PUBLIC FINANCIAL ADMINISTRATION

SUBJECT CODE : 18MPA13C
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Material prepared according to textbook and reference books given in the syllabus.

SYLLABUS

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Objective
To enable the students about the techniques of Government’s Budgeting, Accounting, Auditing and Revenue Mobilization.

UNIT – I: INTRODUCTION

UNIT – II: BUDGETARY PROCESS AND PUBLIC BUDGETING IN INDIA
Aspects of Indian Budgetary system – Types of Budget – Finance Ministry-Preparation, Enactment and Execution of Budget - Control over Public Expenditure in India.

UNIT – III: PARLIAMENTARY COMMITTEE
Public Accounts Committee – Estimate Committee – Committee on Public Undertakings – Committee on Subordinate Legislation – Departmental Standing Committees.

UNIT – IV: ACCOUNTS AND AUDITING
Meaning of Audit – Auditing procedures in India – Comptroller and Auditor General of India – Separation of Accounts from Audit – Performance Auditing.

UNIT – V: PUBLIC FINANCE AND FINANCIAL RELATIONS

Textbook

Reference Books
Unit I

Public Financial Administration

Meaning and Definition of Public Finance:
Public finance is a study of income and expenditure or receipt and payment of
government. It deals the income raised through revenue and expenditure spend on
the activities of the community and the terms ‘finance’ is money resource i.e. coins.
But public is collected name for individual within an administrative territory and
finance. On the other hand, it refers to income and expenditure. Thus public finance
in this manner can be said the science of the income and expenditure of the
government.
Different economists have defined public finance differently. Some of the definitions
are given below.

According to prof. Dalton “public finance is one of those subjects that lie on the
border lie between economics and politics. It is concerned with income and
expenditure of public authorities and with the mutual adjustment of one another.
The principal of public finance are the general principles, which may be laid down
with regard to these matters.

Nature of Financial Administration

There are two different views regarding the nature of financial administration. These
are i) Traditional view; ii) Modern view.

i) Traditional View
Advocates of this view conceive financial administration as a sum total of activities
undertaken in pursuit of generation, regulation and distribution of monetary
resources needed for the sustenance and growth of public organisations. They
emphasise upon that set of administrative functions in a public organisation which
relate to an arrangement of flow of funds as well as to regulating mechanisms and
processes which ensure proper and productive utilisation of these funds. When one
looks at this view from systems perspective, it represents an integral sub-system of
supportive system. A financial administrator shoulders responsibility for ensuring
adequate financial backing for running public organisation in the most efficient
manner. Hidher job is to plan, programme, organise and direct all financial activities
in public organisations so as to achieve efficient implementation of public policy.
The participants of this system are considered as financial managers and they
discharge managerial functions of financial nature. Further, this view reflects the
stand taken by pure theorists of public finance like Seligman. The central thesis of
pure theory of public finance is that public finance should deal with the pr~blems of
public income, public expenditure and public debt in an objective manner without
any relation to a set of values and premises of the political party in power.
Accordingly, theorists of financial administration subscribing to this view take a
value-neutral stany. For instance, Jaze Gaston reflects this view when he says that financial administration is that part of government organisation which deals with the collection, preservation and distribution of public funds.

ii) Modem view
The modem view considers financial administration as an integral part of the overall management process of public organisations rather than one of raising and disbursing public funds. It includes all the activities of all persons engaged in public administration, for quite obviously almost every public official takes decisions which are bound to have some direct or indirect consequences of financial nature. Further, it rejects the value-neutral stand of the traditional theory. It combines in itself three prominent theories of public finance, viz., the socio-political theory as expounded by Wagner, Edgeworth and Pigou, the functional theory of Keynesian perspective and activating view of modem public finance theorists. According to this view financial administration has the following roles.

a) Equalising Role : Under this role financial administration seeks to demolish the inequalities of wealth. It seeks, through fiscal policies, to transfer income from the affluent to the poor.

b) Functional Role : Under normal circumstances the economy cannot function on its own. Under this role, financial administration seeks to ensure, through taxation, public expenditure and public debt, and proper functioning of the economy. It evolves policy instruments to maintain high economic growth and full employment.

C) Activating Role : Under this role financial administration involves the study of such steps that will facilitate a smooth and rapid flow of investment and its optimal allocation to increase the volume of national income.

d) Stabbing Role : Under this role, the objective of financial administration is the stabilisation of price level and inflationary trends through fiscal as well as monetary policies.

e) Participatory Role : According to this view, financial administration involves formulation and execution of policies for making the state a producer of both public and private goods with the objective of maximising social welfare of the community. It also seeks to promote economic development through direct and indirect participation of the State.

Scope of Public Finance

The scope of public finance may be summarised as under the term financial
administration refers to the financial processes and institutions involved in legislative financial control. In their view, the scope of financial administration encompasses the preparation of estimates, appropriation of funds, expenditure control, accounting, audit, reporting, review and so on. In a democratic context, this view may gain wider acceptance as it ensures executive responsibility to legislature. But, the experience of modern democracies has shown that the legislative involvement in the determination of the desired volume, range and direction of programmes, the use of independent judgement relating to the financial resources required by administrative agencies is becoming nominal day by day. It is a known fact that the average member of the legislature is not adequately informed to ensure effective control over executive. Thus, the view appears to be of no significant validity. Further, legislative control of financial aspects of the government does not represent the scope of financial administration in its entirety.

1. Public Revenue: Public revenue concentrates on the methods of raising public revenue, the principles of taxation and its problems. In other words, all kinds of income from taxes and receipts from public deposit are included in public revenue. It also includes the methods of raising funds. It further studies the classification of various resources of public revenue into taxes, fees and assessment etc.

2. Public Expenditure: In this part of public finance we study the principles and problems relating to the expenditure of public funds. This part studies the fundamental principles that govern the flow of Government funds into various streams.

3. Public Debt: In this section of public finance, we study the problem of raising loans. Public authority or any Government can raise income through loans to meet the short-fall in its traditional income. The loan raised by the government in a particular year is the part of receipts of the public authority.

4. Financial Administration: Now comes the problem of organisation and administration of the financial mechanism of the Government. In other words, under financial or fiscal administration, we are concerned with the Government machinery which is responsible for performing various functions of the state.

5. Economic Stabilization: Now —a-day’s economic stabilization and growth are the two aspects of the Government economic policy which got a significant place in the discussion on public finance theory. This part describes the various economic polices and other measures of the government to bring about economic stability in the country.

6. Budgeting: This area is the core of financial administration. It includes examination and formulation of such important aspects as fiscal policy, equity and
social justice. It also deals with principles and practices associated with refinement of budgetary system and its operative processes.

7. Resource Mobilisation: Imposition of taxes, collection of rates and taxes etc. are associated with resource mobilisation effort. Due to the ever increasing commitments of government, budgetary deficits have become regular feature of government finance. In this context deficit financing assumes greater importance. But deficit financing, if used in an unrestrained manner, may prove to be a dangerous problem for a nation's economy for it can cause galloping inflation. Another challenge faced by administration is tax evasion and growth of parallel economy. Finally public debt constitutes yet another element of state resources. The proceeds of debt mobilisation effort should be used only for capital financing. Thus, modern financial administrator has to be fully conversant with all the dimensions of resource mobilisation efforts.

8. Investment Decisions: Financial and socio-economic appraisal of capital expenditure constitutes what has come to be known as project appraisal. Since massive investments have been made in the public sector a thorough knowledge of the concepts, techniques and methodology of project appraisal is indispensable for financial administrator.

9. Expenditure control: Finances of the modern governments are becoming quite inelastic. Almost every government is suffering from resource crunch. Further, the society cannot be taxed beyond a certain point without doing a great damage to the economy as a whole. Thus, there is an imperative need for careful utilisation of resources. Executive control is a process aimed at achieving this ideal. Legislative control is aimed at the protection of the individual tax payers interest as well as public interest. There is also the need to ensure the accountability of the executive to the legislature.

10. Financial Planning: In a restrictive sense one may consider budgeting as planning since its basic concern is to facilitate the formulation and adoption of policies and programmes with a view to achieving the goals of government. But planning, in a broad sense; includes the concerns in terms of whole range of government policy and it demands a time frame and a perception of the inter relationships among policies.

**Significance of Public Financial Administration**

The importance of Financial Administration was not considered till after industrial revolution. The concept of minimum government as an offshoot of laissez faire doctrine, dictated observance of minimum taxation. When social life became more
complex as a result of industrial revolution, the role of the government increased manifold. Further, the concept of welfare state has caused phenomenal increase in state activity. The governments have entered into new areas which were kept out of the purview of the State. In this changed context, financial administration has gained greater significance for exploring ways and means to generate resources to meet the ever-increasing public expenditure. The Great Depression (1929-33) had exposed the weaknesses of neutral economic stance of the governments. It enhanced the quest for stability in income and employment as well as for equality and social justice. Based on Keynesian perspective, the State has assumed an active and positive role for expanding national income and employment. It has also taken up the task of ensuring equity.

**Meaning of Budgeting:**
Budgeting is the process of designing, implementing and operating budgets. It is the managerial process of budget planning and preparation, budgetary control and the related procedures. Budgeting is the highest level of accounting in terms of future which indicates a definite course of action and not merely reporting.

**Principles of Budget**

- Manage budgets within clear, credible and predictable limits for fiscal policy.
- Closely align budgets with the medium-term strategic priorities of government.
- Design the capital budgeting framework in order to meet national development needs in a cost-effective and coherent manner.
- Ensure that budget documents and data are open, transparent and accessible.
- Provide for an inclusive, participative and realistic debate on budgetary choices.
- Present a comprehensive, accurate and reliable account of the public finances.
- Actively plan, manage and monitor budget execution.
- Ensure that performance, evaluation and value for money are integral to the budget process.
- Identify, assess and manage prudently longer-term sustainability and other fiscal risks.
Promote the integrity and quality of budgetary forecasts, fiscal plans and budgetary implementation through rigorous quality assurance including independent audit.

**Modern Techniques of Public Financial Administration:**

a) Equalizing Role: Under this role financial administration seeks to demolish the equalities of wealth. It seeks, through fiscal policies, to transfer income from the affluent to the poor.

b) Functional Role: Under normal circumstances the economy cannot function on its own. Under this role, financial administration seeks to ensure, through taxation public expenditure and public debt and proper functioning of the economy. It evolves policy instruments to maintain high economic growth and full employment.

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e) Participatory Role: According to this view, financial administration inches formulation and execution of policies for making the state a producer of both public and private goods with the objective of maximizing social welfare of the community. It also seeks to promote economic development through direct and indirect participation of the State Budget.

**Budgetary Procedure in UK**

The UK fiscal year ends on 5 April each year. The financial year ends on 31 March of each year.

- Treasury sent the Circular to all the Departments.
- Furnish their requirements with figure Recieved by treasury Check them with Ergures of proceeding year
- Treasury officials meet Department officials to get leductions by agreements mutual
In the meantime the departments Prepare estimates of Revenue.

If estimated Expenditure Exceeds estimated Revenue either they reduce Expenditure / new source of income / Revenue may generate to amponstate the expenditure

Chancellor of Exchequer

He makes up the wisest and then lays the budget before Cabinet. about the main provisions and

Discuss about the main provisions and Problems - Gives final shape of Budget

Authorises the chancellor to lay before

the Parliament.

Chancellor of Exchequer Presents the budget ie Estimated Expenditure.

It reaches the House of Commons 2nd/3rd Week February gives eloerate Speach to the house.

He reviews the Finance and enuncerates Policy for next year.

Vote on debates -

Members May Propose Strikp/ reduce lhe items or Expenditure / increase the amount.

The debates must concluded with in 26 days.

After Voting - The proposals approved by the House. It becomes as theFinance Bill and Appropriation Bill.

The finance bill deals new tax/ Changes in old tax.

The Appropriation Bill deals with Expenditure.

Finally it reaches the Royal Assent for his approval/sign.

According to the Act 1911 the Lords receive Money Bill One month before the end of the session.

**Budgetary Procedure in USA**
Since 1921 the budget of the United States has been the responsibility of the president. It is prepared under his direct authority by the Office of Management and Budget (OMB). The process begins when the various departments and agencies prepare their appropriation requests, based on expenditures required under existing law and those estimated under new legislation to be proposed by the president. These requests are carefully scrutinized by the OMB. In case of disagreement, Cabinet officers negotiate directly with the president, who is ultimately responsible.

The USA budget has prepared according to the the budget and accounts at 1921 it requires president to submit the budget to the Congress each financial year it takes 12 months to finish the budget. The budget begins in the month of October 1st to September 30th of the next calendar year. USA follows Federal type of budgetary system.

Creating the budget, step by step

Step 1: Departments and agencies submit proposals About 1 years before a budget goes into effect, agencies start work on their proposals. These go to the White House to help create the

President's budget request Step 2:

The President submits his plan. Typically by the first Monday in February, the President gives Congress his budget proposal for the next fiscal year.

Step 3:

The House of Representatives and the Senate create budget resolutions Each chamber of Congress analyzes the President's budget proposal and drafts a budget resolution setting overall spending levels A conference committee of House and Senate members resolves differences between the two plans to create a final version that each chamber votes on the budget.

Step 4:

Appropriations committees distribute funding House and Senate appropriations committees divide the discretionary spending portion of the budget resolution among 12 subcommittees Each subcommittee oversees a different group of agencies, like interior and Environment or Transportation and Housing. The subcommittees draft appropriations bills setting the funding for each agency.

Step 5:

Chambers vote on appropriations bills The full House and Senate vote on their bills.
Both versions of each bill go to a conference committee to merge the two. Both chambers vote on the same version of each bill. If approved, it goes to the President.

Step 6:

The President signs the bills into law if any appropriations bill is not signed by September 30, the government will not have a budget for the new fiscal year.

**Budgetary Procedure in India**

The budgetary procedure in India involves four different operations that are:

- Preparation of the budget
- Enactment of the budget
- Execution of the budget
- Parliamentary control over finance
- Preparation of the budget