

PUBLIC ACCOUNTS COMMITTEE

1957-58

(Second Lok Sabha)

EIGHTH REPORT

(Budget Estimates and Financial Control)



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C O R R I G E N D A

Eighth Report of the Public Accounts Committee on Budget Estimates and Financial Control

Cover page, line 1, for 'F.A.C.2' read 'P.A.C. 2'

Page 4, line 18, for 'druing' read 'during'

Page 11, para 18, line 5, for 'Controller' read 'Comptroller'

Page 16, sub-para 2, line 6, for 'break down' read 'breakup'

Page 20, line 14, for 'developed' read 'devolved'

sub-para 8, line 2, for 'Government' read 'Governments'

Page 21, line 1, for 'from' read 'from'

Page 23, line 2, for 'Board' read 'Broad'

Page 29, point V, line 6, for 'equivalent' read 'an equivalent'

Page 30, point VI(ii), line 5, delete 'the' after 'to'

Page 31, sub-para 3, line 1, for 'in' read 'is'

Page 33, para 5, line 4, for 'item' read 'items'

Page 38, line 2, for 'take' read 'taken'

Page 41, Item 4, col. 4, line 3, for 'scheme' read 'schemes'

Page 46, col. 4, line 1, for 'except' read 'expect'

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COMPOSITION OF THE PUBLIC ACCOUNTS
COMMITTEE 1957-58

Shri T. N. Singh—*Chairman*

MEMBERS

2. Shri Ram Subhag Singh
3. Shri N. C. Laskar
4. Shri N. G. Ranga
5. Shri Radhelal Vyas
6. Shri A. C. Guha
7. Shri N. R. M. Swamy
8. Shri Upendranath Barman
9. Shri J. M. Mohamed Imam
10. Shri H. C. Dasappa
- *11. Shrimati Tarkeshwari Sinha
12. Shri Prabhat Kar
13. Shri Jaipal Singh
14. Shri N. Siva Raj
15. Shri Vijayarama Raju
16. Shrimati Pushpalata Das
17. Shri P. T. Leuva
- †18. Shri Shyam Dhar Misra
- †19. Shri R. M. Deshmukh
20. Shri M. Govinda Reddy
21. Shri Jaswant Singh
22. Shri J. V. K. Vallabharao.

SECRETARIAT

1. Shri S. L. Shakhder—*Joint Secretary.*
2. Shri V. Subramanian—*Deputy Secretary.*
3. Shri M. C. Chawla—*Under Secretary.*

*Ceased to be Member of the Committee on appointment as Deputy Minister with effect from the 2nd April, 1958, under Rule 309(1) of the Rules of Procedure and Conduct of Business in Lok Sabha.

†Ceased to be Members of the Committee with effect from the 3rd April, 1958 consequent on retirement from the Rajya Sabha.

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INTRODUCTION

* I, the Chairman of the Public Accounts Committee, having been authorised by the Committee to present the Report on their behalf, present this Eighth Report on "Budget Estimates and Financial Control".

2. The Comptroller and Auditor General formulated certain important proposals on this subject, which were embodied in the "Appendix" to the Audit Report (Civil), 1955— Part I (reproduced in Annexure I of this Report) for consideration by the Committee. The previous Committee which examined that Audit Report in October—November, 1956 could not complete examination of the "Appendix" as the Ministry of Finance asked for time to study the proposals of the Comptroller and Auditor General and place their views thereon before the Committee. A note was received from the Ministry of Finance in July, 1957 (Annexure II) embodying their views on the proposals of the Comptroller and Auditor General. The Secretary, Planning Commission, also sent a note (Annexure III) on some of the proposals in the "Appendix", *ibid.*

* 3. At the sitting of the Committee held on 7th August, 1957, a proposal to set up a Sub-Committee was made and a Sub-Committee consisting of the Chairman and the following Members was appointed on 25th November, 1957, to inquire into this matter:—

1. Shri H. C. Dasappa
2. Shri Radhelal Vyas
3. Shri Prabhat Kar
4. Shri R. M. Deshmukh.

The Sub-Committee which was assisted by the Comptroller and Auditor General had two sittings at which they examined the representatives of the Ministry of Finance and the Secretary, Planning Commission.

4. The Committee have felt for some time that the existing system of budgeting and administrative and financial control are not appropriate in the present context of a planned national economy. Experience of the provisioning and execution of the First and Second Five Year Plans has disclosed certain weaknesses of our system of budgeting and financial control. While a departure from

the well-accepted principle of not providing in the budget for any scheme whose detailed estimates have not been worked out in full may create initial difficulties, it may be possible to introduce a certain amount of flexibility in the present system without jeopardising the efficiency of financial control by Parliament and Government. Ad hoc provisions in the absence of full detailed estimates, cannot be encouraged. Left with a choice between ad hoc provision of this nature and no provision at all in the beginning and supplementary demand late in the year, the Committee have suggested the need of making a small provision enough to cover the expenses of survey, preparation of the detailed estimates and preliminary expenses. Government can, in the course of the year, as a result of this preparatory work come before Parliament for a supplementary grant. This will ensure that no project is taken up for execution unless its details have been worked out fully. Such a procedure should not delay execution of projects as progress will be speedier once details are worked out and the blue print is ready.

5. A statement showing the summary of the principal recommendations of the Committee is as usual at the end of the Report. (Annexure IV.)

6. The Committee place on record their appreciation of the great assistance rendered to them in their work by the Comptroller and Auditor General of India.

NEW DELHI;
The 29th April, 1958.

T. N. SINGH,
Chairman,
Public Accounts Committee.

BUDGET ESTIMATES AND FINANCIAL CONTROL

The Parliament and the Public Accounts Committee alike have expressed from time to time their concern both about the delay in the execution of projects and about the large sums of money allotted to various projects remaining unspent every year. The Committee have drawn attention repeatedly to this recurring feature of Budgetary allotments and expenditure. In their 23rd Report on Civil Accounts the Committee had observed:

“With the Plan as the background, the expenditure budget of the year is merely a projection of the Plan during that year and its execution thus gets added importance. Unless funds are allocated according to needs and allotted funds are utilised properly, the Plan targets will suffer both in quantity and quality. Besides, there is a synchronisation contemplated at different stages in the execution of the various segments of the Plan which imply a balanced selection of programmes for execution each year. In this context, it is needless to emphasize the importance of more realistic estimating and more prudent housekeeping”.

They also invited attention to some specific cases in which over-budgeting and laxity of control over expenditure were noticed. During their examination of the accounts for 1953-54 and 1954-55 large savings were again noticed in the grants relating to a number of Ministries [Vide Chapter II of Seventh Report of Public Accounts Committee (Second Lok Sabha) on Appropriation Accounts (Civil) 1953-54 and 1954-55 and Audit Report (Civil), 1956 Part I.] The Comptroller and Auditor General informed the Committee that there had been no improvement in the position in 1955-56 also.

2. While examining the Civil Accounts for 1953-54 and 1954-55, the Committee were given to understand by the Secretary of the Ministry of Food and Agriculture (Department of Agriculture) that this position was inescapable in the present system of budgeting. Explaining the practice, he stated that the over-all expenditure, both revenue and capital, for the budget year was fixed by the Finance Ministry in consultation with the Planning Commission about six months in advance and the different Ministries were informed of their respective ceilings shortly thereafter. Each Ministry then framed their budget with reference to that ceiling. As it was not possible to get the necessary details of all the schemes the

Ministry had in view for execution in the budget year, *ad hoc* lump provisions had to be made to aggregate to the allotted ceiling.

It should be obvious from the above that *most of the provisions made in the various Demands for Grants are not based on a realistic appraisal of the schemes and their execution possibilities and of the amounts likely to be spent during the year. They are just "guesstimates" and lapse of large funds is thus inherent in the existing procedure.*

3. The Comptroller and Auditor General has observed in the Appendix to the Audit Report (Civil) 1955—Part I that "such lapses of appropriations could be brought within reasonable dimensions by a suitable adjustment in the present basis of compilation of the accounts and other procedural improvements". He has accordingly suggested certain proposals which are dealt with below

4. Proposal (a):

The budget should continue to be compiled on the present basis but should be considered as only the budget plan to give the Parliament a broad picture of the Government's scheme of expenditure. Demands for grants should be based on—

- (i) Standing charges, including maintenance;
- (ii) expenditure on current projects; and
- (iii) a small provision for each new project. Supplementary demands should be presented as and when schemes mature sufficiently and are ready for execution.

In a note furnished by the Ministry of Finance on the Appendix referred to above, it has been observed:

"The Government of India consider that it will not be appropriate to include a token provision in the budget in order to obtain the approval of the Parliament to projects which have not been scrutinised and in regard to which no reasonable estimates of cost are available.

"On the other hand, the commencement of any project of real importance and urgency which could not be worked out in sufficient detail for inclusion in the budget, need not be delayed the moment it is worked out in sufficient detail in the course of the year. The present procedure of obtaining a Supplementary Grant from Parliament or making an advance from the Contingency Fund to the minimum extent necessary to enable immediate commencement of the scheme, will continue to be followed in such cases."

5. In evidence, the representative of the Ministry of Finance observed that when broad details of a project were available and the total cost was known, there was no difficulty in making provision in the budget; where the details were not known, an *ad hoc* provision was made on the advice of the administrative Ministry concerned who were ultimately responsible for the execution of the project. If the amounts provided for were calculated too rigidly and a smaller provision was included, there was the danger that the project might suffer for want of funds later as there could not always be an overall surplus. From this point of view, it was better to have an over-estimate. When his attention was drawn to the statement of the Finance Minister on the floor of the House (on 13th December, 1957) that it was a common practice to put down a token grant for anything new or even for something old, if Government did not have all the detailed data available for the make-up of the provision required, he stated that the observations of the Minister were in regard to *ad hoc* lump sum provisions and not to token grants in respect of new projects. He added that there was no scheme or project which was absolutely new as all of them had been included in the Second Plan and had undergone a measure of scrutiny and details thereof were available with Government. There was, therefore, no question of Government being vague in regard to the provisions to be made for such schemes in the budget.

6. *The Committee are unable to appreciate the stand taken by the Finance Ministry. It will not be correct to hold that simply because a scheme or project had been discussed and incorporated in the Second Plan, the scheme or project had ceased to be new so far as the making of the budget provision and getting Parliament's approval are concerned. There is already case-law governing the principle as to what should constitute a "new service" and how the approval of Parliament should be obtained in such cases. Many a scheme or project might change beyond recognition when it is ready for execution after detailed scrutiny from what it was in its proposal stage. Again, in the process of execution also, changes might be considered necessary involving substantial excesses over the original estimate approved by Parliament or there may be modifications in the scope of the approved programmes. In all such cases, the approval of Parliament for the changes and the increase in outlay should not be taken for granted.*

7. If Parliament is asked to sanction without scrutiny large sums for schemes whose cost is either indefinite or can only be very roughly estimated, Parliamentary control over appropriations becomes unreal. *The Committee consider that the present practice of asking for large appropriations on the basis of mere expectations*

of the Ministries should be discontinued. Approval in such cases should be sought only when the schemes have been prepared in details and accepted after scrutiny by the Finance Ministry. This is a sine qua non of both Parliamentary and executive control. Accordingly, the Committee recommend that in the case of a new project, no provision should be included in the budget estimates placed before Parliament till detailed estimates of the project are ready and certain phases thereof (if the project is a big one) have reached a stage ripe enough to justify its inclusion in the budget estimates. In other words, the Finance Ministry should be satisfied on the basis of details available that there was reasonable expectation of the expenditure materialising to the extent proposed, before sums are provided in the budget estimates. These considerations apply to ad hoc lump provisions also which should not be made in the budget estimates. In short, the budget estimates of a year should comprise only the outlay on standing charges, estimated expenditure on projects in progress, and a small provision for each new scheme or project which is likely to be taken up during the course of that year, but whose details have not been worked out sufficiently and accepted by the Finance Ministry. Simultaneously when seeking Parliament's approval for a small provision in respect of a new scheme, an idea of the approximate total outlay on the scheme should also be placed before Parliament. As and when details of the new scheme or a phase thereof are worked out, Parliament, if in session, should be approached for a supplementary grant; if Parliament is not in session, funds sufficient to cover the immediate expenditure on the scheme may be advanced out of the Contingency Fund and a supplementary grant for the full amount obtained from Parliament at the earliest possible opportunity.

The Committee feel that this arrangement has several advantages. It enables Parliament to have a "preview" of the current and prospective expenditure on such projects well before commitments are made or liabilities incurred. It serves to pinpoint the performance of the Ministry concerned. The fact that full details have been worked out and the Finance Ministry have scrutinised the details would obviate a detailed post-check and scrutiny by Finance and thus save time consuming and lengthy consultations.

This arrangement will bring to the notice of both Parliament and Government prominently, the extent to which a Ministry had been able to undertake specific plans and programmes which that Ministry had included in their estimates. It will enable remedial measures being taken, if necessary, involving changes in personnel and methods of work.

8. An objection may be raised that if the budget estimates are to comprise only provisions as indicated above, it will not give the full picture of expenditure in the budget year and may make the task of "balancing the budget" difficult. While the Committee appreciate the force of this contention, they would point out that it has lost its importance in the context of the Plan when both the total expenditure and resources are assessed for the Plan period and all that is necessary is to keep in view the concept of long-term equilibrium as envisaged in the Plan and determine the detailed pattern of expenditure, continuing and new, by means of the annual budgets. This, the Committee feel, will enable Government to formulate their measures for raising resources during the run of the Plan.

9. Proposal (b):

Financial scrutiny should be in two parts—

- (i) Broad and overall scrutiny located in the Finance Ministry, and
- (ii) Detailed scrutiny, at expert level, located within the administrative Ministries.

Proposal (c):

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)

Proposal (h):

Internal Finance Officers should be associated with the delegation of authority, wherever necessary.

In the note furnished to the Committee, the Ministry of Finance have discussed the merits of this proposal and observed:

"While the objective of the Government of India is that the Indian system of financial advice and control should be ultimately modelled on the U.K. pattern, where there is a financial expert in charge of an internal financial organisation working inside each Ministry, it must be recognised that the shortage of trained finance officers in India and the difference between the U.K. and India in regard to the organisation of the civil services make it necessary to introduce the scheme of appointment of

internal financial advisers in the Ministries of the Government of India only gradually and with suitable adaptations that may be found necessary in the light of actual experience.

In the U.K. one wing of the Treasury is under a very senior civil servant who performs the functions of the Head of the Civil Service. The permanent heads of administrative Ministries in their capacity as Chief Accounting Officers and the internal financial advisers in the Ministries have a close link with the Treasury and the Comptroller and Auditor General. The treasury has also a general responsibility for the efficiency of the machinery of Government."

10. *The Committee consider that this proposal is a corollary of the earlier one, inasmuch as the need for a detailed post-budget financial scrutiny of a project or scheme will disappear if the provision for the project or scheme has been made in the budget estimates only after detailed financial scrutiny. It will also make financial control more effective by directing attention to the efficient economic execution of projects. So long as the provision made in the budget is not exceeded and there is no change in the scope or the total cost of a project, the administrative Ministry should have freedom to incur expenditure without having recourse to consultation with the Ministry of Finance.*

11. The Comptroller and Auditor General informed the Committee that at present not all the projects are scrutinised by Finance in detail before provision therefor is made in the budget and therefore if provision was to be made only after prior scrutiny, it would, according to the Ministry of Finance, retard the implementation of the Plan by a year or two, the time that would be taken by the Ministries to get all essential details of their schemes for submission to Finance and their scrutiny.

12. *The Committee do not share the misgivings of the Finance Ministry. They consider that the delegation of these powers is very essential for the speedy and economic execution of the projects. The change-over will introduce flexibility and order in the execution of the Plan projects which is very desirable if wasteful and infructuous expenditure is to be avoided. They feel that interchange of officers between the Finance and administrative Ministries should be adopted as an integral part of the programme of training so that a corps of officers who are competent both in administrative and financial matters is created.*

Delegation of powers to the administrative Ministries giving them freedom to incur expenditure within the approved budget raises two questions viz., first the powers of reappropriation, and secondly the powers over establishment expenditure. With regard to powers of reappropriation, the Committee understand that at present Ministries have wide powers to reappropriate funds within the Grant 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 and there will thus be hardly any scope for reappropriation, the Committee feel that effective financial control cannot be exercised unless the Finance Ministry are 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.

The Committee consider, however, that it is necessary and desirable in the interests of uniformity and efficiency that the Finance Ministry should continue to control pay scales, financial and service rules and regulations. All cases involving a departure from rules and regulations or prescribed scales of pay or strength of posts in the approved budget estimates should continue to attract the sanction of the Ministry of Finance.

13. Proposal (g):

There should be deconcentration of authority in favour of Executive and Project Officers at all levels appropriate to their responsibilities and status.

Proposal (i):

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.

A readjustment in the relations between Finance and the administrative Ministries, as suggested in para 12 above, will not, by itself, facilitate the speedy execution of the projects and programmes. It should be accompanied by delegation of powers by the administrative Ministries to lower officers, commensurate with their status and responsibilities. As suggested by the Comptroller and Auditor General, every officer with delegated financial powers should prepare a monthly schedule of sanctions for submission to

the authority immediately superior to him. This would provide for a regular scrutiny of sanctions.

It will no doubt be necessary in the earlier stages to watch whether the delegated powers have been properly exercised by the officers concerned. Cases of improper exercise, arising out of inexperience or errors of judgment, should be distinguished from those due to wilful negligence and should be dealt with suitably. The Committee have come across such cases in the course of their examination of the accounts in the past and in some cases they had occasion to criticise the failure to take necessary disciplinary action. It is their considered opinion that deterrent punishment should be meted out quickly to officers guilty of wilful negligence or gross dereliction of duty.

14. Proposal (c):

..... Technical advice should be made available by suitable adjustment in the strength of the present Industrial Advisory and Development Wing under the administrative control of the Commerce and Industry Ministry. This organisation should be treated as a common pool for purpose of giving technical advice to the administrative Ministries.

The Committee are glad to note that Government are alive to the need for competent technical advice to the administrative Ministries so that the project estimates and a phased plan of expenditure could be prepared in collaboration with the technical experts. But there seems to be a tendency on the part of every Ministry to have their own technical advisers. While the Committee appreciate the need for competent and adequate technical staff in the Ministries for a thorough scrutiny of the projects and programmes, they cannot regard with equanimity too much concentration of technical personnel in the Secretariat, when there is a crying demand for such personnel for field of work. This question of deployment of technical personnel requires careful thought and the Committee trust that Government will address themselves to it.

15. Proposal (d):

The Planning Commission should fulfil its responsibility of reviewing quarterly, the progress of projects included in the Plan, in consultation with the administrative Ministries concerned. Default or failure should be brought to the notice of the Chairman, Planning Commission, for such action as he may consider appropriate.

Proposal (e):

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 specific number of such schemes, upto an equivalent amount. Programme advisers should be required to report that the remaining schemes have been undertaken by the States out of their own resources.

Proposal (f):

Detailed scrutiny of States' schemes should be discarded. The examination by the Centre should be confined to—

- (i) a broad administrative scrutiny by the Ministry concerned and the Planning Commission, to ensure that they fall within the framework of the Plan, and
- (ii) a broad financial review based, mainly, on the certificate of the States Finance Department, that the schemes have been drawn up in accordance with standards, schedule or rates, etc. prevailing in the States and as are applicable to States' schemes.

These proposals relate to the Planning Commission and the Secretary of the Commission has sent a note thereon to the Committee (Annexure III). It has been stated in that note that from several aspects the situation has altered since the Comptroller and Auditor General's examination as would be observed from the relevant extracts therefrom reproduced below:—

“The Planning Commission, in consultation with the Central Ministries and the States, now prepares annual plans well in advance of the annual budgets, both at the Centre and in the States. Projects and programmes to be included in the annual plans are determined after a careful review of progress and in relation to an overall view of resources and the outlays to be undertaken. Technical examination is undertaken jointly by the Planning Commission, the Ministries and the States in working groups set up by the Planning Commission. The resources of each State are assessed in detail. The conclusions reached and decisions as to further measures to be taken have in each case the sanction of the Planning Commission and the State Government which is invariably represented by the Chief Minister and the Finance Minister.

“The Planning Commission brings out an annual Progress Report. On all important projects or schemes fairly

detailed information is obtained in respect of (a) programme of construction work, (b) programme of output/benefits, (c) key materials and equipment, (d) manpower requirements, and (e) cost estimates and expenditure. On other schemes, information is obtained in summary form. On about 40 major projects, monthly reports are obtained. Arrangements have also been made for securing quarterly reviews from the Ministries and the States, in which they are expected to draw attention to schemes which are not going forward in accordance with the annual plan and others which are making satisfactory progress. The main purpose of these reviews is to bring to light bottle-necks, difficulties etc., which may be experienced and to assist in their early removal. The Planning Commission has frequent reviews with the Ministries on several major programmes. The Planning Commission's Advisers, Programme Administration visit the States from time to time, sometimes accompanied also by technical officers from the Ministries and from the Divisions of the Commission. Several States have also been visited by Members of the Planning Commission.

“Examination of States' schemes is undertaken on a broad basis. Where close technical scrutiny is called for, the common course is to set up special technical committees. This has been done in a number of cases. In each such case the Planning Commission secures the close association of the Ministry and the State concerned and sometimes outside experts are also obtained. For schemes included in the plans of States, it is intended to dispense with detailed financial and administrative scrutiny and sanction at the centre, and to leave them to the administrative departments and the Finance Departments.....”

16. The Committee pointed out that the procedure put into effect by the Planning Commission appeared to be somewhat rigid and might create difficulties in the utilisation by the States of the funds placed at their disposal by the Central Government. The Secretary, Planning Commission observed that in order to introduce the necessary flexibility, allied schemes had been classified into groups which would enable the State Governments to direct funds from one scheme to another within a group. The Committee are doubtful as to whether the system of grouping would solve the difficulty they had in mind inasmuch as if the schemes within a group lay in different Demands for Grants, reappropriation of funds between those schemes would mean reappropriation from one Demand to another, which would require legislative approval. The Committee were

informed that this aspect was under the consideration of the Planning Commission now and they expected to arrive at a decision in consultation with the Finance Ministry. It was added that one way to get over this difficulty was to group the schemes under developmental heads. By delegating more powers to their Heads of Departments, the States could make necessary reappropriation without referring to the Central Government or the Planning Commission. *The Committee would like to be informed of the procedure in this connection when laid down.*

17. As regards the scrutiny of the various schemes of the States by the Planning Commission with a view to fixing the quantum of assistance, the Committee enquired whether the State Governments furnished the complete details of the schemes for approval by the Commission. They were informed that, generally speaking, the States had worked out the details of all the schemes now, although at the time of formulation of the Second Plan, only broad details were available. *The Committee were doubtful whether approval by the Planning Commission of the details of the individual State schemes was necessary when the schemes in question had already been approved while formulating the Plan and determining the pattern of assistance. In their opinion, as the States are the executors of those schemes, the Finance Departments of the States will certainly ensure that the schemes are executed efficiently and economically. This will fasten responsibility on the Finance Departments in the States and will result in greater cooperation and speedy execution of the Plan Projects.*

CENTRAL ASSISTANCE TO STATES

18. The Committee next examined the pattern of Central assistance. Central assistance in respect of certain projects is made conditional upon an equivalent amount being found by the State Governments. Further, the matching grants have to be drawn on a recoupment principle. They were informed by the Comptroller and Auditor General that the percentage of savings in the Civil Capital Grants in 1953-54, 1954-55 and 1955-56 were 49.25, 41.50 and 41.12 respectively. A major part of the saving relates to the assisted State schemes. The Committee enquired whether the large percentage of non-utilisation of the assistance was due to the inherent difficulties which State Governments had in fulfilling the above conditions. *They were informed that as a result of the recommendations of the Second Finance Commission, the States were financially better off and as such they could not put forth the plea of lack of resources. The Committee could not accept this as a valid argument. Even granting that the financial position of the States has improved after*

the award of the Second Finance Commission, it will be too much to expect the States whose finances suffer from certain limitations to receive the matching grants on a recoupment basis. The Committee feel that in the first year the Central grants towards schemes approved for matching grants 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. In subsequent years, the grants to be made should be regulated with reference to the State's performance in the previous year in fulfilling its own part of the programme as contemplated while making the grant. With the resources ready in hand, the State Governments would be more keen to implement the schemes as the grant for the following year is conditional on satisfactory performance. The Committee would urge that this procedure may be put into effect immediately in respect of new schemes eligible for matching grants. A review of the schemes already in execution may also be conducted in order to see how far they can be fitted into this pattern of assistance.

19. Before concluding this Report, the Committee would like to state that the above recommendations are in respect of expenditure on Government Departments only. State Corporations and State Undertakings formed as companies belong to a different class by themselves and the question of Parliamentary control over their expenditure is an intricate subject requiring a separate and careful study which the Committee propose to take up in due course.

T. N. SINGH,

Chairman,

Public Accounts Committee.

NEW DELHI;

The 29th April, 1958.

ANNEXURE I

AUDIT REPORT (CIVIL), 1955—PART I

APPENDIX

Note by the Comptroller and Auditor General on Estimates and Financial Control.

The delay in the execution of projects and the surrender of funds are two separate but inter-related issues. Unspent appropriations may result in immobilising resources which could, with advantage, be utilised on projects other than those included in the year's budget estimates, or in accelerating some projects capable of more speedy execution. Such lapses of appropriations could be brought within reasonable dimensions by a suitable adjustment in the present basis of compilation of the estimates and other procedural improvements. The delay in the execution of projects is, however, more fundamental and requires a more radical approach for solution. This note is an attempt to analyse and assess the causes and to suggest corrective measures.

It is necessary, first, to examine whether the present basis of compilation takes account of the substantial changes in the pattern and scope of governmental expenditure and of the dilution in technical and administrative competence in drawing up estimates and in making assessments of annual spending capacity.

The three ingredients of the departmental budgets are:—

- (a) standing charges, including maintenance;
- (b) expenditure on schemes under execution; and
- (c) expenditure on new schemes.

While the framing of estimates of standing charges should present no difficulty, and the expenditure on current projects could also be estimated with a reasonable degree of accuracy with reference to the stage reached in the assembly of equipment and material, mobilisation of man-power and past experience of spending capacity; the preparation of estimates on new projects at the time of their inclusion in the budget proves, in many cases, to be difficult. Under present procedure, Ministries are required to submit a pro-forma of their requirements of finance on capital projects to the Finance Ministry sometime in October for the ensuing financial year. These

demands are examined by Finance, in collaboration with the Planning Commission and in consultation with the Ministries concerned, where necessary, and priorities are agreed and arranged as a prelude to allocation of available resources between the competing demands. In regard to new projects, the estimates given are often based on mere expectations, and sometimes, on nothing more concrete and positive. Even when agreements of technical assistance have been concluded, it is often difficult to project the expenditure in a budget year with a reasonable degree of accuracy; but nevertheless, a budget provision has to be made, if the project is to be taken in hand, when it matures. Lapses of allotments are thus inherent in the present make-up of the budget. Over-estimation of spending capacity, excessive concentration of financial authority and the adoption of impracticable principles, particularly, in the case of centrally assisted State projects, are also major contributory factors. The cumulative effect of all these is reflected in wide variations between actuals and estimates.

A modification of the budgetary procedure might partially rectify the position. While departmental estimates should continue to be prepared and consolidated after financial scrutiny and acceptance as at present, such a statement should be treated as a budget plan—a segment of the overall plan. Demands for grants should be based on administrative charges and expenditure on current projects only. A small provision for each new scheme need only be made to obtain parliamentary approval for their inclusion. As and when a new scheme matures sufficiently and estimates are prepared in sufficient details, a supplementary vote should be obtained from the Parliament, if in session; otherwise, allotment of funds should be made out of the Contingency Fund, sufficient to cover the immediate expenditure on the project, until a supplementary grant for the full amount can be obtained from the Parliament. This arrangement will, on the one hand, introduce more realism in budgeting, and, on the other, provide a mechanism by which Parliament and Government will be enabled to keep a watch on the performance of the Ministries responsible for the projects. The failure of the Ministries will, thus, be pin-pointed and will give Government an opportunity of considering administrative and other changes, if it becomes evident that there is a lack of competence or lack of faith in the programmes.

A possible objection to the budgeting methods suggested is that it would not enable the Finance Minister to get a reasonably accurate picture of expenditure in a financial year and would thus make it difficult for him to formulate or adjust his taxation proposals. This criticism would be valid if the annual budgets are regarded in isolation. This was certainly so before the Five Year Plan came

into operation. In view of the Plan, however, which, in fact, provides a comprehensive expenditure budget for the entire plan period, the expenditure scheme in any particular year loses much of its original significance. The amount of expenditure for the plan period is now known and an overall budget plan can be formulated to form the basis of taxation policy during this period. In any event, the budget plan would continue to be prepared as at present. This will enable the Finance Minister to formulate his taxation proposals. The presentation of this plan to the Parliament will provide the required opportunity to the latter to discuss and approve the Finance Minister's scheme of expenditure. Demands for grants will, however, be restricted in the manner outlined above. While the order of anticipated expenditure on new schemes will be indicated in the budget plan, required appropriations will be asked for in the form of supplementary demands as and when required.

While this modification will ensure that the annual appropriations on new projects will reflect more accurately the actual requirements of finance, it will not, by itself, secure that in respect of either these or the current projects, the estimates will be better or more accurately compiled. The inability of an administrative Ministry to spend up to the budgetary demands arises, perhaps, not so much out of any inadequacy in the programme of implementation, as the tendency to inflate, sometimes, deliberately, the budget allotments asked for by the Ministry. This tendency to over-estimate spending capacity arises from two causes:—

- (a) It is assumed that Finance will reduce the allotment and, therefore, it is better to ask for more;

and

- (b) The inclusion of schemes and large provisions therefor, gives politically and administratively an impression of efficiency and energy. This impression is not dissipated as the lapses do not come in for criticism by the Public Accounts Committee until after a considerable time-lag, and, perhaps, never for corrective action. The Ministry of Finance are often compelled, in the face of political and administrative pressure, to make allotments, which, they are conscious, will not be utilised during the financial year in question. The result is that comparatively large amounts remain unspent and have to be surrendered.

To the extent political considerations affect (b), the remedy will have to be political in character. Changes in mechanism or financial procedure will not help. It is, however, possible to eliminate largely

the first cause and also the second, to the extent it is administrative, by suitable changes in the present relations between the administrative and Finance Ministries. It is necessary, therefore, to examine broadly the relations which now subsist between the Finance and the administrative Ministries. The administrative Ministries are responsible for drawing up their plans and estimates with such resources of financial experience and technical advice as are available to them within the Ministry. It frequently happens that schemes formulated under these conditions are incomplete in details. The Finance Ministry are responsible not only for allotment of funds, but also for satisfying themselves in sufficient details that the scheme for which the allotments are made have no undesirable features from the financial point of view, that they are sound and fulfil their objectives. As this scrutiny is not possible, in the first instance, when the scheme is accepted for inclusion in the budget, the administrative Ministry have, at various stages and in varying measures of detail, to approach the Finance Ministry again and again for sanctions. The result of all this is that the implementation of the schemes is often badly held up and the appropriation given on the basis of the tentative scheme lapses. If financial examination could be conducted in broad terms, it would be unexceptionable. But the scrutiny, which goes into details regarding the level of officers proposed, the facilities to be created, particularly for research, standardisation, etc., which are not regarded as strictly relevant to the project, and the standards for buildings and equipment, etc., generates unnecessary heat and controversy, which results in avoidable delay in the execution of the projects. The system is wasteful because schemes are at present drawn up without sufficient technical financial advice and are, therefore, from that point of view, immature. It is wasteful as it encourages irresponsibility because the spending Ministries tend to feel that they should overpitch their demands, which, in any case, would be whittled down by the Finance Ministry. It is also wasteful as any delay in obtaining sanctions adds to the cost of the project, the overheads and standing charges during this period of comparative inactivity.

It would expedite matters if, at the stage of obtaining Finance Ministry's approval, an administrative Ministry is not required to attempt complete details of the scheme, but furnish sufficient details, to enable the Finance Ministry to take a view of the scheme as a whole and its cost. Thus it may be enough if the total cost of a scheme and its breakdown by categories of expenditure, such as,

- (i) staff and allowances;
- (ii) works outlay; and
- (iii) contingencies,

is submitted for financial approval. The Finance Ministry could then sanction the scheme on that basis, after such examination as is considered sufficient and appropriate, and it should, thereafter, be for the administrative Ministry to sanction further details both of staff and of expenditure, subject to the ceiling and to the provision for particular categories included in the sanctioned scheme. In other words, the suggestion implies a division and demarcation of the financial responsibility between the Finance and the administrative Ministries. Overall financial control, with reference to financial policy and principles, should continue to vest in the Finance Ministry, but detailed scrutiny of proposals at expert level should vest in the administrative Ministry by installing "balancing personnel" within the Ministry.

This conception of administrative responsibility could be implemented only if this advice and assistance flow from within the Ministry, and thus be effective. At present, external financial advisers cannot become familiar with the peculiar difficulties which arise in the formulation and execution of schemes. Without a full realisation of these difficulties, external advice tends to become unreal and detached. Authority is thus sought to be assumed by Finance, which pertains to operating Ministries, without responsibility for the consequences. This unnatural divorce of authority from responsibility is the malaise of our administration. It is essential that there must be a complete identity of interests, namely, the speedy execution of the scheme with due regard to economy and efficiency. With the development of a system of internal financial advice, financial consciousness will grow at all levels in the spending Ministries. To that extent, demands for allotments would be more realistic. The installation of Finance Officers in the administrative Ministries at the appropriate levels will also remove the present lacuna in control being operative only until the initiation of a scheme. It is equally, if not more, important that there should be arrangements for a continuous review of progress of expenditure and, therefore, of the project. The Finance Officers should be drawn from a panel of officers with financial experience as approved by the Finance Minister and would be interchangeable, at suitable intervals, between the Finance and other Ministries. This will also assist the building up of a corps of officers who could fill both administrative and financial posts with equal facility.

The second essential is to provide the Ministries with competent technical advice, so that there may be a reasonable and accurate assessment of spending capacity. Perhaps, the industrial advisory set-up and the Development Wing in the Commerce and Industry

Ministry could be reorganised and equipped to provide all the Ministries with technical advice. The Planning Commission has also at present some technical staff to scrutinize the projects from this point of view. It might be prudent that when a project study, together with the estimates and a phased plan of expenditure, is prepared in a Ministry, in collaboration with its internal finance officers and technical experts and is transmitted to the Finance Ministry, to get this examined also by the technical experts of the Planning Commission, where necessary, as an independent check and then accord its sanction and make budget provision. Once this has been done, further responsibility will devolve on the administrative Ministries which will refer back to Finance only if there is any appreciable change in the scope of the schemes or if the provision made is likely to be exceeded by more than 5%. Under this scheme of things, estimates will be more realistic, thus obviating the detailed check to which they are now subjected in the Finance Ministry. Financial scrutiny of schemes prepared on the above basis should be appropriately discharged by senior Finance Officers who would seek clarification and get disputed points settled in discussion. This will not only make for speed, but also provide for consideration of schemes in the Finance Ministry by senior officers vested with wider discretion and with greater flexibility of mind. Finance Ministry will continue to be responsible for rules and regulations and for observance of uniformity in the scales of pay and allowances and other conditions of service throughout the structure of Government machinery. If it is proposed to give any special pay to any officer or to create posts on special scales, the concurrence of the establishment divisions will be necessary. Subject to the observance of these principles, the delegation of financial authority should be adequate to enable the Ministries to create posts up to and including Under Secretaries, provided, of course, the budget allotment is not exceeded.

While the revised procedure will make budgeting more realistic and avoid funds being unnecessarily tied up in projects on which they cannot be spent in the budget period, it is necessary to consider what steps should be initiated to ensure that projects get executed according to the provisions in the Five Year Plan. The responsibility for watching the implementation of the Plan vests, at present, in the Planning Commission. In fact, it should form the most important function of the Commission outside the sphere of planning itself. Nevertheless, in actual practice, 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. The emphasis on the Commission's work should, therefore, be shifted to provide that, as a matter of routine, it reviews the work of

the Ministries to ensure that they are coming up with schemes, obtaining sanctions to projects and implementing them according to the time-schedule prescribed in the Plan. A strict watch on the progress of Central Government projects and regular reports are essential if the anticipated progress of the Plan is to be maintained. An important measure of the progress of a scheme is the amount of expenditure incurred. The evaluation in terms of money should be at regular intervals, say, every quarter of a year. Such frequent reviews of progress, in terms of expenditure, should apart from ensuring the general progress of the 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. This will also provide material for the Finance Ministry to assess the technical and financial competence of the Ministries and to base their future allotment on their performance.

The difficulty is this that the actual expenditure is not often ascertainable until long after the amount has been spent. This is particularly so, where the expenditure is incurred not directly by a Ministry, but indirectly through some other agency. In such cases, there is often a considerable time-lag between the issue of sanctions by the Ministry and the actual utilisation of the sanctioned amount by the agency concerned. Unless there is a special machinery within the Ministry to watch the expenditure and the progress of the scheme as implemented by the agency, the Ministry has no means of judging, merely by the fact of financial sanction, the progress on the project. This machinery can most appropriately be furnished by the proposed Finance Officer of the Ministry, who would keep a constant personal watch on the progress of the scheme and devise such technique as is best suited to enable him to watch the progress of expenditure. The progressive extension of the accepted scheme of decentralisation of accounting responsibilities Ministry-wise, should provide ultimately the necessary mechanism for effecting this control.

Considerable improvement in the movement of the agencies employed, such as the C.P.W.D., and D.G.S. & D., is a necessary corollary for accelerating the tempo of execution. But this is a problem in itself, requiring special treatment.

A readjustment in the relations between Finance and other Administrative Ministries will not, by itself, secure any acceleration of the plans and programmes unless this was accompanied by delegation of authority by the administrative Ministries to all levels of executive officers, commensurate with their status and responsibilities. The heads of departments and other executive officers feel

frustrated and hampered now as there has not been sufficient delegation of authority. Even in the exercise of delegated powers, there is too much interference in their work, which undermines their authority and, therefore, effectiveness. It is axiomatic that, if the execution of plans and programmes are to proceed according to schedule, there should be appropriate delegation of authority with reference to the scope of the projects. In the case of bigger projects, the delegation should be accompanied by the provision of suitable internal Finance Officers. In the case of existing delegations such as has been made to the Chief Engineer and other officers of the C.P.W.D. and other departmental heads—a review should be immediately undertaken, to take account of—

- (a) the loss in the purchasing power of the rupee; and
- (b) the increased workload which has developed upon these officers.

The scheme of providing internal finance officers should be extended over as wide a field as is possible and necessary. The time-consuming vertical movement, up and down, of files dealing with projects and sanctions will, thus, be appreciably reduced. Every officer with delegated financial powers should prepare a monthly schedule of sanctions for submission to the authority immediately superior to him. This would provide for a regular scrutiny of sanctions. Where the delegated powers have not been properly exercised, these might be suitably adjusted. Other corrective measures should also be taken, where necessary.

In addition to the Central projects, the assisted projects of the State Government also figure in the Central budget, to the extent of assistance to be given, whether in the shape of grants and/or loans. These allotments remain frequently unutilized by the States and contribute towards widening the gap between appropriation and utilisation of funds; and, what is more important, retards the progress of the plan. The assisted schemes of the State Governments fall into three categories:—

- (i) Major projects, mainly irrigation and power;
- (ii) Grow More Food schemes and other social, health and educational schemes; and
- (iii) Schemes covered by block grants.

The major schemes present no difficulty. Review of progress should be conducted in the same manner as for schemes directly under the Centre. The technical officers of the Ministry concerned should

From time to time, review the progress of these schemes and report to the Ministry. Allotment of funds could be regulated with reference to these reports, and action initiated for the execution of the plan according to programme. Difficulty, however, arises in respect of schemes included in (ii) above.

The plan assigns complementary roles to the Union and State Governments, and its fulfilment depends on necessary resources being provided both by the Centre as well as the States. To ensure adequate financial provision by the States towards the implementation of schemes, a system of matching grants has been devised. This system is based on the assumption that resources from the States, to the extent required, will be available. The assessment of available resources is a difficult and complicated process and can be vitiated by unforeseen factors which affect either the receipts or the expenditure of the State, or both. To preserve the basic conception of the plan of allocation of resources, Central aid in respect of these schemes is made conditional upon an equivalent amount being found by the State Governments. Apart from the inherent difficulties which State Governments have in fulfilling this condition, in view of the limited and inexpandable nature of their resources, this condition often causes delay in the implementation of the scheme. Further, the matching grants have to be drawn on a recoupment principle. The State has to finance the entire expenditure out of its resources in the first instance, and then obtain recoupment from the Accountant General, to the extent of Central assistance. If the State has not the resources available, the projects get held up. Any delay in recoupment from the Accounts Offices, similarly, impairs the States' capacity to undertake other projects. It is becoming evident that, whatever may be the applicability and suitability of the matching principle elsewhere, it is retarding the fulfilment of the plan under Indian conditions. If the Centre accepts responsibility, say, for 50% of the expenditure on all schemes of social service in a particular State, it will yield better results if Centre were to accept full financial liability for 50% of the schemes, on the understanding that the State concerned will finance fully the remaining 50% of the schemes. An annual review by the Programme Advisers will soon bring to the notice of the Centre, whether the State concerned is making its complementary contribution towards the fulfilment of the plan. Necessary corrective action could then be taken. It is suggested that, on this basis, we would achieve something worthwhile. At worst, there will be a contraction of the plan, but this is certainly to be preferred to the plan remaining substantially unfulfilled. It can also be expected that public opinion in the States would force the State Governments to play their assign-

ed roles. Under the present system, where Centre accepts 50% of liability on all the approved schemes, work starts perhaps on all of them, but progress is disappointingly slow, even halted, because of lack of resources. There is the attendant risk of Centre's financial liability being substantially increased if the projects are to be completed. In some instances, certain amount of expenditure incurred becomes infructuous, as further resources are not available. For example, work on a road might be held up after the earth-work has been completed. If monsoon intervenes, the entire expenditure might well become infructuous. Such illustrations could easily be multiplied. Politically also, 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.

In respect of these State schemes, there is excessive concentration of central control. Consequently, there is lack of adequate local planning, hampering the growth of responsibility. It is suggested, therefore, that the States should be required to submit their schemes in broad details, which should be examined by the administrative Ministry concerned in collaboration with the Planning Commission for certification that the schemes form an integral part of the plan. Thereafter, financial provision should be made after a broad review, but mainly on a certificate to be given by the State Finance Department that the schemes have been drawn up in accordance with the standards, schedule of rates, etc., prevailing in the States and as are applicable to State schemes. The Programme Advisers should report in due course on the performance of the schemes, both on the Centrally financed projects as well as the projects for which full financial responsibility has devolved upon the States.

To summarise the proposals:

- (a) the budget should continue to be compiled on the present basis but should be considered as only the budget plan to give the Parliament a broad picture of the Government's scheme of expenditure. Demands for grants should be based on—
 - (i) standing charges, including maintenance;
 - (ii) expenditure on current projects; and
 - (iii) a small provision for each new project. Supplementary demands should be presented as and when schemes mature sufficiently and are ready for execution.

- (b) Financial scrutiny should be in two parts—
- (i) Board and overall scrutiny located in the Finance Ministry, and
 - (ii) Detailed scrutiny, at expert level, located within the administrative Ministries.
- (c) 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). Technical advice should be made available by suitable adjustment in the strength of the present Industrial Advisory and Development Wing under the administrative control of the Commerce and Industry Ministry. The organisation should be treated as a common pool for purposes of giving technical advice to the administrative Ministries.
- (d) The Planning Commission should fulfil its responsibility of reviewing quarterly, the progress of projects included in the Plan, in consultation with the administrative Ministries concerned. Default or failure should be brought to the notice of the Chairman, Planning Commission, for such action as he may consider appropriate.
- (e) 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 such schemes, up to an equivalent amount. Programme Advisers should be required to report that the remaining schemes have been undertaken by the States out of their own resources.
- (f) Detailed scrutiny of States' schemes should be discarded. The examination by the Centre should be confined to—
- (i) a broad administrative scrutiny by the Ministry concerned and the Planning Commission, to ensure that they fall within the framework of the Plan, and
 - (ii) a broad financial review based, mainly, on the certificate of the States Finance Department, that the schemes have been drawn up in accordance with standards, schedule or rates, etc., prevailing in the States and as are applicable to States' schemes.
- (g) There should be de-concentration of authority in favour of Executive and Project Officers at all levels appropriate to their responsibilities and status.

- (h) Internal Finance Officers should be associated with the delegation of authority, wherever necessary.
- (i) 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. .

ANNEXURE II
MINISTRY OF FINANCE
DEPARTMENT OF EXPENDITURE

REF: *Note by the Comptroller & Auditor General on Estimates and Financial Control reproduced in the Appendix to the Audit Report (Civil) 1955, Part I (Estimates and Financial Control)*

The Government of India's views and decisions on the suggestions relating to "Estimates and Financial Control" contained in the Appendix to Audit Report (Civil) 1955 Part I are indicated below:—

I. Proposal (a):—

The budget should continue to be compiled on the present basis but should be considered as only the budget plan to give the Parliament a broad picture of the Government's scheme of expenditure. Demands for grants should be based on—

- (i) standing charges, including maintenance;
- (ii) expenditure on current projects; and
- (iii) a small provision for each new project. Supplementary demands should be presented as and when schemes mature sufficiently and are ready for execution.

The main departure from the existing procedure proposed by the Comptroller & Auditor General relates to the inclusion of a token provision in the budget for each new project. The suggestion is that Parliamentary approval for each new scheme may be obtained by including only a small provision in the budget and that as and when estimates are prepared in sufficient detail, a supplementary vote should be obtained from Parliament if it is in Session, otherwise, an allotment of funds should be made out of the Contingency Fund to cover the immediate expenditure on the project until a supplementary grant for the full amount can be obtained from the Parliament.

The Government of India consider that it will not be appropriate to include a token provision in the budget in order to obtain the approval of the Parliament to projects which have not been scrutinised and in regard to which no reasonable estimates of cost are available.

On the other hand, the commencement of any project of real importance and urgency which could not be worked out in sufficient detail for inclusion in the budget, need not be delayed the moment it is worked out in sufficient detail in the course of the year. The present procedure of obtaining a Supplementary Grant from Parliament or making an advance from the Contingency Fund to the minimum extent necessary to enable immediate commencement of the scheme, will continue to be followed in such cases.

Parliament must be given the best financial estimate that is possible in the circumstances and the lapsing of funds provided on this basis need not necessarily be treated as grave irregularities in the case of large projects. The delays in the execution of projects do not really arise from the defects in budgeting procedure and remedial action should be taken by ensuring better planning and estimating, before budget sanction is accorded and by providing adequate administrative arrangements to ensure speedy execution, thereafter.

In this connection a copy of a circular letter (No. 2375/SF/56, dated 24th September 1956) which was addressed to Secretaries of the administrative Ministries in connection with the preparation of the budget estimates for 1957-58 is enclosed (as Annexure II-A to this Note) for information of the Committee.

II. *Proposal (b):*

Financial scrutiny should be in two parts—

- (i) Broad and overall scrutiny located in the Finance Ministry, and
- (ii) Detailed scrutiny, at expert level, located within the administrative Ministries.

III. *Proposal (c):*

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)

and

Proposal (h):

Internal Finance Officers should be associated with the delegation of authority, wherever necessary.

The object of these proposals is to enable the administrative Ministries to draw up their plans and estimates with adequate internal financial advice and thereby avoid (i) delays in obtaining sanctions and (ii) irresponsible estimating and wasteful spending. The development of a system of internal finance will, it has been suggested, enable the growth of financial consciousness at all levels in the spending Ministries and facilitate a continuous review of the progress of expenditure on each project.

There can be no two opinions on the point that financial and budgetary competence must be developed in the administrative Ministries. While the objective of the Government of India is that the Indian system of financial advice and control should be ultimately modelled on the U.K. pattern, where there is a financial expert in charge of an internal financial organisation working inside each Ministry, it must be recognised that the shortage of trained finance officers in India and the difference between the U.K. and India in regard to the organisation of the civil services make it necessary to introduce the scheme of appointment of internal financial advisers in the Ministries of the Government of India only gradually and with suitable adaptations that may be found necessary in the light of actual experience.

In the U.K. one wing of the Treasury is under a very senior civil servant who performs the functions of the Head of the Civil Service. The permanent heads of administrative Ministries in their capacity as Chief Accounting Officers and the internal financial advisers in the Ministries have a close link with the Treasury and the Comptroller & Auditor General. The Treasury has also a general responsibility for the efficiency of the machinery of Government.

Conditions in India at present are somewhat different and while it is accepted that internal competence must be developed in the Ministries as much as possible, (for example, by the exchange of officers between Finance and administrative Ministries) 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 a manner which will enable him to discharge adequately his responsibilities to the Cabinet and to Parliament.

The Finance Minister has recently examined and reorganised the arrangements for rendering financial advice to the administrative Ministries, keeping in view the need for expedition and efficiency. A certain number of senior officers will deal centrally with important matters such as work relating to negotiation of important contracts and agreements with foreign firms or Governments; the representation of the Finance Ministry on the different Boards, Companies and Corporations has also been reviewed to secure the posting of officers who would be acquainted with the work of allied organisations and would deal with financial proposals relating to the concerned projects. So far as the day to day work of the Ministries is concerned, an officer of the status of Under Secretary or Deputy Secretary depending upon the nature of the work, has been posted as Attached Financial Adviser to each Ministry or Organisation. The Attached Financial Adviser will be available to the

administrative Ministry for consultation and discussion from the earliest stages of the formulation of a scheme or project. It is also the intention that he should, in due course, be able to assist the Ministries in the exercise of control over the progress of expenditure.

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. There will also be provision for cases of disagreement on major questions of principle or policy between any such Financial Adviser and the head of the Organisation concerned to be referred to the Finance Minister for a decision.

It is expected that the arrangements described above will gradually result in the training up of a larger number of personnel who could be utilised for the building up of an internal financial organisation within each Ministry.

III. Proposal (c).

.....Technical advice should be made available by suitable adjustment in the strength of the present Industrial Advisory and Development Wing under the administrative control of the Commerce and Industry Ministry. This organisation should be treated as a common pool for purposes of giving technical advice to the administrative Ministries.

The main object underlying this proposal is to ensure the availability of competent technical advice to the administrative Ministries so that project estimates and a phased plan of expenditure could be prepared in collaboration with technical experts.

The Development Wing as at present organised in the Ministry of Heavy Industries is already making available the services, of its technical officers to other Ministries, departments and organisations of Government. The Chief Industrial Adviser, for instance, was closely associated with the planning of many of the projects administered by the former Ministry of Production. Apart from the direct association of particular officers of the Development Wing with specific projects under the control of their Ministries, the advice of the Development Wing as a whole is available to and is drawn upon by different Ministries and authorities in connection with the special problems which might arise from time to time. The Government of India recognise (i) that where any particular Ministry

has a large number of technical problems of its own, it must have separate technical staff who should however be required to maintain close liaison with the Development Wing of the Ministry of Heavy Industries and (ii) that in other cases the Development Wing of the Ministry of Heavy Industries must be strengthened to the extent necessary instead of creating posts elsewhere.

IV. *Proposal (d)*.

The Planning Commission should fulfil its responsibility of reviewing quarterly, the progress of projects included in the Plan, in consultation with the administrative Ministries concerned. Default or failure should be brought to the notice of the Chairman, Planning Commission, for such action as he may consider appropriate.

At present the Planning Commission receives half-yearly and yearly reports from the Central Ministries and State Governments regarding the progress of implementation of various schemes included in the Plan. On the basis of these reports the Planning Commission issues every six months a Progress Report on the Plan.

The Planning Commission also watches the progress of the projects through the visits to the States of the Advisers, Programme Administration, and the discussions they have with the State Governments and representatives of Central Ministries.

The National Development Council has recently approved the proposal that in co-operation with the Central Ministries and State Governments, the Planning Commission should make available quarterly reviews 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 Communications.

V. *Proposal (e)*.

In view 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 specific number of such schemes, upto equivalent amount. Programme Advisers should be required to report that the remaining schemes have been undertaken by the State out of their own resources.

The procedure in connection with the grant of Central Assistance to States is under review in consultation with the Planning Commission.

It is felt that 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.

VI. Proposal (f).

Detailed scrutiny of States' schemes should be discarded. The examination by the Centre should be confined to—

- (i) a broad administrative scrutiny by the Ministry concerned and the Planning Commission, to ensure that they fall within the framework of the Plan, and
- (ii) a broad financial review based, mainly, on the certificate of the States Finance Department, that the schemes have been drawn up in accordance with standards, schedule of rates, etc. prevailing in the States and as are applicable to the States' schemes.

This recommendation has been made with a view to avoiding an excessive concentration of Central control in regard to States' schemes which are assisted by the Government of India. The Planning Commission at present exercise only a broad scrutiny of schemes submitted by State Governments, mainly from the point of view of principles set out in the Plan and the physical targets to be achieved. Any further scrutiny of State Governments' schemes in the Central Ministries is done in a broad way and is mainly directed to ensure the best utilisation of the funds available for the purpose. There is no interference in matters of detail.

VII. Proposal (g).

There should be deconcentration of authority in favour of Executive and Project Officers at all levels appropriate to their responsibilities and status.

The Finance Ministry have already been pursuing a policy of delegation of suitable powers to all levels for the proper implementation of schemes and performance of Executive and other functions. The field covered by the delegated financial powers where a detailed scrutiny of the Finance Ministry does not operate is at present fairly extensive. The position is also frequently reviewed with a view to extending the scope of the delegations.

VIII. Proposal (i).

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.

So far as the Secretariat of the Government of India in concerned, provision exists in the Manual of Office Procedure for bringing to the notice of the Minister in charge, cases other than those of a routine nature disposed of without reference to him by means of statements. In addition, in the Finance Ministry, a weekly schedule of items of expenditure concurred in by the Expenditure Department is prepared and submitted to senior officers.

In regard to Attached and Subordinate offices, the measures to be adopted for keeping the higher authorities informed of the exercise of powers by lower authorities to whom delegations have been made, it is felt that it may be left to be determined from time to time by the administrative Ministries concerned. The scrutiny of any of schedules or sanctions prepared for superior authorities should not become either a routine matter or tend to curtail the initiative of the officers to whom powers have been delegated.

NEW DELHI;

(S. RATNAM)

31st July, 1957.

Secretary to the Government of India,
Department of Expenditure,
Ministry of Finance.

ANNEXURE II-A

Copy of D.O. No. 2375-SF/56 dated 24th September, 1956 from Secretary, Department of Expenditure to Secretaries of Administrative Ministries

The work of preparing the revised estimates for the current year and the budget estimates for 1957-58 will be in full swing very shortly. The budget for the next year is going to be even more important than the previous budgets for the reasons that it will be the second budget for the Second Five Year Plan period, and it will have to be framed in the context of increasing pressure on the internal price level and a shortage of foreign exchange.

2. We have, therefore, to see that, apart from standing charges and continuing schemes, other schemes are included in the budget only in a properly phased manner. Schemes advocated for inclusion for the first time should be such as must be commenced urgently and should have been worked out in some detail to ensure that there would be no delay or postponement in their implementation due to whatever reasons, e.g., lack of building materials, shortage of man-power, difficulty in obtaining experts or important components from abroad, delay in land acquisition, etc., etc. All major schemes which are to be put up to the Expenditure Finance Committee should, therefore, be gone into from now and steps taken to see that such sanction is applied for and obtained by the 31st December this year in the majority of cases.

3. The Public Accounts Committee have been highly critical of the "loose budgeting and estimating", revealed by the excesses over grants or by surrender of funds voted by Parliament. This criticism can be avoided only by more realistic budgeting and detailed advance planning. It is in that connection that I would request your personal assistance. The recent re-organisation of the Finance Division accredited to your Ministry should be taken full advantage of by your officers. If not already done, all important projects should be discussed with them from the earliest stage onwards so that the plans are finalised early and the Finance Officers are able to assure themselves that the schemes have attained the maturity of consideration and planning needed before they are converted into budget proposals. In view of the probable level of expenditure in the next budget and the large number of

competing claims, we shall probably be forced to exclude from the budget such new projects as have not been planned in detail. As you will appreciate, the Finance Ministry must be satisfied about the probability of expenditure materialising to the extent proposed, before sums are provided in the budget.

4. In regard to schemes which are worked in co-operation with the State Governments, we might have to follow a slightly modified procedure. But even here the form of assistance and the basic details about the projects should be agreed upon before they are included in the budget estimates.

5. This letter is written as a general background to the usual instructions which will be issued later in regard to the preparation of the Capital Budget (including the ceilings therefor) and the schedule of dates and particulars for the various new item and other statements.

ANNEXURE III

PLANNING COMMISSION

The object of this short note is to apprise the Sub-Committee of the Public Accounts Committee of certain developments in procedures relating to the work of the Planning Commission which bear on some of the suggestions contained in the Appendix to the Audit Report (Civil) 1955—Part I on 'Estimates and Financial Control'.

2. The observations and proposals made by the Comptroller and Auditor General arose from his study of conditions existing more than three years ago. The proposals were considered by Government and, while certain questions are still being pursued, this is apart from the original proposals in the Comptroller and Auditor General's note. At that time, the main problems concerned the implementation of the First Five Year Plan and shortfalls in expenditure, representing an inadequate measure of stepping up in execution, drew constant attention. In the succeeding years, although gaps between budget provisions and actual expenditure still remain to some extent, the rate of expenditure has considerably increased. As we move towards the third year of the Second Five Year Plan and already know the third year's picture fairly clearly, while there is of course much scope for improvement in procedures, one of the main concerns of the Planning Commission is to see that deficit financing is limited to a level consistent with economic stability and that outlays are kept close enough to the available resources. The projects to be carried through are clearly known. For the greater part deficiencies in working out details which existed two years ago have been removed. New schemes are not being entertained. Non-plan schemes are severely pruned. The administrative machinery at the Centre and in the States is better geared to the tasks of Plan implementation. The organisation of the Planning Commission itself has expanded and is better equipped than it was in 1954-55. A large proportion of projects approved under the Second Five Year Plan are now under way. The present problems are connected more with the availability of resources, real and financial, than with issues of procedure as such. Thus, from several aspects the situation has altered since the Comptroller and Auditor-General examined the subject at Government's request.

3. The Planning Commission, in consultation with the Central Ministries and the States, now prepares annual plans well in advance of the annual budgets, both at the Centre and in the States. Projects and programmes to be included in the annual plans are determined after a careful review of progress and in relation to an overall view of resources and the outlays to be undertaken. Technical examination is undertaken jointly by the Planning Commission, the Ministries and the States^o in working groups set up by the Planning Commission. The resources of each State are assessed in detail. The conclusions reached and decisions as to further measures to be taken have in each case the sanction of the Planning Commission and the State Government which is invariably represented by the Chief Minister and the Finance Minister.

4. The Planning Commission brings out an annual Progress Report. On all important projects or schemes fairly detailed information is obtained in respect of (a) programme of construction work, (b) programme of output/benefits, (c) key materials and equipment, (d) manpower requirements, and (e) cost estimates and expenditure. On other schemes information is obtained in summary form. On about 40 major projects, monthly reports are obtained. Arrangements have also been made for securing quarterly reviews from the Ministries and the States, in which they are expected to draw attention to schemes which are not going forward in accordance with the annual plan and others which are making satisfactory progress. The main purpose of these reviews is to bring to light bottlenecks, difficulties etc., which may be experienced and to assist in their early removal. The Planning Commission has frequent reviews with the Ministries on several major programmes. The Planning Commission's Advisers, Programme Administration visit the States from time to time, sometimes accompanied also by technical officers from the Ministries and from the Divisions of the Commission. Several States have also been visited by Members of the Planning Commission.

5. The Central Government does not assist *all* the schemes included in the plans of States. In recent years certain patterns of assistance for schemes of development in such sectors as agriculture, health, education, village and small industries have developed. Some of them have become needlessly complex. Steps to simplify them to the maximum extent possible are to be initiated immediately after the conclusion of the discussions with States on the Development Plans for 1958-59. While for certain purposes grants are conveniently made on the basis of approved patterns of assistance, the Planning Commission aims at ensuring that both on revenue account and on capital account the resources to be

provided by each State Government along with Central assistance comes up to the level of the approved outlays. In view of the methods of planning which have developed and the scope of each State's plan, it is more convenient and appropriate to deal with the entire plan rather than to single out certain schemes for which full financial responsibility is accepted, leaving others to be financed from State resources alone. In relation to each State a view has to be taken of its resources as a whole as well as its outlays as a whole, both plan and non-plan. The size of Central assistance in any year has to be adjudged in terms of a State's total programme, made up of a large number of schemes, rather than in terms of certain selected schemes alone.

6. The Finance Ministers' Conference in November, 1957 considered certain suggestions of the Finance Ministry and the Planning Commission for simplifying procedures for administering Central assistance. These are outlined in the note given in the Annexure III-A. Action on the lines indicated is being pursued. It is hoped that in future differences between budget provisions and actual outlays in the States will greatly diminish both because of the procedures adopted for annual planning and because of other improvements which are being effected.

7. Examination of States' schemes is undertaken on a broad basis. Where close technical scrutiny is called for, the common course is to set up special technical committees. This has been done in a number of cases. In each such case the Planning Commission secures the close association of the Ministry and the State concerned and sometimes outside experts are also obtained. For schemes included in the plans of States, it is intended to dispense with detailed financial and administrative scrutiny and sanction at the Centre, and to leave them to the administrative departments and the Finance Departments. This follows the suggestion made by the Comptroller and Auditor-General.

ANNEXURE III-A

Paper discussed at the meeting of the State Finance Secretaries on November 16 and 17 and at the Finance Ministers' Conference on November 18, 1957

PROCEDURE RELATING TO CENTRAL ASSISTANCE TO STATE GOVERNMENTS FOR PLAN SCHEMES

Early this year the Planning Commission sent to State Governments and Central Ministries a Memorandum on Existing Patterns of Central Assistance to States and invited their suggestions for simplifying and improving on these patterns. In June last the Planning Commission forwarded to State Governments two explanatory notes, one of which explained certain details of Central assistance which the Finance Ministry had intimated earlier for the year 1957-58 and the other dealt with procedures relating to the release of Central assistance funds. The Ministries were also consulted on suggestions for improving the procedure for sanctions of Central assistance for individual schemes. As a result of the comments which have been received, the Planning Commission and the Ministry of Finance propose to review in discussions with Central Ministries the existing patterns of Central assistance with a view to simplifying them. It is hoped to complete this review before discussions relating to the State Development Plans for 1958-59 commence. The present note is concerned with certain questions of procedure relating to Central assistance. It is based on suggestions received from State Governments from time to time and comments made by Ministries.

2. 1957-58 was the first year for which annual plans were considered in advance of the preparation of the Central and States budgets. The amount of Central assistance intimated fell short of the amount assumed when the State plans were drawn up, although it was indicated the progress of expenditure would be watched and through adjustments and otherwise the ceilings of Central assistance assumed earlier would be adhered to subject to the conditions indicated in Planning Commission's letter of May 7, 1957. For 1958-59, it is proposed through discussions with individual States to ensure

that (1) a view of the State budget as a whole, including development and non-development expenditure, is taken when the annual plan is considered, so that the State has a balanced budget on revenue and capital account, and (2) that the total amount of Central assistance in the form of grants and loans is indicated for most of the States about the middle of January and for all of them by the end of the month and this amount is adhered to, save for exceptional circumstances, in the course of the year. The forms suggested by the Planning Commission for furnishing information regarding individual development schemes proposed for 1958-59 are intended to make such correspondence between the total resources and total expenditure on the plan possible.

It is proposed to simplify patterns of Central grants and loans so as to bring together individual schemes which can be suitably grouped together. The intention is that as far as possible the total amount of assistance should be made available for the group of schemes rather than for individual schemes within the group. This would make it possible for the State Government to provide for adjustments within a group (separately for grants and loans) on some schemes expenditure on which may be incurred at a higher or a lower rate than initially expected, without affecting the total amount of grants and loans which the State can draw.

4. As a rule, the determination of the programme for the next year during the annual plan discussions would be sufficient for arriving at first approximation of the amount of Central assistance due to a State. In a few cases supplementary discussions at the technical level might be required by Ministries, but it is hoped that such instances will be limited in character. In any case, they should not affect the total amount of Central assistance due under any head.

5. Once the total amount of assistance due to a State by way of grants and loans has been finally settled (see para 2 above), it is proposed that the following procedure for release of funds should be adopted for 1958-59:—

- (1) The amount due by way of grants and loans should be advanced under orders issued by the Ministry of Finance to the Finance Department of the State. These advances may be made monthly or quarterly as may be decided.
- (2) A simple proforma will be prescribed for States intimating by major heads of account the monthly progress of expenditure at regular monthly intervals. This

information will be supplied by the State Finance Department to the Finance Ministry with copy to the Planning Commission.

- (3) By the end of December the State Finance Department will give an estimate of the amount likely to be required for the last quarter of the year.
 - (4) Grants made for specific schemes in excess of or short of actual expenditure on them will be adjusted during the following year.
6. Arrangements on these lines assume and are conditional on:
- (i) State Governments strictly limiting expenditures outside the Plan on the lines agreed in the annual plans,
 - (ii) State Governments raising the additional taxation agreed to, and
 - (iii) State Governments not starting during the course of the year any new scheme or project not included in the budget and plan agreed to.

7. Within a group of schemes for which Central assistance is approved adjustments may be made by the State Government without reference to the Ministry concerned. If, however, funds have to be transferred from one group to another, the approval of the Ministry concerned should be obtained and the Planning Commission should be kept informed.

8. Where adjustments are required between one head of development and another, these will be made only after a reference to the Planning Commission. For this purpose the State Finance Secretaries may suggest a suitable procedure including a time schedule.

ANNEXURE IV

Summary of the principal conclusions/recommendations of the Eighth Report of the Public Accounts Committee (Second Lok Sabha) on the Budget Estimates and Financial Control

| S. No. | Para No. of the Report | Ministry/Department concerned | Conclusions/Recommendations |
|--------|------------------------|-------------------------------|-----------------------------|
|--------|------------------------|-------------------------------|-----------------------------|

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(Introduction) All other Ministries.

The Committee have felt for some time that the existing system of budgeting and administrative and financial control are not appropriate in the present context of a planned national economy. Experience of the provisioning and execution of the First and Second Five Year Plans has disclosed certain weaknesses of our system of budgeting and financial control. While a departure from the well-accepted principle of not providing in the budget for any scheme whose detailed estimates have not been worked out in full may create initial difficulties it may be possible to introduce a certain amount of flexibility in the present system without jeopardising the efficiency of financial control by Parliament and Government. *Ad hoc* provisions in the absence

of full detailed estimates cannot be encouraged. Left with a choice between *ad hoc* provision of this nature and no provision at all in the beginning and supplementary demand late in the year, the Committee have suggested the need of making a small provision enough to cover the expenses of survey, preparation of the detailed estimates and preliminary expenses. Government can, in the course of the year, as a result of this preparatory work come before Parliament for a supplementary grant. This will ensure that no project is taken up for execution unless its details have been worked out fully. Such a procedure should not delay execution of projects as progress will be speedier, once details are worked out and the blue print is ready.

While examining the Civil Accounts for 1953-54 and 1954-55, it was obvious to the Committee from the evidence tendered that most of the provisions made in the various Demands for Grants are not based on a realistic appraisal of the schemes and their execution possibilities and of the amounts likely to be spent during the year. They are just "guessimates" and lapse of large funds is thus inherent in the existing procedure.

In the view of the Committee it will not be correct to hold, as the Ministry of Finance do, that simply because a scheme or project had been discussed and incorporated in the Second Plan, the scheme or project had ceased to be new so far as the making of budget provision and getting Parliament's approval are concerned. There is already case law governing the principles as to what should constitute a "new service" and how the approval of Parliament should be obtained in such cases. In all such cases, the approval of Parliament for the changes and the increase in outlay should not be taken for granted.

The Committee consider that the present practice of asking for large appropriations on the basis of mere expectations of the Ministries should be discontinued. Approval in such cases should be sought only when the scheme have been prepared in detail and accepted after scrutiny by the Finance

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All other Ministries.

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Ministry. This is a *sine qua non* of both Parliamentary and executive control. The Committee accordingly recommend that in the case of a new project, no provision should be included in the budget estimates placed before Parliament till detailed estimates of the project are ready and certain phases thereof (if the project is a big one) have reached a stage ripe enough to justify its inclusion in the budget estimates. In other words, the Finance Ministry should be satisfied on the basis of details available that there was reasonable expectation of expenditure materialising to the extent proposed, before sums are provided in the budget estimates. These considerations apply to *ad hoc* lump provisions also which should not be made in the budget estimates. In short, the budget estimates of a year should comprise only the outlay on standing charges, estimated expenditure on projects in progress, and a small provision for each new scheme or project which is likely to be taken up during the course of that year, but whose details have not been worked out sufficiently and accepted by the Finance Ministry. Simultaneously when seeking Parliament's approval for a small provision in respect of a new scheme, an idea of the approximate total outlay on the scheme should also be placed before Parliament. As and when details of the new scheme or a phase thereof are worked out, Parliament, if in session, should be approached for a supplementary grant; if Parliament is not in session, funds sufficient to cover the immediate expenditure on the scheme may be advanced out of the Contingency Fund and a supplementary grant for the full amount obtained from Parliament at the earliest possible opportunity. This arrangement has several advantages. It enables Parliament to have a "preview" of the current and prospective expenditure on such projects well before commitments are made or liabilities incurred. It serves to pinpoint the performance of the Ministry concerned. The fact that full details have been worked out and the Finance Ministry have scrutinised the details would obviate a de-

tailed post-check and scrutiny by Finance and thus save time consuming and lengthy consultations.

It will bring to the notice of both Parliament and Government prominently, the extent to which a Ministry had been able to undertake specific plans and programmes which that Ministry had included in their estimates. This will enable remedial measures being taken, if necessary, involving changes in personnel and methods of work.

The Committee appreciate the force of the contention that if the budget estimates are to comprise only provisions as indicated in the preceding paragraphs it will not give the full picture of expenditure in the budget year and may make the task of "balancing the budget" difficult. But this contention has lost its importance in the context of the Plan when both total expenditure and resources are assessed for the Plan period and all that is necessary is to keep in view the concept of long-term equilibrium as envisaged in the Plan and determine the detailed pattern of expenditure, continuing and new, by means of the annual budgets. This, the Committee feel, will enable Government to formulate their measures for raising resources during the run of the Plan.

5 10 Finance/ All other Ministries.

The Committee consider that the need for a detailed post-budget financial scrutiny of project or scheme will disappear if the provision for the project or scheme has been made in the Budget estimates only after detailed financial scrutiny. It will also make financial control more effective by directing attention to the efficient and economic execution of projects. So long as the provision made in the budget is not exceeded and there is no change in the scope or the total cost of a project, the administrative Ministry should have freedom to incur expenditure without having recourse to consultation with the Ministry of Finance.

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The Committee do not share the misgivings of the Finance Ministry, that the time that would be taken by the Ministry to get all essential details of the schemes for submission to Finance and their scrutiny, would retard the implementation of the Plan by a year or two. They consider that the dele-

gation of these powers is very essential for the speedy and economic execution of the projects. The change-over will introduce flexibility and order in the execution of the Plan projects which is very desirable if wasteful and infructuous expenditure is to be avoided. Interchange of officers between the Finance and administrative Ministries should be adopted as an integral part of the programme of training so that a corps of officers who are competent both in administrative and financial matters is created.

Effective financial control cannot be exercised unless the Finance Ministry are 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.

The Committee consider, however, that it is necessary and desirable in the interests of uniformity and efficiency that the Finance Ministry should continue to control pay scales, financial and service rules and regulations. All cases involving a departure from rules and regulations or prescribed scales of pay or strength of posts in the approved budget estimates should continue to attract the sanction of the Ministry of Finance.

Finance/All other Ministries.

A readjustment in the relations between Finance and the administrative Ministries should be accompanied by delegation of powers by the administrative Ministries to lower officers, commensurate with their status and responsibilities. Every officer with delegated financial powers should prepare a monthly schedule of sanctions for submission to the authority immediately superior to him. This would provide for a regular scrutiny of sanctions.

It will be necessary in the earlier stages to watch whether the delegated powers have been properly exercised by the officers concerned. Cases of improper exercise, arising out of inexperience or errors of judgment should be distinguished from those due to wilful negligence and should be dealt with suitably. It is the considered opinion of the Committee that deterrent punishment should be meted out quickly to officers guilty of wilful negligence or gross dereliction of duty.

The Committee cannot regard with equanimity too much concentration of technical personnel in the Secretariat, when there is a crying demand for such personnel for field work. This question of the development of technical personnel requires careful thought and the Committee trust that Government will address themselves to it.

The Committee would like to be informed of the procedure when laid down by the Planning Commission, with regard to reappropriation of Funds between schemes.

The Committee were doubtful whether approval by the Planning Commission of the details of the individual State schemes was necessary when the schemes in question had already been approved while formulating the Plan and determining the pattern of assistance. In their opinion as the States are the executors of those schemes, the Finance Departments of the States will certainly ensure that the schemes are executed efficiently and economically. This will fasten responsibility of the Finance Departments in the States and will result in greater co-operation and speedy execution of the Plan Projects.

The Committee were informed that as a result of the recommendations of the Second Finance Commission, the States were financially better off and as such they could not put forth the plea of lack of resources. The Committee could not accept this as a valid argument. Even granting that the financial position of the States has improved after the award of the Second

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8 16 Finance/Planning
Commission All other
Ministries.

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9 18 Finance/Planning
Commission All other
Ministries.

Finance Commission, it will be too much to expect the States whose finance⁸ suffer from certain limitations to receive the matching grants on a recoupment basis. The Committee feel that in the first year the Central grants towards schemes approved for matching grants 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 those schemes accepted for assistance. In subsequent years, the grants to be made should be regulated with reference to the State's performance in the previous year in fulfilling its own part of the programme as contemplated while making the grant. With the resources ready in hand the State Governments would be more keen to implement the schemes as the grant for the following year is conditional on satisfactory performance. The Committee would urge that this procedure may be put into effect immediately in respect of new schemes eligible for matching grants. A review of the schemes already in execution may also be conducted in order to see how far they can be fitted into this pattern of assistance.

The Committee would like to state that the recommendations contained in this report are in respect of expenditure on Government Departments only. State Corporations and State Undertakings formed as companies belong to a different class by themselves and the question of Parliamentary control over their expenditure is a subject for a separate and careful study.

Finance/Planning
Commission/All
other Ministries

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