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Public Financial Administration

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ABSTRACT : *According to one of the leading American public administration scientists, Felix A. Nigro [1970:345 – 350 and 352 – 379], public financial administration is a critically important facet of public administration which operates through the instrument of budget and encompasses the entire budgetary cycle, that is, formulation of the budget; enactment of the budget; execution of the budget; accounting and auditing.*
Keywords; *public financial administration, budget, budgetary cycle, budget formulation, enactment and execution, accounting and auditing*

I. INTRODUCTION

There are a few points which must be noted in this introduction. These are as outlined as follows:

1.1 Prominent and most quoted scholars relevant to the specialized study of public financial administration include:

• J. J. N. Cloete	• S. B. M. Marume	• M. E. Dimock
• B. J. Roux	• M. Marx	• H. R. Bruce
• P. S. Botes	• N. Henry	• W. Fox
• D. F. S. Fourie	• L. D. White	• H. Meyer
• W. L. J. Adlem	• F. A. Nigro	• E. N. Gladden

1.2 The main targets of the study: comprise

- parliamentarians
- secretaries of government departments
- town and city treasurers
- public administrators
- mayors
- accountants
- cabinet ministers
- comptrollers
- finance committee chairpersons
- financial advisors
- auditors
- civic leaders

1.3 Public financial administration: basic concepts and forms or systems include: financial administration; budget; forms or systems and budgetary cycle.

1.4 Broad objectives of the study

This work is intended to explain in good details the concepts of public financial administration and budget with its forms or systems and to demonstrate that it is one of the primary elements of public administration expressed by the instrument of the budget.

1.5 According to Felix A. Nigro [1970:345 – 350 and 352 – 379], the bold statement is made that public financial administration is a critically important facet of public administration which operates through the instrument of the budget and encompasses the entire budgetary cycle, that is, formulation of the budget, enactment of the budget, execution of the budget, accounting and auditing. All these aspects constitute the subject-matter of this article.

II. PURPOSE OF THE ARTICLE

The purpose of this article is **threefold: to explain** the concepts of public financial administration, its meaning, significance, functions and principles; **demonstrate** the various forms or systems of budgeting; and **illustrate** the various stages of the budgetary cycle.

III. BUDGET: CONCEPT AND SYSTEMS

The subject here is public financial administration. In order to properly and correctly understand, the following questions must be adequately answered:

a. What is public financial administration?
b. What is meant by the concept budget?

c. What are the functions and principles of budgeting?
d. What are the forms or systems of budgeting that are available in a country?
e. What is the budgetary cycle?

3.1. Explanations of concepts

The first question is: **What is public financial administration?**

Possible answers include:

Meanings of financial administration

W. Fox and Ivan H. Meyer [1995:50] view financial administration as activities involving finance and taxation. It includes central and regional institutions for accounting, auditing and budgeting, the supervision of local government finances; tax administration; collection, custody and disbursement of funds; administration of employee – retirement systems; debt and investment administration; and the like.

Public financial administration which is an important facet of public administration, operates through the instrument of budget encompassing the entire budgetary cycle, namely, **formulation of the budget, enactment of the budget, execution of budget, accounting and auditing**.

The term budget was used in its present sense for the first time in 1773, in a satire entitled 'Opening the budget' directed against Walpole's financial plan for that year **[S. B. M. Marume: Academic work no. 14 of 1988].**

Significance

The popular statements made by various authorities on the significance of financial administration to the government administration are mentioned below:

L. D. White: Every administrative act has its financial implications; either creating a charge on the treasury or making a contribution to it.

Gladstone: Budgets are not merely matters of arithmetic but in a thousand ways go to the root of prosperity of individuals, the relations of classes and the strength of kingdoms

Plowden Committee: Budget is a process in which the instruments of taxation and the expenditure are used to influence the course of economy

F. A. Nigro: Financial administration is of special importance today for the simple reason that, while there seems to be no limit to what we may ask of government, there is always a limit to the funds available.

Hoover Commission: Financial administration is at the core of modern government.

Willoughby: Budget is an integral and indispensable tool of administration. He also observed: The real significance of the budget system lies in providing for the orderly administration of the financial affairs of a government.

Lloyd George; Government is finance

Morstein Marx: Finance is as universally involved in administration as oxygen is in the atmosphere

Meaning of budget:

The next question is: What is meant by the concept budget?

The term **budget** is derived from an old English word Bougett which means a sack or pouch. It was a leather bag from which the British Chancellor of Exchequer extracted his papers to present to the Parliament the government's financial programmes for the ensuring fiscal year. From that association, it came to mean the papers themselves, especially those containing financial proposals.

Bruce: A budget is a financial statement, prepared in advance of the opening of a fiscal year, of the estimates revenues and proposed expenditures of a given organisations for the ensuring fiscal year.

Wilne: Budget is a detail of estimated revenues and expenditures – a comparative chart of revenue and expenditures – and over and above this, it is an authority and direction of the competent authority given for the collection of revenue and expenditure of public money.

Dimock; A budget is a financial plan summarizing the financial experience of the past, starting a current plan and project it over a specified period of time in future.

Munro: Budget is a plan of financial for the incoming fiscal year. This involves an itemized estimate of all revenues on the one hand and all expenditures on the other

Lynch: The one common subject in any budget discussion is money. Other subjects are important, but they are mentioned in relationship to money or are translated into money

Willoughby: The budget is something much more than a mere estimate of revenues and expenditures. It is, or should be, at once a report, an estimate and a proposal.

Thus, the budget is a statement of the estimated receipts (revenue or income) and expenditure of the government in respect to a financial year. In other words, it is a financial document of the government as presented to the legislature and as sanctioned by the legislature.

Functions

The appropriate question here is: What are the functions of budgeting?

These are highlighted as follows:

1. It ensures the financial and legal accountability of the executive to the legislature.

2. It ensures the accountability of subordinates to superiors in the administrative hierarchy
3. It is an instrument of social and economic policy to serve the functions of allocation, distribution and stabilization.
4. It facilitates the efficient execution of the functions and services of government.
5. It facilitates administrative management and coordination as it unifies the various activities of the government departments into a single plan.

Principles and practices of budgeting

The next appropriate question is: What are the principles of sound budgeting?

Ten principles of sound budgeting which are normative or prescriptive in nature are listed as follows:

a. **Budget should be a annual basis; properly and thoroughly considered and examined by parliament which is the highest legislative authority in a country.**

b. **Estimates should be on departmental basis.**

c. **Budget should be a balanced one** which means the estimated expenditure should not exceed the estimated revenue.

d. **Estimates should be on a cash basis** which means the expenditure and revenue estimates of budget should be prepared on the basis of what is expected to be actually spent or received during the financial year.

e. **One budget for all financial transactions** which implies the government should incorporate all its revenues and expenditure (of all the departments) in a single budget.

f. **Budgeting should be gross and not net** which means all transactions of receipts and expenditure of the government should be fully and separately shown in the budget and not merely the resultant net position.

g. **Estimating should be close** which implies the budgetary estimates should be as exact as possible, because overestimation leads to excessive taxation and underestimating leads to ineffective execution of the budget.

h. **Rule of lapse** of the budget should be on annual basis, that is, the legislature should grant money to the executive for one financial year. If the granted money is not spent by the end of the financial year, then the balance would expire and should be returned to the treasury. This practice is known as the rule of lapse.

i. **Revenue and capital portions should be separated** which implies the current financial transactions of the government should be distinguished from the transactions of a capital nature and the two must be shown in two separate parts of the budget called the revenue budget and the capital budget.

j. **Form of estimates should correspond to form of accounts** which means the form of budgetary estimates should correspond to the form of accounts to facilitate effective financial control.

3.2. Various forms or systems of budgeting

Six forms or systems of budgeting which have evolved over a period of time are explained below.

3.2.1. Line – item budgeting

This is also called as traditional budgeting or conventional budgeting. This system of budgeting was developed in the 18^{th} and 19^{th} century. It emphasizes on the items of expenditure without highlighting its purpose and conceives budget in financial terms. Under this system, the amount granted by the legislature on a specific item should be spent on that item only. The objectives of this budgeting are to prevent wastage, over-spending and misuse of money granted by the legislature. This system of budgeting facilitates maximum control of public expenditure. In fact, the sole object of line-item budgeting has been the accountability of funds, that is, ensuring legality and regularity of expenditure.

3.2.2. Performance budgeting

The system of performance budgeting (earlier called as functional budgeting or activity budgeting) originated in the USA. The term performance budget was coined by the First Hoover Commission (1949). This commission recommended the adoption of performance budgeting in the USA to make effective management approach to budgeting. Accordingly, it was introduced in 1950 by President Truman.

The advantages of the performance budgeting are as follows:

a. It presents more clearly, the purposes and objectives for which the funds are sought by the executive from the parliament.
b. It brings out the programmes and accomplishes on financial and physical terms.

c. It facilitates a better understanding and better review of the budget by the Parliament.
d. It improves the formulation of budget.
e. It facilitates the process of decision-making at all levels of government.
f. It increases the accountability of the management.
g. It provides an extra tool of management control of financial operations.
h. It renders performance audit more purposeful and effective.

3.2.3. Programming budgeting

Like performance budgeting, programme budgeting (also known as planning – programming – budgeting system – PPBS) also originated in the USA. It incorporates a scheme of planning in the budgeting process. Programme budgeting or PPBS emphasizes the planning aspect of budgeting for selecting the best out of a number of available programmes and for optimizing the choice in economic terms while allocating funds in the budget. It treats budgeting as an allocative process among competing claims to be conducted by using the relevant planning techniques.

3.2.4. Zero – based budgeting (ZBB)

The ZBB also originated and was developed in the USA. It was created in 1969 by Peter A. Pyhrr, a manager of a private industry. It was introduced in the USA by President Jimmy Carter in 1978.

Like the performance budgeting or PPBS, the ZBB is also a rational system of budgeting. Under this system, every scheme should be reviewed critically and rejustified totally from zero before being included in the budget. Thus, the ZBB involves a total reexamination of all schemes afresh instead of following the incremental approach to budgeting which begins with the estimation of the current expenditure. The basic feature of a zero – based budget is that the departments, while preparing their budgets, should not take anything for granted and, therefore, should start on a clean slate. The budget making for the ensuing year should be started from zero instead of treating the current budget as the base or the starting point.

ZBB may be viewed as an operating, planning and budgeting process which requires each manager to justify his entire budget request in detail from scratch (hence the term zero – base), and shifts the burden of proof to each manager, to justify why he should spend any money at all, as well as how the job can be done better.

The advantages of ZBB technique are:

a. It eliminates or minimizes the low priority programmes.
b. It improves the programme effectiveness dramatically.
c. It makes the high impact programmes to obtain more finances.
d. It reduce the tax increase
e. It facilitates critical review of schemes in terms of their cost – effectiveness and cost benefits.
f. It provides for quick budget adjustments during the year.
g. It allocates the scarce resources rationally.
h. It increases the participation of the line personnel in the preparation of budget.

3.2.5. Sunset legislation

It is a formal process of policy review for eliminating the undesired, outdated, redundant and irrelevant programmes. This system embodies the concept of self – retiring government programmes by providing for the termination of statutory authorization of programmes. This is achieved by placing time limits in government programmes in the legislative enactments themselves and providing for their automatic termination on the prescribed dates unless, affirmatively recreated by legislature after conducting a detailed review.

The advantages or benefits of the sunset legislation are as follows:

i. It ensures economy in government expenditure.
ii. It avoids unnecessary expansion of government activities.
iii. It makes the financial resources available for new programmes
iv. It ensures administrative rationality by facilitating the reallocation of limited funds on a continuous basis.
v. It helps in overcoming the resistance met within the executive for eliminating an ongoing programme by shifting the major responsibility for its evaluation to the legislature.

3.2.6. Top – down budgeting

The system of top – down budgeting was introduced in the USA in 1981 during the Reagan era. It is also known as target base budgeting. It has the elements of earlier systems of budgeting, that is, performance budgeting, PPBS, Management of Objectives (MBO), ZZB and Sunset Legislation.

3.3. Budgetary cycle

Five main phases are included in the budgetary cycle as briefly shown below:

3.3.1. Formulation of budget

Formulation of the budget means the preparation of the budget estimates, that is, preparing the statement of estimates of expenditure and receipt of the government in respect of each financial year. For instance, in the case of India, the financial year in India is from 1st April to 31st March, and in the case of Zimbabwe, the, financial year is from 1st January to 31st December, a calendar year.

Overally, the budget contains the following aspects:

1. Estimates of revenue and capital receipts.
2. Ways and means to raise the revenue,
3. Estimates of expenditure,
4. Details of the actual receipts and expenditure of the closing financial year and the reasons for any deficit or surplus in that year, and
5. Economic and financial policy of the coming year, that is, taxation proposals, prospects of revenue, spending programme and introduction of new schemes/projects.

3.3.1.1. Agencies involved in formulation of the budget

The four different organs involved in the formulation of the budget are:

a. **The finance ministry**: it has the overall responsibility for the formulation of the budget, and provides the required leadership and direction.
b. **The administrative ministries**: they have a detailed knowledge of administrative requirements
c. **The planning commission**: it facilitates the incorporation of plan priorities in the budget. In other words, the Finance Ministry remains in close touch with the Planning Commission in order to incorporate the plan priorities in the budget.
d. **The comptroller and auditor – general**: he provides the accounting skills which are necessary for the formulation of the budget estimates.

3.3.1.2. Stages in formulation of the budget

The various stages involved in the formulation of the budget are outlined below:

a. Preparation of estimates by the drawing and disbursing officers

In September – October (5 – 6 months before the commencement of the financial year), the Finance Ministry dispatches circulars and forms to Administrative Ministry in turn pass on these forms (in which the estimates and other requisite information have to be filled in) to their local/field officers. That is, to the disbursing officers. Each such form contains the following columns:

- Actual figures of the previous year
- Sanctioned budget estimates for the current year
- Revised estimates of the current year
- Proposed estimates for the next year (with explanation for any increase or decrease)
- Actual of the current year available (at the time of preparation of the estimates)
- Actual for the corresponding period of the previous year.

b. Scrutiny and consolidation of estimates by the departments and ministries

Head of the department, after receiving the estimates from the drawing officers, scrutinizes and consolidates them for the entire department and submits them to the Administrative Ministry

The Administrative Ministry also scrutinizes the estimates in the light of its general policy and consolidates them for the whole ministry and submits them to the Finance Ministry (Budget Division of the Department of Economic Affairs).

c. Scrutiny by the finance ministry

The Finance Ministry scrutinizes the estimates received from the Administrative Ministry from the point of view of economy of expenditure and availability of revenues. Its scrutiny is nominal in case of standing charges and more exacting in case of new items of expenditure.

d. Settlement of disputes

If there is a difference of opinion between the Administrative Ministry and the Finance Ministry on the inclusion of a scheme in the budget estimates, the former can submit such estimates to the Cabinet. The decision of the Cabinet in this regard is final.

e. Consolidation by the Finance Ministry

After this, the Finance Ministry consolidates the budget estimates on the expenditure side. Based on the estimated expenditure, the Finance Ministry prepares the estimates of revenue in consultation with the Central Board of Direct Taxes and the Central Board of Indirect Taxes. It is also assisted in this regard by the Income Tax Department and central Excise and Customs Department.

f. Approval by the cabinet

The Finance Ministry places the consolidated budget before the cabinet. After the approval of the cabinet, the budget can be presented to the Parliament. It must be mentioned here that the budget is a secret document and should not be leaked out before it is presented to the Parliament.

g. Charged expenditure

The estimates of budget as finalized by the Finance Ministry for presentation to the parliament consists of two types of expenditure – the expenditure charged upon the Consolidated Fund and the expenditure made from the

Consolidated Fund. The charged expenditure is non – notable by the Parliament that is, it can only be discussed by the parliament, while the other type has to be voted by the parliament. The list of the charged expenditure is as follows:

i. The emoluments and allowances of the President and other expenditure relating to his office.
ii. The salaries and allowances of the chairman and the deputy chairman of the council of states and the speaker and the deputy speaker of the house of people
iii. The salaries, allowances and pensions of the judges of Supreme Court.
iv. The pensions of the judges of high court which exercises jurisdiction in relation to any area of the country.
v. The salary, allowances and pensions of the comptroller and auditor – general.
vi. The salaries, allowances and pensions of the chairman and members of the public service commission
vii. The administrative expenses of the Supreme Court, the Office of the Comptroller and Auditor – General and the public service commission including the salaries, allowances and pensions of the persons serving in these offices.
viii. The debt charges and other expenditure relating to the raising of loans and the service and redemption of debt.
ix. Any sum required to satisfy any judgement, decree or award of any court or arbitral tribunal.
x. Any other expenditure declared by the Parliament to be so charged.

3.2 Enactment of budget

Enactment of budget means the passage or approval of the budget of the annual financial statement or the statement of the estimated receipts and expenditure of the government. This means that the government can neither collect money nor spend money without the enactment of the budget.

Six stages in enactment

Generally, the budget goes through the following six stages in the parliament:

- Presentation of budget
- General discussion
- Scrutiny by departmental committees
- Voting on demands for grants
- Passing of appropriation bill
- Passing of finance bill

a. General discussion

The general discussion on budget begins a few days after its presentation. It takes place in both the houses of parliament and lasts usually for three to four days. It is a British legacy.

b. Scrutiny by departmental committees of parliament

After the general discussion on the budget is over, the houses are adjourned for about three to four weeks. During this period, the departmental standing committees of the parliament examine and discuss in detail the demands for grants of the concerned ministries and prepare reports on them. These reports are submitted to both the Houses of Parliament for consideration.

The standing committee system makes parliamentary financial control over the ministries much more detailed, close, in-depth and comprehensive.

c. Voting on demands for grants

In the light of the reports of the departmental standing committee, parliament takes up voting on demands for grants. The demands are presented ministrywise. A demand becomes a grant after it has been duly voted.

Disapproval of policy cut motion

It presents the economy that can be affected in the proposed expenditure. It states that the amount of the demand be reduced by a specific amount (which may be either a lump sum reduction in the demand or omission or reduction of an item in the demand).

Token cut motion

It ventilates a specific grievance which is within the sphere of responsibility of the government. It states that the amount of the demand be reduced by a certain figure.

A cut motion, to be admissible, must satisfy the following conditions:

i. It should relate to one demand only.
ii. It should be clearly expressed and should not contain arguments or defamatory statements.
iii. It should be confined to one specific matter.
iv. It should not make suggestions for the amendment or repeal of existing laws.
v. It should not refer to a matter that is not primarily the concern of the central government.
vi. It should not relate to the expenditure charged on the consolidated fund
vii. It should not relate to the matter that is under adjudication by a court.
viii. It should not raise a question of privilege

ix. It should not revive discussion on a matter on which a decision has been taken in the same session
x. It should not relate to a trivial matter

The significance of a cut motion lies in two things:

a. It facilitates the initiation of concentrated discussion on a specific demand; and
b. It upholds the principle of responsible government by probing the activities of the government.

d. Passing of appropriation bill

In certain countries, the constitution states that no money shall be withdrawn from the consolidated fund except under appropriation made by law. Accordingly, an appropriation bill is introduced to provide for the appropriation out of the consolidated fund.

No such amendment can be proposed to the appropriation bill in either house of the parliament which will have the effect of varying the amount or altering the destination of any grant voted, or of varying the amount of any expenditure charged on the consolidated fund

The appropriation bill becomes the Appropriation Act after it is assented to by the President. This Act authorizes or legalizes the payments from the consolidated fund. This means that the government cannot withdraw money from the consolidated fund until the enactment of the appropriation bill.

Passing of finance bill:

The ‘Finance Bill’ means the bill ordinarily introduced in each year to give effect to the financial proposals of the government for the next following financial year, and includes a bill to give effect to supplementary financial proposals for any period. It is subjected to all the conditions applicable to a Money Bill. Unlike the appropriation bill, the amendments seeking to reject or reduce a tax can be moved in the case of finance bill.

The finance bill must be enacted that is passed by the parliament and assented to by the president within a certain period of time.

The finance act legalizes the income side of the budget and completes the process of the enactment of the budget.

Other grants include:

- **Supplementary grant**
- **Additional grant**
- Excess grant
- **Vote of credit**
- **Exceptional grant**
- **Token grant**

3.4. Execution of budget

Execution of budget means the enforcement or implementation of the budget after its enactment by the parliament. In other words, it means the implementation of the Appropriation act dealing with the expenditure and the finance act dealing with the revenue.

The budget is executed by various administrative ministries/departments under the overall control and direction of the finance ministry. In other words, the overall responsibility regarding the execution of the budget lies with the finance ministry – the central financial agency of the government of India.

Expenditure part

The financial control exercised by the finance ministry has been very tight due to the excessive concentration of financial authority in it. However, this control has been relaxed in course of time through variousschemes of delegation of powers by which the administrative ministries are granted some operational freedom and flexibility in managing their expenditure.

The finance ministry controls the expenditure of administrative ministries/departments in the following ways:

i. Approval of policies and programmes in principle
ii. Acceptance of provision in the budget estimates.
iii. Sanctioning expenditure, subject to the powers which are delegated to the spending authorities that is ministries
iv. Providing financial advice through the integral financial advisor.
v. Reappropriation of grants that is transfer o funds from one subhead to another.
vi. Internal audit system
vii. Prescribing a financial code to be followed by the spending authorities

The composition of the machinery devised by the executive government for discharging its responsibility is:

i. A system of controlling officers that is the head of the ministry
ii. A system of competent authorities who issue financial sanctions
iii. A system of drawing and disbursing officers

iv. A system of payments and accounts pay and accounts offices are created in various departments of the central government to make payments and compile accounts
v. To meet any expenditure which involves outlay in the future financial year except the contingent expenditure
vi. As between the revenue and the capital parts of the budget

Revenue part

Execution of the budget on the revenue side involves proper (a) collection of revenues; (b) custody of the collected funds; and (c) distribution of funds.

The collection of revenues involves the following stages:

i. Devising suitable machinery for tax administration and determination of procedure.
ii. Assessment of tax, that is, preparation of a list of persons liable to pay tax and determining the amount to be paid by them
iii. Making provisions for hearing of objections and appeals
iv. Collection, that is, realization of the amount due from the various assesses
v. Following up and realization of arrears, that is, dealing with the defaulters

The department of revenue of the finance ministry exercise overall control and supervision over the machinery charged with the collection of taxes through the central board of direct taxes and the central board of exercise and customs.

Consolidated fund

It is a fund to which all receipts are credited ad all payments are debited. In other words, (i) all revenues received by the government of India; (ii) all loans raised by the government by the issue of treasury bills, loans or ways and means of advances; and (iii) all moneys received by the government is repayment of loans shall form the consolidated fund. All the legally authorized payments on behalf of the government of India are made out of this fund. No moneys out of this fund can be appropriated issued or drawn except in accordance with a parliamentary law.

Public account

All other public moneys other than those which are credited to the consolidated fund received by or on behalf of the government shall be credited to the public account. This includes provident fund deposits, judicial deposits, savings bank deposits, departmental deposits, remittances and so on. This account is operated by executive action, that is, the payments from this account can be made without the parliamentary appropriation. Such payments are mostly in the nature of banking transactions.

Contingency fund

Parliament can establish a contingency fund, into which monies can be paid from time to time. Such sums as may be determined by law. Accordingly, the parliament enacted the contingency fund. This fund is placed at the disposal of the President, and he can make advances out of it to meet unforeseen expenditure pending its authorization by the parliament. The fund is held by the finance secretary on behalf of the president. Like the public account, it is also operated by executive action.

Deficit financing

The various sources of funds to finance economic development in the modern states are (i) taxation, (ii) public borrowing, (iii) government savings, (iv) surplus of public enterprises, (v) deficit financing, and (vi) external assistance.

When the government cannot raise sufficient resources through taxation, public borrowing and so on, it resorts to deficit financing to meet its development expenditure.

Meaning

Deficit financing, in general, refers to any public expenditure that is in excess of current public revenue.

In the Western countries and the USA, the term ‘deficit financing’ is used in a wider sense while, in India, it is used in a narrower sense.

In the Western countries and the USA, government expenditure financed through public borrowing (i.e. from people, commercial banks, and the Central Bank) are included in deficit financing.

In India, on the other hand, government expenditure financed through borrowing from people and commercial banks are excluded from deficit financing. These are known as market borrowing.

According to the Planning Commissions, deficit financing includes:

i. Withdrawal of past accumulated cash balances by the government;
ii. Borrowing from the Central Bank, that is, the Reserve Bank; and
iii. Issuing of new currency.

When government borrows from the Reserve Bank, it merely transfers its securities to the Bank which, on the basis of these securities, issues more notes and puts them into circulation on behalf of the government. This accounts to creation of money.

Concepts

The Government recognizes five concepts of deficit financing. They are: r**evenue deficit, budget deficit, fiscal deficit, primary deficit, and monetized deficit,.**

Role of deficit financing

Modern states have resorted to deficit financing under three different circumstances, namely, d**epression, economic development and war.**

1. Safe Limit

Deficit financing is a necessary evil. On the one hand, it is essential for economic development and on the other hand, it is intrinsically inflationary in nature. Hence, it should be kept within the safe limit so that it leads to capital formation without inflationary rise in prices. The various factors which determine the safe limit of deficit financing (or the measures needed to keep the deficit financing within safe limit) are as follows:

1. Effective efforts should be made to mop up surplus money by higher taxation and increased loans.
2. The quantity of money injected into the economy should be to the extent of the rate of growth of the economy.
3. The newly created money should be used for productive purposes like irrigation, industrial development and so on.
4. The deficit-inducted additional money should be used for promotion of those projects which have short gestation period. This will increase the supply of goods quickly and thus check the price rise.
5. Efforts should be made to transfer the non-monetised sector (barter part of the economy) into the monetized sector.
6. There should be an effective regulation of prices of goods and distribution of goods through rationing.
7. The import of capital equipment, industrial raw material and food grains should be encouraged and that of import of luxury and semi-luxury goods should be discouraged.
8. The people should have the spirit of sacrifice and extend their cooperation in the implementation of the policies for reducing the price effect of deficit financing for capital formation.
9. The government should offer incentives to increase production in private sector.
10. Credit creation policies should be integrated with deficit financing to regulate the increased credit creation by banks.

Public debt

Public debt is an instrument of resource mobilization by modern governments.

The revenue raised through taxation and other sources is not sufficient to meet the increased expenditure of the government. Revenue from taxation cannot be raised beyond a certain limit while the deficit financing becomes inflationary when it crosses the safe limit. Hence the government has to resort to public debt to accelerate the process of development.

Meaning of public debt

Public debt denotes borrowing by the government from the people, banks, financial institutions and so on.

The following definitions can be noted in this regard:

Philip E. Taylor "The debt is in the form of promises by the treasury to pay to the holders of these promises a principal sum and in most cases interest on that principal."

R. Musgrave and P. Musgrave "Public borrowing involves withdrawal made in return for the government's promise to repay at a future date and to pay interest at the interim."

J. K. Mehta "Public debt carries with it the obligation on the part of the government to pay money back to the individuals from whom it has been obtained."

To sum-up, public debt is the debt incurred by the government in mobilizing resources mainly financial in the form of loans, which are to be repaid at a future date with interest.

Classification

Public debt is classified in the following listed ways: i**nternal and external, voluntary and compulsory, productive and unproductive, funded and unfunded, and redeemable and irredeemable.**

Redemption

Redemption of public debt means repayment of public debt. There are various methods of redemption of public debt.

1. Refunding

In this method, the government issues new bonds and securities in order to repay the matured loans. In other words, matured or old debts are replaced by new debts. Hence, the money burden of the debt is not relinquished. Rather, it is accumulated due to the postponement of debt repayment.

2. Terminable annuities

In this method, public debt is repaid in equal installments. The government repays a part of the debt every year by issuing terminable annuities. Thus, the debt goes on diminishing annually and finally it vanishes

3. Conversion
When the rate of interest falls, the government converts the old loan into a new loan and thus reduces its interest payments. It may be compulsory or voluntary. Unlike refunding, conversion involves changes in terms of loan including rate of interest. Dalton called this conversion process a partial repudiation.

4. Sinking fund
It connotes a debt redemption fund. It involves the creation and the gradual accumulation of a separate fund by the government every year from its revenue repays the debt. Although, it is the most systematic method of redemption, it is a slow process and the government may encroach upon it during a financial crisis.

5. New taxation
In this method, the government imposes new taxes and raises money for the repayment of old debts. It transfers the resources from tax-payers to the bond holders and thus causes redistribution of income and wealth in the community.

6. Capital levy
It connotes a special redemption levy. Under this method, there will be single but very heavy taxation on the property and wealth of individuals; levied once for all for the clearance of the debt. It is usually levied after a war to repay the unproductive war debts. Its merit is that the country is thereby freed from the burden of interest payment in future.

7. Surplus budget
Under the surplus budget income exceeding expenditure, the government is left with some money which can be used for the clearance of debts. A surplus budget can be realized in two ways: (a) through heavy taxation, or (b) through reduction in government expenditure.

8. Surplus budget
The repayment of external debt requires a surplus balance of payments (BOP). Hence, the government should accumulate the necessary foreign exchange by creating exports surplus and by reducing imports. Temporarily, the external debt can be repaid through the floating of new external loans.

9. Currency expansion
Under this method, the government prints more currency to repay the debts. This results in inflation and destroys the value of fixed money claims. This method was used by Germany after the First World War (1914 – 1918).

10. Repudiation
In this method, the government refuses to pay the interest or principal or both. In other words, the government does not recognize its obligation to repay the loans taken by it. In 1917, USSR repudiated all its debts, both internal and external.

Burden
Public debt is a burden as it has to be repaid with interest. The burden of public debt can be studied under the following listed headings: d**irect money burden, indirect money burden, direct real burden and indirect real burden.**

1.5 Accounts and audit

Meaning of accounts
In public financial administration, the term accounts is defined as "statements of facts relating to money or things having monetary value'. The facts which are incorporated in the records of accounts are called transactions. Thus, accounting means keeping a systematic record of financial transactions, it involves the collection, recording, classifying and summarizing transactions of a financial nature and interpreting the results thereof. Accounting has three purposes (i) the determination of the fidelity of those handling funds; (ii) the furnishing of information regarding financial conditions and operations for policy – making and administrative purposes; and (iii) the keeping of expenditure within the budgetary provisions and limitations.

Meaning of audit
Audit is an important means of legislative control over public financial administration. It is an instrument of enforcing accountability of administration to the legislature. It is a part of external control over administration.

Audit is an examination of the accounts in order to discover and report to the legislature the unauthorized, illegal or irregular expenditures and unsound financial practices on the part of administration. Its objective is to see that the expenditure is incurred with the sanctions of the competent authority, and made for the purpose for which it was sanctioned by the legislature. In the words of James C. Charlesworth, Audit is the process of ascertaining whether the administration has spent or is pending its funds in accordance with the terms of the legislative instrument which appropriated the money.

The audit can be either post – audit or pre-audit. If the audit occurs after the money is spent, it is called post – audit. On the other hand, if the audit occurs before the money is spent or during the process of spending, it is referred to as pre-audit or concurrent audit.

Role of audit

The following points highlight the role of audit in the modern state:

Regulatory audit: It is concerned with the legal and technical aspects of expenditure by the administration. It ensures the conformity of expenditure to laws, rules and regulations and sees that is supported by adequate vouchers. Hence, it is known as legal audit

Propriety audit: It is concerned with the wisdom, faithfulness and economy of expenditure. It detects cases of extravagance and waste even when the expenditure is incurred according to laws, rules and regulations.

Performance audit: It is concerned with the appraisal of accomplishments. It measures the performance of administration against the expenditure incurred. Hence, it is also known as efficiency audit.

S. L. Goel identified three more aspects of the role of audit which are;

a. Preventive audit: It locates the procedural and methodological errors in transacting financial operations and prevents their recurrence.

b. Curative audit: It detects the cases of embezzlements and misappropriations and leads to disciplinary action against the guilty officers.

c. **Promotive audit:** It helps in administrative improvements and reforms by laying down new procedures and practices after studying the existing ones.

Thus, the audit plays an important role in the administration of modern states.

Separation of accounts from audit

The separation of accounts from audit is based on the following grounds:

i. The separation would increase the efficiency of audit department as it will be relieved of accounting responsibilities and can concentrate on audit functions only.
ii. The combined systems have the inherent danger of frauds and embezzlements and prevent their coming to light.
iii. The combination of the two functions in a single office is not appropriate as accounting is an executive function while auditing is a quasi – parliamentary function
iv. The combined system requires the comptroller and auditor – general to audit the accounts which are compiled by himself. This places him in a highly embarrassing position and is against the practice of other modern governments which have separated the two functions
v. The separation makes the spending departments not to exceed the appropriations sanctioned by the parliament as they are entrusted with the accounting responsibilities.
vi. The separation would increase the independence of audit, as the combined system runs counter to the principle of independence of audit.
vii. The entrustment of accounting responsibilities to the departments would not only improve the system of accounting but also make the responsible.
viii. The separation of the two functions by entrusting the accounting responsibilities to executive departments not only facilitates close budgeting but also more effective formulation of revised estimates by them.
ix. The separation facilities use of accounting in decision – making and financial management

Departmentalization of accounts

The central governments recognize separation of accounting from audit through the scheme of departmentalization of accounts. The salient features of the scheme of departmentalized management accounting system are as follows

i. The comptroller and auditors – general was relieved of the responsibility of the compilation and maintenance of accounts of the central government and is now concerned with their auditing only. However, he continues to be responsible for the compilation and maintenance of accounts of the states which have not separated accounts from audit.
ii. The administrative departments have taken over most of the payment and receipt functions from the treasuries. In other words, they have assumed responsibility for making payments and their accounting
iii. The secretary of the ministry is designated as the chief accounting authority for all the transactions of the ministry as well as its attached and subordinate offices. He is totally responsible for the working of the payment and accounting setup, and is also responsible for the certification of the monthly accounts. He discharges this responsibility through and with the assistance of the integrated financial advisor of the ministry
iv. The integrated financial advisor is the head of the payment and accounting organisation of the ministry. On behalf of the chief accounting authority that is, secretary of the ministry, he is responsible for the following

a. A. formulation of the budget of the ministry and its department
b. Control of expenditure
c. Arranging payments sanctioned by the ministry
d. Consolidation of the accounts of the ministry as a whole

e. Preparation of appropriation accounts for the grants controlled by the ministry
f. Introduction of an efficient system of management best suited to the functional requirements of the ministry and its departments
g. Internal audit of payments and accounts
h. Ensuring accuracy of accounts and efficiency of operations

In the performance of the above duties, the integrated financial advisor is assisted by principal accounts officers, the heads of pay and accounts offices, the chief controller of accounts, and the controller of accounts.

Comptroller-general of accounts

A new office of the comptroller-general of accounts was established as a part of the department of expenditure of the ministry of finance. He is to administer matters relating to the departmentalization of accounts of the central government. He is the technical authority heading the new accounting set up of central government. He is responsible for the following:

i. He prescribe general principles and form of accounts of central as well as state governments and frames rules and manuals relating thereto.
ii. He carries out the budget control, payments, receipt collection and accounting functions for the central government.
iii. He provides regular feedback to the finance minister and other line ministries on the status of government finances
iv. He provides technical advice to all civil ministries and departments on various accounting matters. His advice is binding on them.
v. He is responsible for disbursement and accounting of pension payments to government employees retiring from all civil ministries.
vi. He conducts the internal audit of the expenditure incurred by the various ministries and departments of the central government to bring out the financial irregularities.
vii. He is responsible for the evaluation and processing of proposals relating to the capital restructuring and disinvestments of various public sector undertakings of the central government. This job was entrusted to him.
viii. He manages the cadre of civil accounts service and the total accounts personnel deployed in civil ministries and is responsible for the entire gamut of personnel management in relation to them.
ix. He consolidates the monthly and annual accounts of the central government
x. He administers rules under Article 283 of the constitution. This article deals with the custody and other aspects of consolidated fund, contingency fund and moneys credited to the public accounts.
xi. He prepares a condensed form of the appropriation accounts and finance accounts of the central government. These, after getting audited by the comptroller and auditor –general, are placed before the parliament by the president.

The appropriation accounts compare the actual expenditure under various grants with the amount of voted grants as specified in the appropriation act passed by the parliament. On the other hand, the finance accounts shows under the respective heads the annual receipts and disbursements for the purposes of the central government.

Structure of accounts

Currently, a five tier classification of accounts can be adopted, namely, sectoral, major head, minor head, subhead and detailed head.

IV. Summary

Public financial administration which is a primary element of public administration is explainable in terms of the concepts budget, forms or systems of budgeting, and the budgetary process involving the formulation of the budget, enactment of the budget, execution of the budget, accounting and auditing.

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