House upon the recommendations embodied therein."[63] The same argument has been adduced in India also from time to time.[64] Even in the UK the agitation for such a discussion has reached such a degree that recently the government of UK decided, "New opportunities during the session for debate on Reports from the Estimates Committee and the Public Accounts Committee will be provided on three days on the floor of the House".[65] In India, however, as indicated earlier, the emphasis is more on the regular procedures and informal relations between the government and the Committee. Besides, the adaptation of the British practice may also mean that the general responsibility of taking action which now devolves by convention on the Ministry of Finance, will be shifted to the Committee and to the House itself. The choice between the two is one which will have to be made with reference to the complex factors of the approaches and attitudes of Parliament and the reaction of the government to the Parliament as such. It is only a balanced assessment of such factors which can enable a choice. However, that is beyond the scope of this study.

[63] Quoted by Willoughby, Willoughby and Lindsay.
[64] S. S. More, *Practice and Procedure of Indian Parliament*, p. 548.
[65] H. C. Deb—26th July 1960.

Chapter Fourteen

THE STANDING FINANCE COMMITTEE AND THE ESTIMATES COMMITTEE

THIS chapter is devoted to a study of the various aspects of the Standing Finance Committee and the Estimates Committee. The object in grouping these committees together for consideration is only to study the mechanism of financial control other than the Public Accounts Committee in the past and the present. The Standing Finance Committee represents the past and the Estimates Committee represents the present. Though the functions of these two committees are different, yet at one stage, a choice was made for the continuance of the Standing Finance Committee in preference to the establishment of an Estimates Committee. A consideration of the role of the Standing Finance Committee is also important and significant as in the recent past quite a number of well considered suggestions were made for the revival of the Committee. The objective of the following study is to trace the evolution of the Standing Finance Committee, to consider its functions and examine the need for the revival of the Committee now. It is then followed by a study of the Estimates Committee.

Standing Finance Committee's Evolution

Like the Public Accounts Committee, the Standing Finance Committee also owes its origin[1] to the foresight of Montague and Chelmsford. While the general object behind the establishment of the Public Accounts Committee was to enable the Legislatures to examine the financial activities of the government and thus make the governmental expenditures accountable to the latter, the objective in the establishment of the Standing

[1] Paras 235 and 285 of the Montford Report.

Finance Committee was to provide an opportunity for the Members of the Legislature to familiarise themselves with the process of administration and incidentally, foster intimate relations between the Legislature and the Executive. This proposal had received the support of both the government and the Members of the Legislature. If the former were convinced that the formation of the committee would assist the political education in India,[2] the latter welcomed it as it threw up an opportunity to exercise more and more control on a government, which for all intents and purposes was alien to the country and opposed to the grant of 'self-government'. These Members expected that the Committee would serve as a means to bring about 'economy' and retrenchment which were then the favourite hobby horses of the legislators.

The committee which was constituted early in 1922, consisted of fourteen Members of the Council. The Finance Member of the government was the ex-officio Chairman of the Committee. The Secretarial assistance to the Committee was provided by the Finance Department. The Committee was conceived as an advisory body to the Finance Department and functioned, in fact, under the aegis of that Department. It was not a committee of the House like the Public Accounts Committee whose functions were statutorily laid down, but an advisory body to the Finance Department. It represented the Legislatures to the extent that its members were drawn from them. Simultaneously, with the constitution of these committees at the centre, similar committees were established in the provinces also. The Committees started functioning both at the Centre and in the States in 1923. The functions of the Committee presented an intersting array of duties covering the whole range of the budget activities of the government. The general functions consisted in (*a*)[3] scrutinising proposals of new votable expenditure in all the departments of the Government of India; (*b*) sanctioning allotments out of lump sum grants; (*c*) suggesting retrenchment and economy in expenditures; and (*d*) generally assisting the Finance Depart-

[2] Report of Select Committee on Montford Reforms.

[3] As in the motion adopted by the Assembly on 11th March 1922. The first resolution about the formation of the Committee was moved by Sir W. M. Hailey on 22 February 1921.

ment by advising on such cases as may be referred to it by that Department. The enunciation of these principles was followed later on with detailed procedures which laid down the types of cases that were to be referred to the Committee. These procedures extended the scope of activities of the Committee in certain directions, while in a few other directions they limited the functions of the Committee. A strict adherence to the above principles would have meant that all proposals for new expenditures were to be placed before the Committee. But such a procedure would have resulted in administrative inconvenience.[4] Keeping these in view, the procedures were so devised that the proposals which were within the strictly limited range of the financial powers of the administrative departments, were not referred to the Committee as that would have defeated the object of delegation of financial powers. Such of those proposals which would normally require the concurrence of the Finance Department (proposals which by themselves may not involve large amounts of money) were, however, referred to the committee, if the matter was considered important by the Finance Department. In cases of urgent expenditures, which could not await the convening of the Committee, the proposals for expenditure were considered by the Finance Department on the merits of each case and were either agreed to or rejected by it. But it was stipulated that the Department should later submit to the Committee a list of such cases where approval was given in such a manner. The resolution leading to the establishment of the Committee also laid down that all matters which deal with the allotment of lump sum grants and all proposals which may be referred by the Finance Department, were to be considered by the Committee. A strict interpretation of these provisions would have meant that the proposals relating to such routine establishment matters like creation of posts at any level, grant of allowances, deputation of personnel, purchase of stores and ex-gratia payments, etc. should receive the consent of the Committee. But a consideration of proposals of this nature would have made the functions of the Committee co-extensive with the functions

[4] The Memorandum of the Finance Department to the Committee—The Members of the Committee complained that they were overwhelmed with large number of references on unimportant details; p. 10, Vol.—1923.

and responsibilities of the Finance Department itself, which, however, was not the intention. In such a situation, the Committee would have become another department and would have lost its status as an independent body.

The main function of the Committee was in respect of the preparation of the budget, for no new expenditure could be incurred except in urgent cases, without the concurrence of the Committee. As, however, consideration of all the new expenditures was not possible for the Committee due to reasons indicated earlier, the proposals that were to be referred to the committee were stratified, having regard to some monetary ceilings and which involved duly these proposals: (*a*) expenditure on a 'New Service'; (*b*) expansion of existing services involving an expenditure of Rs. 5 lakhs[5] non-recurring and over Rs. 1 lakh recurring per annum, and (*c*) supplementary grants —whether for purposes which were not foreseen earlier or to meet the variations in expenditure on items which already existed in the budget were to be referred to the Committee.

Procedure

The items which required the consent of the Committee and were to be included in the budget were first considered by the Finance Department and on each item approved by it, the administrative departments prepared a Memorandum to be submitted to the Committee. This Memorandum included the supply of information regarding all aspects of the proposed expenditures, viz., (*a*) total expenditure involved, (*b*) manner in which the proposed expenditure is to be met, (*c*) whether the proposal is complete in itself or is only an instalment and (*d*) whether any expenditure has already been incurred and only such of those items as were accepted by the Committee, were included in the budget for the next year. In the process of considering these proposals the Committee was empowered to question the propriety of expenditure, call for explanations and suggest economies. Though the review of budget was an excellent opportunity for the Committee yet there were certain

[5] These monetary limits were comparatively a later phenomena while, up to this stage, all proposals which were beyond the powers of Administrative Departments were referred to the Committee.

limitations inherent in the work of the Committee. The Committee's purview was restricted to the voted civil expenditure only. The Defence expenditure was excluded as it was all the time treated as 'non-voted'. And the Committee was purely an advisory body whose recommendations could either be accepted or rejected by the government. It should, however, be recognised that the Standing Finance Committee exercised a good deal of influence on the Government's decisions because the matters that were dealt with by the committee were specific and they were examined with utmost care and objectivity. It is also significant that budgeting, which is considered a technical job, was performed by the Committee with all the aplomb of expertise although it should be conceded that in the process of this examination it received considerable help from the Finance Department itself.

Later Developments

The impact of the work done by the Committee during the first years was clear. As the Simon Commission stated: "The Committee exercised a greater influence over government policy and administration than similar committees attached to other departments." The Committee's influence was such that "the Executive has never persisted in presenting to the Assembly demands for supply against which the committee has recorded its advice and the Assembly has never directly dissented from its view."[6] The Committee also evoked the sympathy and support of the Government of India, as the latter considered the Committee as having "usually taken a reasonable and intelligent view of its duties" and as having helped the elected Members to familiarise themselves with the details of financial administration. The Simon Commission observed that the Executive had rarely, if ever, ignored its advice. But the experience of the Committee in the provinces revealed a different aspect. In the provinces, "the Committees were inclined to encroach on the sphere of administrative policy" and the efficacy of the suggestions made by the Committee depended to a very large extent on the attitudes of the provincial governments. The Simon Com-

[6] Gwyer and Appadorai, *Documents*, p. 45.

mission, however, observed with satisfaction that the provincial governments far from being perturbed by the attitude of the Committee in encroaching upon matters of policy, were "satisfied that the committees have served a useful purpose and have proved to be very valuable institutions." The Committee was meanwhile moving upwards, gaining strength and control with each year's experience. In less than two years after its formation, a separate Standing Finance Committee was formed for the 'Railways' also after the separation of Railway Finances from the general finances in 1924. The Standing Finance Committee for Railways was presided over by the Member (Railways) or the Minister for Railways (after independence) and received the secretarial assistance from the Railway Board. The two committees continued to function in the same form even after independence.

After independence and during the period of the provisional Parliament, a question arose whether the Standing Finance Committees should be continued or whether a Committee for the Estimates as in UK should be created. It was not, however, for the first time as we shall presently see that the question of the Estimates Committee came up to the forefront. But it was for the first time that a choice had come to be made between the Finance Committee and the Estimates Committee. A Member of the Parliament speaking on the subject observed, "in 1922[7] ... we agitated that we should at the same time have an Estimates Committee with the Finance Minister as Chairman where the whole budget will be considered and passed." He added: "Now that we are free we can have it." The Finance Minister Shri R. K. Shanmukham Chetty, however, had a different opinion on the matter. He considered that the Standing Finance Committee, as an instrument of Parliamentary control, was infinitely a superior instrument than the Estimates Committee. Drawing on the experience of the Estimates Committee of UK, where a controversy on the utility and the success of the Committee was going on currently, the Finance Minister pointed out that the Estimates Committee cannot go into matters of policy, while the Standing Finance Committee has really wider

[7] B. Das, See the Debates dated 17 November 1947.

functions and powers; every item of new expenditure was placed before the Finance Committee while the Estimates Committee is concerned only with the Estimates presented to the House and "has no power to shape or alter that policy."[8] The main plea of the Finance Minister was that the Standing Finance Committee afforded better opportunities than the Estimates Committee to control policy. With such a forceful plea from the Finance Minister it was only natural that the Standing Finance Committee was allowed to be continued. But the fresh lease of life which the Committee received was only a reprieve, not new life. In less than three years after this discussion, an Estimates Committee was constituted. All the same, the Standing Finance Committee continued even after the establishment of the Estimates Committee and together they co-existed for an approximate period of two years (1949-52). The Committee was eventually abolished in 1952 after the convening of the new Parliament consequent on the General Election held in 1951.

A brief analysis of the utility and the approaches of the Standing Finance Committee is in order at this stage. To enable a better appreciation of the Committee, it may be analysed from the following angles: (*a*) Finance Ministry and the Committee, (*b*) Standing Finance Committee and the Public Accounts Committee and (*c*) the general tenor of the Committee.

As indicated earlier the functions of the Committee were in a way co-extensive with the functions of the Finance Department. Though the rules and procedures governing the activities of the Committee gave an apparently narrower picture, yet the extensive application of the proviso that the Finance Department "may refer any other matter that it considered necessary to the Committee," which enlarged the scope of its work, had also resulted in a large number of routine and trivial cases being referred to the Committee. The Committee, apparently, in its zeal for exercising authority and the pleasure of saying 'no' to some proposals, relished the reference of such proposals.[9]

[8] Debates, 17 November 1947.

[9] Consider, for example, the following types of cases which were referred to the committee, though apparently they could have been decided by the Finance Department. (*i*) Additional grant to a deputation to British Guiana. (*ii*) Purchase of Trucks. (*iii*) Creation of leave reserve. (*iv*) Grant of com-

The relations between the Committee and the Finance Department were cordial, though on the occasions when the Members tried to voice feelings which were not to the taste of government, they were discreetly silenced by the Finance Member (Chairman of the Committee) at the earliest opportunity. The working of the Committee would reveal that the Committee was, in its day-to-day working, dominated by the expert, i.e., the Finance Department. The Finance Department, in its turn, was happy to have a body which would support its suggestions and its conventional and conservative approach to expenditures. In the process, the Finance Department gained in power as its actions were backed by the generous support of the Committee. Thus in essence, there was hardly any distinction between the Standing Finance Committee and the Finance Department itself.

The functions of the Standing Finance Committee and the Public Accounts Committee, were so devised that what has escaped the attention of the Standing Finance Committee, was scrutinised at a later date by the Public Accounts Committee. This enabled the completion of the circle of Parliamentary Control. For example, one of the procedures evolved in the early years was that cases in which expenditure was incurred for purposes not approved by the Assembly or the Standing Finance Committee, were to be specifically brought to the notice of the Public Accounts Committee by the Auditor-General through his Appropriation Accounts and the Audit Report.[10] Apart from this there was no other liaison or coordination between the two committees.

Such an absence of relations is understandable for one was a committee of the Assembly while the other was a committee under the Finance Department. Nevertheless, through their procedures and examination the Committees ensured that all the financial activities, before they are launched upon and after they have been expended, were brought within their purview.

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pensatory allowance to individuals, and (*v*) Grant of a Stipend of Rs. 5 to a student and many more cases of the same nature. Each session of SFC received and considered many cases of this nature.

[10] *Epitome*, Vol. I, p. 6.

Another significant aspect is that during the course of examination of various proposals for supplementary grants the Standing Finance Committee has often assumed the role of a Public Accounts Committee and pronounced its views on aspects of budgeting and control of expenditure, etc.,—Consider the following examples which can be found in great number in any of the reports of the Finance Committee:[11] (*i*) "Committee commented adversely on the excesses over original estimates which had occurred in several cases and desired that the attention of all concerned should be drawn. (*ii*) The Committee commented critically on the apparent laxity of control exercised by the Departments over the expenditure on committees". (*iii*) "The Committee emphasised the need for adhering closely to the Budget Demands". In order to satisfy itself regarding the progress of expenditure, etc., the Committee desired that the schedules of progress of expenditure and the requirements of departments should be submitted to it. These comments reveal that the Committee was not merely sticking to the examination of the details of a scheme, but at times extended its examination to the factors that led to the proposal. These aspects, as we have seen earlier, were primarily within the fold of the Public Accounts Committee. But the SFC also lost no opportunity in commenting on the inadequacy of administrative organisations, etc. Such an examination had indeed a wise influence on all concerned. But the difference between the two committees remained as it was: one was a Parliamentary Committee proper; the other was an advisory Committee of the Government. The working of the Committee further reveals that its approach to the proposals was no different from the approach of the Finance Department. The general criticisms levelled against the Finance Department were equally applicable in the case of the Standing Finance Committee. Its approach was typically that of the Finance Department and its procedures were no different. In most cases it generally agreed to the proposals. But where it could not agree it insisted on having (*a*) "more details", (*b*) "more information", or it agreed subject to the further examination of the Finance Department (and the number of cases of the last

[11] Proceedings of the Committee on 15 January 1930.

variety was large). Thus, the onus of decision-making rested on the Finance Department and on the advice it tendered to the Committee. Besides, the Committee does not appear to have been responsible for any significant economies in expenditure. As Shri C. D. Deshmukh observed at a later date, "I found that it was seldom that they were able to suggest any significant reductions"[12] But the Committee had a utility of its own. The balance-sheet of the Committee's working may be stated thus: on the assets side (*a*) the Committee provided ample opportunity to the Members of the Legislature to get themselves familiarised with the administrative process and to that extent it justified the objective of the establishment of the Committee. (*b*) It wielded good influence on the general approach of the departments and induced a feeling of financial consciousness in them. By its searching examination it put the departments on the defensive and made them refer only such proposals as were absolutely inescapable or those that were justified from all points of view. On the liabilities side (*a*) the Committee had no attitude of its own and was to a very large extent dependent upon the assistance and advice of the Finance Department and, (*b*) by agreeing to the proposals of the Government in advance of their presentation to the Legislature it reduced the scope and degree of discussion and control of the entire House.

During recent years, a plea for the revival of the Standing Finance Committee has been continuously put forth by Parliamentarians and Parliamentary committees.[13] The Estimates Committee, in one of its reports, argued for the revival of the Committee. The Committee stated,[14] "It might be a distinct advantage both to government and to Parliament, if this Committee is revived. It might have the authority to scrutinise such new items of expenditure above a certain limit as the Govern-

[12] LS Debates, 16 March 1956.

[13] Speaker M. A. Aiyyangar observed, in one of his addresses to Financial Committees: "The Estimates Committee, the Standing Finance Committee and the Public Accounts Committee—all the three put together—discharge all the functions relating to the finances of a country as a whole. There is a lacuna now in that the Standing Finance Committee is not there." (Address to the Estimates Committee, 17 July 1957).

[14] 20th Report, April 1958, p. 25.

ment might place before it, before they are included in the budget. The Committee may, however, be purely advisory and government need not be bound to accept all its suggestions and criticisms."

The suggestions of the Committee were made with the objective of evoking an enthusiasm in the Members of the Legislature in financial matters, as also to enable public participation in the drawing up of schemes for inclusion in the budget. The suggestions are apparently inspired by the example of the Appropriation Committees of the Senate and the Congress in USA, not to mention the hoary past of the SFC. It is, however, a controversial[15] question whether the committee should be revived at all. The government on its part showed its unwillingness to revive the Committee.[16] The main reasons for not reviving the Committee are: (*a*) the Standing Finance Committee was an imperative need in the preceding years when the objective was to control a foreign power, but does not have a place in the new system, (*b*) the responsibilities of the Legislature and the Executive are clear. Initiation of policy is the responsibility of the Executive and approving it or rejecting it, is the duty of the Legislature. A preview of the estimates and its acceptance by the Standing Finance Committee would, apart from reducing the scope of the control of the House, make the Committee a sort of a fifth wheel to the coach. Such a situation would lead to an overlapping and consequent blurring of the responsibilities between the Legislature and the Executive and, (*c*) as for the argument that the formation of a Committee would enable public participation, it is said that there are numerous consultative Committees—which are composed of the members of the Legislatures also—under each department and that they are adequate for the purpose of public participation.

On the other hand, it is argued that the abolition of the Committee has resulted in the elimination of control which existed

[15] 60th Report of the Estimates Committee, 1960.

[16] One important fact to be noted is that soon after the abolition of the Standing Finance Committee, an Expenditure Finance Committee—a departmental committee—with the same terms of reference was established by the Ministry of Finance. The Committee included the Minister for Finance and the Departmental officials.

before.[17] It is also suggested that consultative committees do not prove to be an adequate substitute for the Finance Committee, for the reasons (*a*) that they do not meet regularly, (*b*) that they do not have a competent Secretariat and (*c*) that the functioning of these committees does not receive the same publiciy as the other committees. These arguments also are logical and contain a lot of force. In any case it has to be recognised that there is a growing feeling in support of the establishment of such a Committee. The examples of the United States of America and France are too attractive to the Members of the Indian Legislature. Only the future can determine the possibility of the Finance Committee's revival. But the situation as it remains today is clear enough, viz., that government does not want, obviously in the interests of an organised Parliamentary democracy, the creation of too many Parliamentary committees and the proliferation of Parliamentary control, which instead of preserving the Parliamentary privileges and rights may well endanger them.

II

Estimates Committee

We have seen in the preceding section, the functions of the Standing Finance Committee and its utility as a Parliamentary Financial Committee. An important Committee which is of comparatively recent origin is the Estimates Committee. This is the only other Financial Committee. The functions of the Committee are different from the functions of the Public Accounts Committee. In the following paragraphs, a study of the Estimates Committee has been made. This study is divided into three sections: (*i*) the evolution and history of the Estimates Committee, (*ii*) procedures and techniques of control and examination by the Committee and (*iii*) an assessment of the Committee.

Evolution. The origins of the Indian Estimates Committee are traceable to the impact of the British experience, as is the case with the Public Accounts Committee. But if the inspiration

[17] K. Santhanam, *Planning and Plain Thinking* (Chapter on Budgetary Reform).

for the establishment of the Estimates Committee was drawn from the British experience, the same experience also held up an earlier establishment of the Estimates Committee. The British experience, which revealed more of the defects of the Committee, did not at that time indicate any beneficial results of the Committee. This together with the fact that is has not proved itself an effective instrument of Parliamentary control created apprehensions in the minds of the Indian parliamentarians, with the consequence that an offer for the establishment of an Estimates Committee made in 1930's by the British Government was not taken advantage of by the Indian parliamentarians.

The first attempt to create a Committee on Estimates was made in April 1938. It was a period when the country was caught in the whirlpool of an economic depression. It was felt (surprisingly though) that the need of the hour was retrenchment and reduction in government expenditure. With this end in view a Member of the Assembly[16] moved a resolution for a Retrenchment Committee. Another Member Mr. D. E. Jones, suggested in an amendment to the resolution, the creation of an Estimates Committee. The Finance Member, Sir James Grigg, replying to the debate pointed out that there were two types of economies: (*i*) retrenchment in administration, and (*ii*) economy in policy matters—the former being a field in which the Legislature could be associated, while the latter was exclusively the jurisdiction of government. He therefore suggested that the House set up a machinery for the continuous scrutiny of expenditure from the administrative point of view and that this machinery may be called on the model of the British pattern, the 'Estimates Committee'. According to his plan, the Committee was to consist of fifteen elected non-official members from the Assembly, empowered to elect its own chairman and to be assisted by the Deputy Secretary, Budget (Finance Department), who was to act as the Secretary. The Finance Member envisaged the terms of the Committee to include its suggestions regarding the form of presentation of

[16] Shri M. A. Aiyyangar, ex-Speaker of Lok Sabha.

estimates, and economies consistent with the policy of government, etc.

This suggestion, however, did not find favour with the Members of the Opposition Party. They were much too apprehensive about the efficacy of the Estimates Committee. The UK Estimates Committee, was at that time facing a volley of criticisms. Among these criticisms, the significant ones were: (*a*) the Committee was precluded from entering into questions of policy (the Executive and the Cabinet were resisting proposals for consideration of policy matters by the Committee), (*b*) the Estimates Committee could not go into matters of expenditure, as every vote on expenditure was treated as a vote of no confidence on the government. In the Indian context, suggestions for reductions and approval of the same would have had no effect, as the cuts made by the Legislature could be restored and included in the 'authenticated statements' of the Governor-General, (*c*) examination of the estimates by the Committee was made after the presentation of estimates and as such the scope for effective work was almost reduced to the narrowest limits, and (*d*) the Committee had no technical assistance like the Public Accounts Committee. In the final analysis, the Committee was pronounced as a failure for it could not go into the realms of policy. As Durell observed, "The opportunities for effecting economies by the Committee may be numerous, but will never compare in magnitude with those which can be effected by modifying policy."[19] The question, however, was how the terms and procedures of the Committee could be improved to make it an effective weapon of Parliamentary Control. Any improvement in the procedures and terms of reference appeared to trench on Executive responsibility and policy matters. Durell added: "The most serious and apparently insurmountable bar against finding a satisfactory solution of the difficulty is and must be the danger of interference with ministerial responsibility and the impossibility of touching upon policy."[20] The concern and apprehension of the Members of the Opposition Party arose out of this particular difficulty alone. The

[19] *Ibid.*, p. 146.
[20] *Ibid.*, p. 156.

Members felt convinced that the Standing Finance Committee was a better instrument as it afforded a greater opportunity to influence though not control some of the activities of the government. The Members therefore opposed the measure of constituting an Estimates Committee and with that the matter was dropped.[21] The matter was raised on and off after this episode,[22] but nothing substantial ever happened in the following years until after independence, when Dr. John Mathai, the Finance Minister, moved a resolution to the effect that an Estimates Committee be appointed. Moving the resolution[23] Dr. Mathai stated that the Committee proposed to be constituted was based on the practice which was in force in the UK. Referring to the distinction between the Standing Finance Committee and the Estimates Committee, he pointed out, that the Finance Committee was not really a Parliamentary Committee, while the Estimates Committee is a Committee of the House working under the supervision of the Speaker. The Estimates Committee is of utmost importance, he added, as its report will provide guidance to the Treasury and the Ministry concerned with regard to the basis on which proposals of expenditure should be framed for the next year. In fact, "the Estimates Committee will work as an Economy Committee in continuous session. They are not concerned with the policy of the government but within the framework of the policy laid down by government, the Estimates Committee's business is to see that only the minimum expenditure is incurred for the purpose of fulfilling the policy of Government."[24]

The Estimates Committee that has thus come to be constituted consisted of 25 Members[25] including a Chairman appointed by the Speaker. Where, however, the Deputy Speaker is a Member of the Committee, he will be the ex-officio Chairman of

[21] The contemporary mood was against the constitution of the Estimates Committee. A Study, made immediately after this, came to the conclusion . . . "that an Estimates Committee will not improve matters." P. J. J. Pinto, *System of Financial Administration in India*, p. 312.

[22] By a Member on 24th August 1939.

[23] H. P. Debates, 3rd April 1950

[24] *Ibid.*

[25] The strength was later on raised to 30 by the Rules Committee on 28th November 1955.

the Committee. The Members are elected from the Lok Sabha only.[26] The term of office of the Members is a period of one year. However, a convention was established since 1956-57 that as far as possible only 1/3rd of the Members of the Committee may be retired annually so as to enable the succeeding Committees to have the benefit of continuity. It may be added that suggestions were also made to fix the tenure for a period of two years.[27] Generally, Members who have served for a period of two years successively, as most of them do, do not seek re-election to the Committee for the next year.[28] The Finance Minister is not a Member of the Committee.

III

Functions, Procedures and Techniques

The functions of the Estimates Committee, that has come to be set up thus, are: (*a*) to report what economies, improvements in organisation, efficiency or administrative reform, consistent with the policy underlying the estimates, may be effected, (*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 the Parliament. Though the Committee is an 'Estimates Committee', yet it does not examine the Budget Estimates presented to the Parliament. It is not incumbent on the Committee to examine the entire estimates of any one year and the Demands for grants may be voted by the Legislature notwithstanding the fact that the Committee has made no report in respect of certain Demands. The Committee is concerned with the 'Estimates' only after they have been presented to the House. The Committee does not undertake any examination of the 'Budget Estimates' as such[29] but takes up the various current activities which, to a very large extent, reflect

[26] No Members of Rajya Sabha are associated with the Committee as no estimates are presented to that House.

[27] Speaker's address to the Estimates Committee—17th July 1957.

[28] *Ibid.*

[29] In UK the EC examines some of the statements of Estimates and

the content of the estimates presented to the House. The Committee may, as a result of its study and examination, offer alternative policies also. The term 'policy' is rather a vague one and as Lord Campion called it, "a very indefinite word" and normally does not lend itself to a precise definition and quite often "questions of economy lead to questions of efficiency and questions of efficiency merge into questions of policy and it is difficult to draw a hard and fast line." However, the term 'policy' occurring in the terms of reference of the Committee was considerably amplified by a direction of the Speaker which pointed out that the term policy in clause (*a*) referred to above, "relates to policies laid down by Parliament either by means of Statutes or by specific resolutions passed by it from time to time. It shall be open to the Committee to examine any matter which may have been settled as a matter of policy by the Government in the discharge of its executive functions." With regard to clause (*b*) of the terms of reference referred to above it has been stated that "the Committee shall not go against the policy approved by the Parliament, but where it is established on evidence that a particular policy is not leading to the expected or desired results or is leading to waste it is the duty of the Committee to bring it to the notice of the Parliament. The fundamental objectives of the Committee are economy, efficiency in administration and ensuring that money is well laid out, but if on close examination it is revealed that large sums are going to waste because a certain policy is followed, the Committee may point out the defects and give reasons for a change in the policy for the consideration of Parliament.[30] Though it is one of the functions of the Committee to offer alternative policies, yet generally, the Estimates Com-

submits them to the House before they are voted upon. As per the recent revision, the committee is to examine and briefly report upon the spring supplementary estimates also.

[30] The Speaker of the Lok Sabha observed in the course of an address to the Estimates Committee: "We have no right to enunciate any particular policy to be adopted by Parliament. But when on a particular policy expenditure has been incurred it is open to the Estimates Committee to find out how far that policy has affected the finances of the country as a whole and a modification of that policy would not yield better results." 17th July 1951.

mittee shows considerable restraint in making suggestions for alternative policies.

The Committee is also interested in the classification and form of accounts presented to the House. The Secretariat of the Committee undertakes an examination of the 'Estimates' as soon as they are presented to the House to ensure that the classification of the heads of items under 'charged' and 'voted' has been done properly and without blemish. Where they come across any faults, they bring it to the notice of the Chairman of the Committee who takes up the matter for further consideration with the Finance Minister. In this way they ensure that the Estimates presented to the House are proper. However, the examination of the Committee at this stage does not go beyond the classification and is not concerned with the merits or economies that can be achieved by reductions in the Estimates. A more important duty, as laid down in the functions of the Committee, is to see that the "money is well laid out within the limits of the policy implied in the Estimates", and in ensuring this, the Committee literally goes to the heart of the matter of economy and efficiency.[31] It is true, however, that there are many specialised technical branches in the administration itself which can consider the proposals for economy and efficiency. But the Estimates Committee has a function of its own in this respect. As the previous experience of the Committee indicates that notwithstanding the work of the various administrative agencies[32] there is still red tape, lack of coordination, extreme departmentalism and above all, lack of essential human approach. It is in studying these tendencies and in offering suggestions for economy that the utility of the Committee is to be found. The fact of existence of executive agencies employed for the purpose of achieving economy need not make one feel that there is no field for effective work for the Committee. On the contrary, such a state of affairs

[31] The Speaker of the Lok Sabha exhorted the Estimates Committee, at one stage, thus: "The whole country looks to the Estimates Committee to suggest ways and means of economising the expenditure. If we are not able to suggest economies which will catch the imagination of the people, we will not be doing much"—17th July 1957.

[32] B. G. Mehta, "Role of Estimates Committee", First Parliament, *A Souvenir*—1957, p. 11.

as described provides a fertile ground for the Estimates Committee. Further, the study of the Estimates Committee brings to bear upon these administrative problems a 'people's approach' and it can be claimed to be a judgement of sound common sense.[33] Another important aspect to be considered in this context is whether the supplementary grants may not be examined by the Estimates Committee and its report submitted to the House so that it could be used as a basis for consideration of the supplementary grant.[34] It is also argued in favour of this suggestion that while the Estimates Committee may not get much time for the consideration of the original Budget Estimates and submit its findings before the end of their discussion, yet such an examination should be possible in the case of supplementary grants as they are generally few and far less than the original Demands for grants presented along with the Budget. This argument is likely to gain further support in view of the recent changes[35] that have been introduced in the UK, according to which the spring session supplementary demands are submitted to the Estimates Committees for their scrutiny and examination. However, the adaptation of this practice in the Indian context bristles with difficulties, for according to Article 115 of the Constitution, the supplementary grants are to be treated in the same way as an original grant. Also most of the supplementary grants submitted to the House are usually to repay the advance amounts taken from the contingency fund, which means that the amounts were already spent and are therefore not susceptible to further reduction by the Estimates Committee. It is also possible that the inclusion of such a function as a part of the duties of the Estimates Committee would make it assume the garb of a Standing Finance Committee. Another significant aspect of the same question is, what is the effect of such a scru-

[33] *Ibid.*, p. 11.

[34] A suggestion in this direction, was made by a Member of Parliament in 1957.

[35] H. C. Deb, 26th July 1960, It is the normal practice of the committee to take up specific Estimates even when they are in discussion and submit its findings to the House. The recent procedure puts more emphasis on the supplementary grants. What has been demanded in the Indian context is a preview of the supplementary grants as was done in the case of the Standing Finance Committee.

tiny by the Estimates Committee? There are certain limitations in this field, such as it cannot suggest any reductions for (*i*)[36] *ex hypothesi* the Committee has to examine estimates which relate to present and future expenditure and have been presented to the House after mature consideration by Ministers and pruning by the Finance Ministry as representing the minimum requirements of government and therefore it would be difficult to make any reductions and, (*ii*) the reductions, if any, suggested by the House may be taken as confidence issues which may very well change the complexion of the issue from a financial to a political one.

The name Estimates Committee might apparently imply that it should be one which is concerned with an examination of the Estimates. However, in view of the limitations explained earlier which are applicable not only in the case of supplementary grants, but also as much in the case of the original Budget Estimates, such a function is not rendered possible. The Committee, therefore, from the very beginning placed emphasis on studying the current activities of Departments. Towards this purpose it has evolved its own techniques and procedures.

Procedures and Techniques of Examination

Charged with the above functions, the Committee sets itself to the task of fulfilling them. At the beginning of each financial year and soon after the constitution of the new Committee, the Members of the Committee meet and discuss and select the subjects and the Ministries that are to be undertaken for examination in that year. With the administrative machinery steadily growing into complex proportions, it is indeed difficult for the committee to undertake a survey of all aspects and spheres of governmental activity. It has necessarily got to be selective. It is, however, the objective of the committee to cover as wide a range as possible so that the review of the committee could extend to most of the spheres of government activities[37]; all

[36] Frank Tribe, "Parliamentary Control of Public Expenditure", *Public Administration* (Winter 1954).

[37] "Actual experience has shown that the Estimates Committee is not able to examine all the Ministries and Departments of the Government

the same, its range of activities for a year is necessarily limited when compared with the expectations. On choosing the Ministries and the Departments, the Committee writes to them to furnish information in support of the estimates presented earlier to the House. The information submitted by the Department is expected to cover the different aspects relating to the[38] (*i*) organisation of the Ministry and its attached and subordinate offices, (*ii*) the functions of these offices, (*iii*) broad details on which the estimates are based, (*iv*) volume of work in these offices during the period for which estimates are presented and in the preceding years, (*v*) schemes undertaken by them, (*vi*) actual expenditures under each sub-head of the estimate during the preceding three years, (*vii*) reasons for variations between the current estimates and the past actuals and (*viii*) reports on the working of the Ministry. On the basis of the information procured under these different heads and on the basis of the impressions gathered by the study groups of the Committee, a detailed questionnaire is prepared by the Committee and sent to the Ministry for answers. The Committee, in order to acquaint itself with all the aspects, sub-divides itself into various study groups. In addition, there are also sub-committees which are given a specific range of subjects, such as (*i*) sub-committee[39] dealing with new subjects and charged with the responsibility of studying the material sent by the Departments, preparing the questionnaires, to undertake study tours, to indicate broad points on which the report could be drafted and to discuss them before submitting them to the whole Committee, (*ii*) sub-committee dealing with the action taken on earlier reports and (*iii*) standing sub-committees, etc. Even in cases where a sub-committee is charged with the examination of a specific Ministry, evidence is taken from the representatives of the Ministry by the entire Committee and not by the sub-committee. So also, the report of the Committee when finalised

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even over a fairly long period." 20th Report of the Estimates Committee, p. 26.

[38] H. N. Trivedi, Estimates Committee, First Parliament, *A Souvenir*, p. 76.

[39] Minutes of the sittings relating to the 55th Report, 1959, p. 53.

is considered by the entire Committee and not by the sub-committees.[40]

The questionnaires issued by the Committee are generally answered in time and returned to the Committee with all the material that the Committee requires. In case where the information required is of a secret nature, the material is generally shown personally to the Chairman and if there are any differences of opinion between the government and the Committee in respect of secret matters they are, as far as possible, settled by personal discussion. After going through the information furnished by the Department, the representatives of the Department are called for giving oral evidence. The representatives of the Departments are generally of the rank of a Secretary and include the Financial Adviser of the Department also. The examination of the representatives is a delicate affair involving mutual benefits. However, the success of this process of taking evidence depends upon the way in which the examination is conducted. As the Speaker of Lok Sabha pointed out recently, "you must get information from them without offending them, just as a bee sucks honey from a flower without destroying it. It is rather a difficult matter."[41] The representatives are there not to defend the policy of government but to explain how a policy is being implemented in practice by the executive officers. The process of cross examination is essentially intended to help either party to understand the other, and to bring the Parliamentarians and officials together so that the occasion may serve "as a catalytic ground in melting away... all complexes."[42] To help the formulation of a better understanding of the problems, the Committee also invites non-official experts and takes their evidence. It is significant to note that this procedure is being utilised on a large scale in the recent past. The association of experts at this stage helps the Committee to understand the other side of the picture and enables it to formulate its own suggestions in the light of the evidence given

[40] S. L. Shakdher, "Two Estimates Committees". In one case, relating to the Estimates of the Ministry of Defence, a Sub-Committee was authorised to take evidence.

[41] *Journal of Parliamentary Information*, October 1960.

[42] B. G. Mehta, "Role of Estimates Committee", First Parliament, *A Souvenir*, p. 10.

by experts and the representatives of the government. On the basis of the written and oral evidence received[43] from all quarters and on the basis of its own discussions, the Committee gives directions to the Secretariat regarding the lines on which the report is to be drafted. The report so drafted is however, considered by the whole Committee. After the draft report is considered and accepted by the Committee it is sent to the concerned Ministry, with a view to have the content of the report verified by it from the factual point of view. If any errors are pointed out, so far as facts are concerned, the Commitee reconsiders them and makes necessary corrections. The responsibility for opinions expressed therein is that of the Committee, while the responsibility for factual errors after this stage rests with the concerned Ministry. The Report of the Committee does not have any 'Minute of Dissent'. However, if certain Members do not agree with any particular point and if they so desire, it is noted in the Minutes which are circulated and laid on the table of the House.[44]

Every report of the Committee generally contains a historical background of the particular activity chosen for review and detailed chapters covering each aspect. The recommendations are summarised in the Appendix and since 1958 they are being classified under the following heads: (*i*) Recommendations for improving the organisation and working of the Department, (*ii*) Recommendations for economy, including a statement of economy in terms of money and (*iii*) Miscellaneous or general recommendations. The reports thus prepared, are then submitted to the House. The reports, however, are not subjected to any discussion in the House as it is generally feared that the House would not have sufficient time to have a useful discussion and the recommendations may not, consequently, be viewed in their proper perspective. In this respect, the approach is not different from the one that is indicated in the context of the Public Accounts Committee in the last chapter. Further, as Speaker M. A. Aiyyangar observed, "I have not allowed nor did Shri Mavlankar allow a regular debate on the report of the Estimates

[43] The evidence is not printed, but the Minutes are printed.

[44] Address of the Speaker to the Estimates Committee, 1959-60, on 7 May 1959.

Committee. The reports of the Committee do not reflect any party's point of view, on the contrary, it is bipartisan in its approach."[45] "The Ministries are entitled to hold their own views but ultimately our opinion ought to prevail if after the presentation of the report, the Minister who may not see eye to eye with the Committee, will gather support on some general proposition on political grounds and on such an issue being raised in an acute form, the usefulness of the report may be nullified." Therefore discussions are avoided. However, the recommendations of Parliamentary Committees are by convention treated as directions of the House and therefore receive full consideration from the Ministries and not unoften the Ministries find the suggestions helpful too.

Action on the Reports

It is necessary to implement the recommendations of the Committee if Parliamentary control is to be effective. It may not, however, be always possible to accept the recommendations of the Committee and where that is so, the Department concerned has to give proper arguments for not accepting the suggestions of the Committee. The action on the reports rests essentially with the Department to whom the report is addressed. It is also the responsibility of the Committee to ensure that action is taken in accordance with its recommendations. Thus, action on the reports is a two-sided affair depending on the efforts at both ends. At the Departmental end, it considers all the recommendations addressed to it. In cases where the recommendations are of a general nature and they are related to financial and budgetary questions, action is taken either by the Department in consultation with the Finance Ministry, or by the Finance Ministry as may be mutually agreed upon between them. Where the matters are of a general policy nature, action is taken by the concerned Department in consultation with the Cabinet Secretariat which advises the Department on the lines on which replies are to be sent to the Committee. In regard to matters which are exclusively applicable to that Ministry, to whom the report is addressed, necessary action is taken by that Ministry

[45] Address to the Estimates Committee, 17 July 1957.

itself. The Committee on its part also keeps a keen watch on the implementation of its recommendations, through a constant review and analysis of the replies received from government. These replies are considered again by the Committee together with its comments and are presented in the form of a 'follow-up' report. A follow-up report is divided into four types of statements: (*i*) Statement showing the recommendations and suggestion of the Committee, agreed to and implemented by the government. (*ii*) Statement showing the recommendations, which it has not been possible for the Ministry to implement for reasons stated by them and which on reconsideration, the Committee thinks, need not be pressed. (*iii*) Statement showing the recommendations which the government are unable to accept for the reasons given by them but which the Committee feels should be implemented. (*iv*) Statement showing the recommendations to which the final replies from the government have not been received. In addition to these statements the reports also contain an introduction which is generally used as a vehicle for the expression of the Committee's opinion. Once these follow-up reports are presented to the House, further action in respect of the comments made in the 'follow-up' report are not watched by the Committee. It is a matter of obligation on the part of government to take action on them. But in case a Member of the House wants to know whether a particular recommendation made in a follow-up report has been acted upon or not by the government, the only means of knowing it is by putting a question on the subject. The Committee, by itself does not watch the action after this stage, since it has made plain in the follow-up reports the matters where government and Committee see eye to eye and matters where they differ, and leaves the differences of opinion to the House for such action as may be considered necessary by the House.

In the recent past the Committee has been making rapid strides of progress in two other ways, viz., (*i*) *Ad hoc* reports and (*ii*) Horizontal Reviews of important and topical subject. Rule 310 of the Rules of Procedures of Lok Sabha provides that specific matters may be referred to the Committee for examination by the Speaker of the House. The need for such a specific exami-

nation arises on many occasions when certain important matters are under discussion by the Members of the House and where the Members are not satisfied with the performance or achievement in a particular field. As the Speaker has emphasised: "The functions of these Committee ought not to be restricted to a general scrutiny of the accounts periodically, but they must be entrusted with the work of scrutinising estimates and accounts *ad hoc* as and when particular matters assume importance and come up for public criticism. I would commend the liberal use of this practice in all Legislatures."[46] Following this objective and, equipped with Rule 310 the Speaker has on numerous occasions instructed the Committee to make *ad hoc* enquiries and submit reports to the House; cases of this nature,[47] though not frequent, have rendered the Committee as an important aid of the House. No doubt the invocation of this rule means a temporary shift in the programme of the Committee, but this aspect is not very significant when compared with the overall service it renders to the House and to the public.

The activities of the Committee are not by any means confined to the activities of a particular Ministry or the public enterprises included in the fold of that Ministry. On many occasions it has carried out surveys of important questions which are of a general nature and offered its comments on those subjects. These surveys which can be called horizontal surveys, may be classified into three groups: (*i*) Matters relating to administrative reorganisation. The second and the ninth reports of the first Lok Sabha which dealt with reorganisation of the Secretariat and Departments of the Government of India and Administrative and Financial Reforms are examples of this type. They have helped not only in spotlighting certain issues but in making useful and objective studies on those subjects. (*ii*) Matters relating to Financial Administration—in this aspect again, the committee has made broad surveys on the problems of 'Budgetary

[46] *Journal of Parliamentary Information*, April 1960. Address to the conference of Presiding Officers on 21 March 1960.

[47] A few instances where this rule was involved was in respect of (*a*) loss in Railway collieries, (*b*) Dandakaranya Scheme and (*c*) shortfall in Bharat Electronics, etc.

Reform'[48] and 'growth of civil expenditure',[49] etc. These studies were helpful to the government and to the academician alike. In addition to these general problems, the committee has also made useful studies of the various aspects of Financial Administration such as "expenditure control, revenue collection, mint management, national savings organisation, etc." (*iii*) The Committee has also made significant studies on the general problems pertaining to the national undertakings. Its sixteenth, nineteenth, seventy-third and eightieth reports were devoted to the general problems of public enterprise, such as management, forms of public enterprise and budgeting in those fields. It would, thus, appear that the efforts of the Committee are directed not only towards a study of the specific activities of a department, but also to general matters and problems that are bound up with all governmental activities.

The Committee is also very keen to avoid duplication of its work being done by another committee appointed by the government consisting of Members of the Parliament. A convention is, therefore, followed under which the government makes a reference to the Parliament Secretariat to ascertain whether any Parliamentary Committee is already engaged in the study of any of the matters where they propose appointing a committee of their own. Parliament insists on this procedure with a view to avoid duplication of work and proliferation of the energies of the Parliament. As the Speaker of Lok Sabha emphatically pointed out,[50] "we have said that so long as a committee of Parliament has taken charge of any administration for investigation, no other committee shall be appointed without the permission of the committee, and no members of this committee shall agree to serve on any such committee without the permission of the committee or the chairman." The Committee also maintains a close contact with the Public Accounts Committee. The common Secretariat of both the committees enables an exchange of data and opinions. Generally, the Public Accounts Committee while considering the irregularities of a Ministry,

[48] 60th Report of the Committee is also devoted to the same subject. See also the 55th Report.

[49] 92nd Report, Lok Sabha.

[50] Address to the Estimates Committee, 7th July 1959.

looks into the Estimates Committee's reports on that Ministry. Likewise, the Estimates Committee consults the reports of the Public Accounts Committee while considering the activities of a Department.

We may now analyse the type of control exercised by the Committee, the effectiveness of the Committee's control and the criticisms and the compliments made and paid on the work of the Estimates Committee.

IV

A Review of the Committee's Working

The control exercised by the Estimates Committee is not always direct. It is only by its influence, by the fear and awareness that such a body is there to examine certain aspects of governmental activities, that it can make its presence felt and thereby make its control effective. The control exercised by the Committee, as the late Speaker of Lok Sabha, G. V. Mavlankar observed, consists essentially in being: (*a*) judicial in approach, (*b*) in representing the people's approach, (*c*) in creating a training ground for the Legislators, (*d*) in preventing the executive from being apprehensive, (*e*) in influencing the policies of the government, and (*f*) in acting as a link between the people and the government.[51]

The approach of the Committee is judicial in its nature. As Speaker Mavlankar stressed, "Let us not approach any problem beforehand with any preconceived notion. I urge upon a judicial approach of things.... So far as Parliamentary committees are concerned there must not be a single fact alleged in your reports that cannot be supported by evidence. What little we say should be based on solid facts."[52] This principle enables the committees to overcome their enthusiasms, to relegate their favourite hobby-horses or criticisms to the background and to view the matters with more objectivity. The Committee brings to bear, as indicated earlier, a people's approach on the governmental activities. The Members of the Committee are generally laymen[53] in the

[51] Address to the Estimates Committee, 7th May 1961.

[52] *Ibid.*

[53] See B. G. Mehta, "Role of Estimates Committee".

subject, without the knowledge of rules and regulations and intricacies of administration, but their basic approach is one of study and understanding. As a former Chairman of the Committee stated, "the role of the Committee[54] is not that of a baton-happy policeman or that of a jurist who is called upon to pronounce verdict over the most intricate legal cases out of his common sense." "It is an essential exercise in a democracy to answer the questions of critical and unrestricted laymen"[55] and is all the more essential in the system, where the official is intended to be the servant not the master.

The Committee, while exercising control of the type described earlier, acts as a training ground[56] for acquainting the members not only in the ways in which administration is carried on but also "to make them conversant with the various problems that Government have to meet from day to day." The Committee is also useful as an institution in preventing the executive from becoming oppressive and arbitrary. It puts the civil servant always on guard.

The control of the Committee is also felt in respect of its influence on the decisions of the Government and in acting as a liaison between the government and the public. The exhaustive and objective studies made by the Committee always indicate new directions in which the activities of the government can be channelled for a better utilisation of the resources. The implementation of its suggestions may not always lead to economy and may incidentally even lead to more expenditure, but then the suggestions provide alternatives to the existing conditions and in that process it offers a choice to the 'decision maker'. The existence of this choice makes decisions more scientific and more realistic too. The suggestions of the Committee are, therefore, always given considerable weight, and in a way it acts as a decisive influence in the formulation of policy. The Committee also acts as a liaison between the government and the public. Its studies are 'revealing' in most aspects to the public,[57] and

[54] See B. G. Mehta, "Role of Estimates Committee", p. 11.

[55] K. C. Wheare, *Government by Committee*, p. 235.

[56] Address by Shri G. V. Mavlankar to the Estimates Committee, 18th April 1960.

[57] The series of 15 reports presented by the Committee in 1959-60 on

in a way it acts as a glass-house from which the Government activities can be seen, studied and analysed.

Limitations: There are, however, certain limitations also and frequently criticisms are made on its working. These aspects may briefly be considered here.

One of the limitations in the working of the Committee is the 'period lag' between one review and another of a single department. And a consequence of this 'period-lag' is that many activities in different directions, come within the scope of the review of the Committee only once in a period of three to four years. The lag indicates that the control of the Committee can be directed only to a few aspects of the government's working and it may always happen that a vast segment of the activities remain beyond the scope of the Committee. This limitation is up to some extent inherent in the Committee itself, but it becomes significant in the context of rapidly growing governmental activities. The Committee is criticised on the count that it does not have competent technical assistance as the PAC has in the Comptroller and Auditor-General.[58] To this it may be pointed out that there is a fundamental distinction between the Committees where one is exclusively concerned with problems of accounting, and the other one is concerned with the activities of departments. This in itself indicates that an authority of the stature of the Comptroller and Auditor-General is not essential. Further, as pointed out earlier, the Estimates Committee represents essentially a people's approach. Association of experts in such a context may make the Committee much too dependent on the expert. Such a dependence might make the expert lead the Committee rather than being led by it. A situation of that nature may thwart the very purpose for which the Committee was established. It is, however, significant to note that both the Chairman and some Members of the Committee are persons who

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'Indian Railways' and similar series on other Ministries brought to the public many facts of public activity, which otherwise would not have been known.

[58] *Public Administration*, 1954, Winter, Frank Tribe, "Parliamentary Control of Public Expenditures".

have had administrative experience in one capacity or other.[59] Besides, the competent services provided by the Parliament Secretariat, the experience gained in the study tours, and the evidence of non-official experts ensure that the Committee is adequately staffed with talent and experience and that it receives all the assistance it requires. It is also said that the Committee has been fast assuming the inquisitorial attributes[60] of the Congressional Committee of the USA and that it is becoming a mechanism more of fault finding than of fact finding. It is also argued[61] that the Committee is encroaching on policy matters and that the Committee is arrogating to itself a role, which constitutionally, is that of the House. As indicated earlier, a study of the "implication of the policy" is one of the functions of the Committee and quite often this function is misunderstood. When the Committee suggests an alternative policy, it is only discharging its functions and not exceeding them. In making any study, the Committee maintains the role of a detached Parliamentary Committee and does not attempt to substitute for the executive and its functions. It remains a critic from the beginning to the end. It is also argued that most of the recommendations of the Committee do not have practical value and that they are not accepted by this government. A perusal of the follow-up reports, however, would indicate that the experience in the past is quite contrary to what is alleged.[62] Whatever may be the faults and limitations, the intrinsic merits of the Committee, as an instrument of Parliamentary control, are pre-eminent and cannot be denied.

The Estimates Committee has grown during the last decade from strength to strength. During this period opinions were expressed in favour and against the Estimates Committee. At one stage it was felt that a single Public Expenditure Committee

[59] In fact two of the persons who acted as Chairman of the Estimates Committee, were formerly Ministers in State Governments.

[60] A. K. Chanda, *Indian Administration*, pp. 192-93.

[61] *Ibid.*, Shri Chanda does not substantiate his comments.

[62] It is only in some cases that the government have not been able to implement the recommendations at once. It should, however, be noted that the task of the committee is to influence government's thinking. S. L. Shakdher, "Two Estimates Committees".

in lieu of the Estimates Committee and the Public Accounts Committee, would enable better control by the House.[63] Both the committees have, however, overcome that stage and each in its own field has asserted its rights and contributed more to strengthening the Parliamentary control and it can be said that with all the defects and the limitations these committees serve a better purpose in bringing the administration nearer to the public and vice versa. There would be a vacuum in Parliamentary control if these committees ceased to exist.

[63] This suggestion, obviously inspired by Lord Campions' suggestion to the select committee on procedure in 1946, was made by Shri M. N. Kaul. It was expected that a single committee may prevent overlapping of functions and would ensure better coordination. The suggestion was not implemented. M. N. Kaul, *Conversations on Parliamentary Practice and Procedure*, pp. 48-50. 1950.

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